



A STUDY ON IMPACT AND CURRENT POSITION OF FOREIGN DIRECT INVESTMENT IN THE INDIAN RETAIL SECTOR

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ABSTRACT

In the current global economic situation, no country is self sufficient. Since Foreign Direct Investment (FDI) is a way of filling the gaps between domestic savings and investments, it is considered very essential for the development of a nation. Global investors and multinational companies have improved their outlook towards investment in India on seeing the liberalization of the FDI regime. According to UNCTAD's 2021 World Investment Report, FDI inflows reached an all-time high of USD 64 billion in 2020, registering a 27% increase compared to USD 51 billion in 2019. India ranks 5th among the top 20 FDI host economies and the largest host in the sub-region; the country historically accounts for 70-80% of inflows into the region. During 2021, India has relaxed administrative regulations for foreign investors in some industrial sectors by abolishing the requirement for approval by the Reserve Bank of India under certain conditions. The overall growth of FDI in India is thanks to its many assets, especially its high degree of specialisation in services, with a skilled, English-speaking and inexpensive labour force and a potential market of one billion inhabitants. Singapore, Mauritius, the Netherlands, Japan, the U.S., the U.K., France and Germany are the main investing countries in India. Investments were mainly oriented towards services, computer software & hardware, telecommunications, trade, the automobile industry, construction and chemicals. The present paper attempts to portray the factors influencing FDI and the different sectors which are leading in FDI in India.

KEYWORDS: *Economic Development, Globalization, Foreign Direct Investment.*

INTRODUCTION

Prior to 2014, India was unsuccessful in attracting Foreign Direct Investment (FDI) commensurate with India's capital requirements. Policy paralysis, presence of multiple sectors under the government approval route, low FDI caps across sectors as well as onerous FDI linked performance conditions across sectors did not enthruse foreign investors. After 2014, India became an investment-friendly nation and attracted the attention of leading multinational organizations, such as Vodafone, Amazon, Unilever, Samsung, Adidas, Lotte, DHL, Mercedes-Benz, Toyota, Garnier, Panasonic, LG, Microsoft, IBM, Nestlé, Coca-Cola etc. According to the Ministry of Commerce and Industry, the country registered the highest ever annual FDI inflow of \$81.97 billion (provisional figure) in the financial year 2020-21. The computer software and hardware sector attracted the largest share of FDI inflows at 19%, followed by the service sector at 15%. Trading saw FDI inflow of 8%, while the Telecommunications & Construction (Infrastructure) sector attracted FDI inflow of 7% each, during the same period in the last more than seven years.

FDI in retail sector - Following the government's decision to open up the retail sector for FDI in Single Brand Retail Trade

in 2006, the country has witnessed significant advancements in the sector throughout its value chain and due to the entry of several new players, the Indian retail industry has emerged as one of the most energetic and fast-paced industries. In this context, India's retail market is estimated to reach \$1.1-1.3 trillion by 2025, from \$0.7 trillion in 2019, growing at a compound annual growth rate (CAGR) of 9-11%, driven by socio-demographic and economic factors such as urbanisation, income growth and rise in nuclear families. In terms of retail, India is the world's fifth-largest destination. Further, due to significant investment in the sector and rapid growth in the number of internet users, India is expected to overtake the United States as the world's fastest growing e-commerce market. From consumer view point, more Indian youth are exposed to international brands and the upper class has more money to spend on things, the luxury market in India is expected to grow.

REVIEW OF LITERATURE

Bhavya Malhotra (2014), Foreign Direct Investment: Impact on Indian Economy. In this paper the author examined the impact of FDI on the Indian economy and analysed its



favorable global competition. It was observed that liberalized policy and market potential have made India a suitable place for foreign investors.

Mahdi Naqdi Bahar (2015), Foreign Direct Investment (FDI) in Indian Retail Sector. India has huge potential for attracting FDI. But retail sector faces lot of difficulties too. The paper portrays that Indian retailing has been slower as compared to other countries. It was suggested that this gloomy situation is to be concentrated and reasons identified.

Dr. Priyanka Kochhar Saran and Madhulika Singh (2018), Inflow of FDI in Indian Retail Industry: An Overview. This paper aims to reveal the slow growth of Indian retail sector. It also throws light on the various initiatives taken by the government in FDI policies.

OBJECTIVES OF THE STUDY

1. To analyze the growth of retail industry in India.
2. To Study the FDI turnover towards retail industry in India.
3. To identify the impact of FDI towards retail sectors in India.

SCOPE OF THE STUDY

FDI into India is a system for facilitating people to invest in India. India is a good financial nurturing ground for all foreign investors since it never felt the pressure as their class of investment has always been set free for the purpose of steering high capital within the country.

FACTORS INFLUENCING FOREIGN DIRECT INVESTMENT IN A COUNTRY

Foreign Direct Investors look into various factors before making investment decision in a country. According to experts, foreign direct investors specifically look for factors such as:

- ❖ A stable government and flexibility in the government policy.
- ❖ Pro-active measure of the Government to promote investment such as expansion of ports, captive power, development of highways etc.
- ❖ Exchange rate stability.
- ❖ Tax policies & concessions and scope of the market.
- ❖ Locational factors including logistics & labour.

- ❖ Return on investment and existence of other favourable investment decision making factors.

SECTORS WHICH ARE LEADING IN FDI IN INDIA

India remains an attractive destination for foreign direct investment. FDI were mainly oriented towards services, computer software and hardware, telecommunications, trade, the automobile industry, construction and chemicals. Deloitte Touche Tohmatsu India LLP on 14.09.2021 has come out with a press release on India's FDI opportunity after surveying 1200 business leaders of multinational corporations in the US, UK, Japan and Singapore. In this, it observed that India remains an attractive destination for investments, scoring highly for its skilled workforce and prospects for economic growth. Key findings of the survey are "Continued upward FDI trend, Access to domestic market more important than as a hub for export, Perception of India strongest in the US and UK, Foreign investors rate India's growth, stability and skills, Reforms to improve ease of doing business not widely known amongst investors".

In the concluding part of the Deloitte research, it said that India can target attracting greater FDI into seven capital-intensive sectors - Textile & Apparels, Food Processing Industry, Electronic Goods, Pharmaceuticals, Vehicles & Parts, Chemicals and Capital Goods that have contributed US\$181 billion of merchandise exports in FY2020-21. It further added that India can target an additional US\$1 trillion of merchandise exports in the next five years by attracting higher FDI into capital investment-led focus sectors through schemes such as Product Linked Incentives. These seven sectors have the necessary potential (meaningful size and growth of exports), opportunity (large MNCs seeking alternative manufacturing hubs) and capability (adequate existing investments as proofs of concept) to show quick results and set a global precedent. These sectors are potentially high employment generating sectors in cities outside Tier 1 (Tier 2 and 3 cities as well as in the rural areas) as well as for semi or low skilled workers.

FOREIGN DIRECT INVESTMENT AT A GLANCE

As per Reserve Bank of India handbook of statistics, India's net foreign direct investment in 2000-2001 stood at Rs.14924 crores. In a decade's time it touched a high of Rs.304820 crores in 2019-20 and it will touch Rs.325382 crores (provisional) in 2020-2021.

Table - 1 – Foreign Direct Investment Inflows

Year	(Rs.crores)
2016-2017	238913
2017-2018	195052
2018-2019	214036
2019-2020	304820
2020-2021 (prov)	325382

Source: RBI Handbook of Statistics

**GROWTH OF INDIAN RETAIL INDUSTRY**

Deloitte in its January 2020 research report on retail FDI in India underscored that improvement in India's ranking in terms of "ease of doing business" had laid the foundation for a continuous increase in investments in the retail sector. The rise in internet penetration, smart phone user base and use of social media has made consumers more connected than ever. It further observed that in India, favourable demographics, a strong macroeconomic environment and a stable government have provided the necessary push to the retail sector. The increased

proliferation of technology and organised retail has led to a rise in e-commerce sales more specifically.

Since 2000, the entire market size is expected to reach around \$ 600 billion by 2015, representing a compound annual growth rate (CAGR) of 7.45 percent. India's retail market is estimated to reach \$1.1-1.3 trillion by 2025, from \$0.7 trillion in 2019, growing at a compound annual growth rate (CAGR) of 9-11%, driven by socio-demographic and economic factors such as urbanisation, income growth and rise in nuclear families.

Table - 2 - Indian Retail Industry Growth 2000 to 2020

Year	(USD billion)
2000	204
2002	238
2004	278
2006	321
2008	368
2010	424
2012	518
2013	490
2014	534
2015	600
2020	1300

Source: India Brand Equity Foundation

Table-3 - Current turnover of Retailing in India (Rs.crores)

Year	Total Retailing Turnovers	Organised Sector Turnover
2011	23,55,000	1,75,000
2012	26,40,000	2,20,000
2013	29,50,000	2,75,000
2014	32,65,000	3,45,000
2015	36,25,000	4,25,000
2016	39,95,000	5,30,000
2017	44,95,000	6,70,000
2018	50,35,000	8,40,000
2019	56,15,000	10,50,000
2020	62,40,000	13,10,000

Source: India Brand Equity Foundation

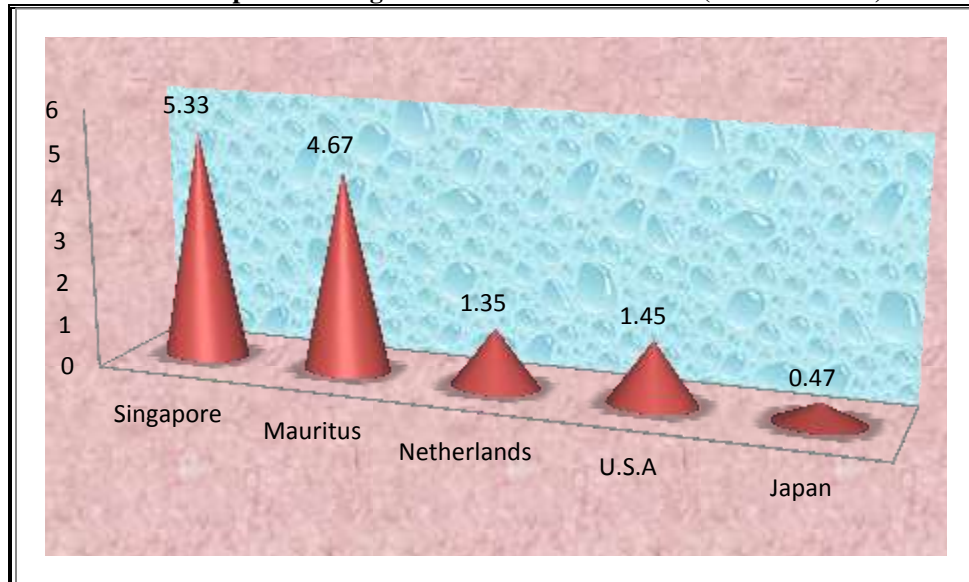
IMPACT OF FDI IN INDIAN RETAIL SECTOR

FDI in the retail market will influence the industry in a number ways. Some of them are as follows:

- ❖ With multinational retailers like as Wal-Mart, IKEA, Tesco, Abercrombie & Fitch, Amazon, and others entering the Indian market, current retail agreements are anticipated to be streamlined.
- ❖ The Indian supply chain is anticipated to profit as a result of the terms and conditions of FDI investments, which include a minimum investment ceiling of USD 100 million and a requirement to invest 50% in backend infrastructure.
- ❖ The demand for agricultural products is expected to rise as

new companies enter the retail market.

- ❖ The number of new international merchants entering the Indian retail market is projected to rise.
- ❖ Unorganized retail is expected to develop as well, albeit at a slower rate. In the retail sector, the quality and variety of items are also predicted to increase.
- ❖ Consumers in India would have easier access to a wider selection of international brands.
- ❖ Due to increased competition, Indian shops would be forced to improve the quality of their items.

**Top Five Foreign Investors in India in 2019 (Billion Dollars)**

Source: India Brand Equity Foundation

As per IBEF, Singapore is the largest foreign investor in India in 2019, with 5.33 billion dollars and is followed by Mauritius, the Netherlands, the United States of America and Japan. In terms of industries, the nations listed above have invested in vehicles, chemicals, financial services, outsourcing, research & development among other areas.

CONCLUSION

The Foreign Direct Investment (FDI) that India receives is critical to its economic development. India has recorded great development through FDI such as employment prospects in many sectors, increased production and output. The investment has also made a rapid acceleration in the strengthening of the Indian economy through banking and insurance sectors. FDI is currently being attracted to the pharmaceutical industry as well. It follows that foreign direct investment helps to create jobs and expand small-scale enterprises while also assisting in the pursuit of making a distinctive imprint on the international economy.

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