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FDI: The Lifeblood of the Retail Sector

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Abstract—*Over the years, India has become the second most preferred destination for FDI, next only to China. The economic reforms initiated in 1991 have contributed significantly to the inflow of FDI in India. It had outpaced almost all other economic indicators of economic transactions worldwide. Over the years, foreign direct investment has helped the economies of the host countries to obtain a launching pad from where they can make further improvements.FDI plays an important role in the development process through the transfer of financial resources, technology and innovative and improved management techniques along with raising productivity. FDI is considered to be the life blood and an important vehicle of for economic development as far as the developing nations are concerned. India needs substantial foreign inflows to achieve the required investment to accelerate economic growth and development. FDI brings in scarce productive factors such as technical knowhow and managerial experience, which are equally essential for economic development. The study tries to find out how FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers. The main purpose of the study is to investigate the impact of FDI on economic growth in India, its policy frame work in India and to identify its role in various industrial sectors for development of Indian economy with special reference to retail sector.*

Keywords: *FDI, Liberalization, Capital inflow, Export Performance, Foreign direct investment, Economic development, Economy and Industry, Growth*

1. INTRODUCTION

Derek o' Brien of Trinamool Congress once said,"I would welcome FDI. But only when the Murshidabad silks sarees will have a ready market in Australia and when the Jaipur food will be sold in Jamaica!"[1]

Past three decades have witnessed tremendous debates, controversies, arguments and discussions among economists, corporate heads, financial professionals, government commissions and lately politicians on the issue of FDI.

On the onset of the 1990's India adopted the New Economic Policy crutching the processes of Liberalization, Privatization and Globalization. These economic reforms contributed significantly to the inflow of FDI in India. Further on account of abolition of License Raj and other economic policies, relaxation in taxes, ever expanding size of the market, development in technology of telecommunication etc., made India a blue chip investment for FII's.

There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to Foreign Direct Investment ("FDI"). In 1997, FDI in cash and carry (wholesale) with 100 percent ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. [2]

Throughout these advancements there have been elongated and mind-numbing discussions and arguments. While the anti-FDI lobby seemed to have a distinct advantage in terms of numbers with the left parties and the BJP taking official positions against it, in addition to the many Congress MP's who spoke against it, the pro-FDI ranks drew much heavyweight support from among the treasury benches and the influential English media.

The recent approval by the Union Cabinet for allowing 51% FDI in multi-brand retailing in India and increasing the limit in single brand retail in India to 100% from 51%, has come at a time when the global retailers were facing water trouble in their home countries and thus scouting for new emerging markets, while at the same time domestic retailers are over burdened with huge debts. This large awaited approval has come as a relief for organized retailers but there is much opposition for its entry in India.

The paces of FDI inflows in India initially were low due to regulatory policy framework but there is a sharp rise in investment flows from 2005 because of the broadened new policy. Over the years, India has become the second most preferred destination for FDI, next only to China. The major recipients of FDI in India are sectors like infrastructure, telecommunication, hospitality services and information technology.

FDI has potential for making a contribution to the development through the transfer of financial resources, technology and innovative and improved management techniques along with raising productivity. Foreign capital mobilization plays a very significant role in resource mobilization, needed for achieving higher growth and earning potential. FDI supplements to a great extent, the domestic capital mobilization, technology up-gradation, infrastructure development, development of industries, enhancing both technical skills and managerial capabilities. It can act as a catalyst for domestic industrial development for developing countries like India. FDI as a strategic component of investment is needed by India for achieving the economic reforms and maintains the pace of growth and development of the economy.

For the investor company FDI offers an exclusive opportunity to enter into the international or global business, new markets and marketing channels, elusive access to new technology and expertise, expansion of company with new or more products or services, and cheaper production facilities. While the host country receives foreign funds for development, transfer of new profitable technology, wealth of expertise and experience and increased job opportunities. FDI is generally defined as “A form of long term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of foreign firm.” The effectiveness and efficiency depends upon the investor’s perception. [3]

The study tries to find out how FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers. The main purpose of the study is to investigate the impact of FDI on economic growth in India, policy frame work for FDI in India and to identify the role of FDI in various industrial sectors for development of Indian economy with special reference to retail sector.

2. OBJECTIVES OF THE STUDY

- To study about the perception of consumers towards impact of FDI in retail sector on Indian Economy.
- To study about the views of economists about impact of FDI in retail sector on Indian Economy.

3. HYPOTHESES FRAMED FOR THE STUDY

H_o = Consumers are having favorable attitude towards FDI in retail sector.

H_a = Consumers are having unfavorable attitude towards FDI in retail sector.

H_o = Economists are having favorable attitude towards FDI in retail sector.

H_a = Economists are having unfavorable attitude towards FDI in retail sector.

4. RESEARCH METHODOLOGY

1. **Methods used for data collection**_Primary method had been used for data collection. A questionnaire had prepared to collect data from respondents. Data was collected using a 5 point Likert Scale which consists of 9 parameters. Statements were framed in a manner so that they could be answered easily.
2. **Sampling unit**: Consumers and economists of Udaipur City are selected for the study.
3. **Sample size**: The sample included 100 consumers and 30economists from the Udaipur region, Judgment Sampling Technique was used to select respondents for the study.
4. **Statistical Technique-** Cluster Analysis has been used to group respondents into various clusters on the basis of their opinion about FDI in retail sector.
   Also, secondary data has been used from published and unpublished sources such as newspapers, magazines, letters, journals, web portals, etc.

5. LIMITATIONS OF STUDY

1. The entire research worked is limited to Udaipur region.
2. Only two groups of the society were considered i.e. consumers and economists.

6. LITERATURE REVIEW

Nagesh Kumar (2001) found that investment policy of liberalization has major impacts on firms in less developed countries as he analyzed that the crucial role of infrastructure availability in determining the attractiveness of countries for FDI inflows for export orientation of MNC production.

Anand Virmani and Susan Collins (2007) empirically studied India’s economic growth experience during 1960-2004 focusing on the post 1973 acceleration. The analysis focuses on the unusual dimensions of India’s experience. They find that India will need to broaden its current expansion to provide manufactured goods to the world market and jobs for its large pool of low skilled workers.

Kulwinder Singh (2005) has analyzed FDI flows from 1991-2005. A sectoral analysis in his study reveals that while FDI shows a gradual increase has become a staple of success in India, the progress is hollow. The telecommunication and power sector are the reasons for the success of infrastructure. He finds that in the comparative studies the notion of infrastructure has gone a definitional change. FDI in sectors is held up primarily by telecommunication and power is not evenly distributed.

Jaya Gupta (2007) in his paper made an attempt to review the change in sectoral trends in India due to FDI Inflows since liberalization. This paper also examines the changed policy implications on sectoral growth and economic development of India as a whole. Jayashree Bose (2007) in his book studied the sectoral experiences faced by India and China in connection with FDI inflows. This book provides information on FDI in India and China, emerging issues, globalization, foreign factors, trends and issues in FDI inflows, FDI inflows in selected sectors. A comparative study has also been conducted on FDI outflows from India and China. This book also revealed the potential and opportunities in various sectors in India that would surpass FDI inflows in India as compared to China.

Andersen P.S and Hainaut (2004) in their paper "Foreign Direct Investment and Employment in the Industrial Countries" point out that while looking for evidence regarding a possible relationship between foreign direct investment and employment, in particular between outflows and employment in the source countries in response to outflows. They also find that high labor costs encourage outflows and discourage inflows and that such effect can be reinforced by exchange rate movements. John Andreas (2004) in his work "The Effects of FDI Inflows on Host Country Economic Growth" discusses the potential of FDI inflows to affect host country economic development. The paper argues that FDI should have a positive effect on economic development as a result of technology spillovers and physical capital inflows. Performing both cross – section and panel data analysis on a dataset covering 90 countries during the period 1980 to 2002, the empirical part of the paper finds indications that FDI inflows enhance economic Growth in developing economies but not in developed economies.

Theory and evidence thus seems to suggest that international investment is good for economic growth. This paper stresses the need of FDI in India in retail sector and uses the augment that FDI is allowed in multiple sectors and the effects have been quite good without harming the domestic economy. The study also suggests that FDI in retail sector must be allowed.

7. INTRODUCTION TO RETAIL SECTOR

Retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

In 2004, The High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale) as " A sale to the ultimate consumer." [4]

8. FDI IN SINGLE BRAND RETAIL

In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3 that (a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed), (b) products should be sold under the same brand internationally, (c) single-brand product retail would only cover products which are branded during manufacturing and (d) any addition to product categories to be sold under "single-brand" would require fresh approval from the government. [5]

While the phrase 'single brand' has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a 'single brand', viz., Reebok, Nokia, and Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed.

9. MULTI-BRAND RETAIL IN FDI

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

[6] In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous '*kirana'* store.

10. ADVANTAGES OF FDI

- **Growth in Economy**: Developing countries suffer from shortage of capital required for rapid industrialization. Multinational corporations bring in much needed capital for the development of these countries. These corporations make direct foreign investment thereby speeding up the process of economics development. Since liberalization, India has, for example, attracted foreign investments worth several billion dollars.
- **Creates job opportunities**: Inflow of FDI creates large scale employment opportunities in host countries. It

increases the investment level and thereby the employment and income levels. Multinationals offer excellent pay scales and career opportunities to managers, technical and clerical staff.

- **Managerial Revolution**: FDI helps to professionalize management in host countries. They employ modern management techniques and trained managers. Several concepts and techniques like corporate planning, management by objectives and job enrichment where evolved by multinational corporations. As carriers of knowledge and experience, multinationals build up "knowledge base" and contribute to the growth of institutions that impart education and training in management.
- **Cheaper production facilities**: FDI will assure operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate and thus resulting in availability of variety products to the ultimate consumers at a reasonable and cheaper price.
- **Advanced technology**: Developing countries lack sufficient resources to carry on research and development. Multinationals serve as vehicles for the transfer of advanced technology to these countries. Advanced technology, know-how, improved skills and consultancy help the developing countries to improve the quality of products and reduce cost. Through continuous research and development, MNC's serve as a source of inventions and innovations.
- **Growth of domestic firms**: FDI increases competition and thereby break domestic monopolies. It compels the domestic monopolies to improve their efficiency and quality and thus simulates the growth of local enterprises. In order to support its other operations, multinationals may assist domestic supplier and ancillary units.

11. DISADVANTAGES OF FDI

Fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities continue to remain the shining disadvantages of FDI.

- **Threat to Domestic Industry**: It leads to increasing role of foreign companies in the domestic economy of a country. This is likely to hamper the growth of domestic companies. Small and medium firms in developing countries are not in a position to compete with giant firms of developed nations.
- **Disregard to National Interests**: A developing economy might become excessively dependent on global corporations. This may not be in the national interest.
- **Depletion of Natural Resources**: Foreign intrusion causes rapid depletion of some of the non-renewable natural resources in host countries.
- **Alien Culture**: FDI tends to vitiate the cultural heritage of local people and propagate their own culture to sell their products. For instance, MNC's have encouraged the consumption of synthetic food, soft drinks etc. in India.
- **Creation of Monopoly**: Many a times FDI leads to monopoly and concentration of economic power in the hands of foreign enterprises. They kill indigenous enterprises through strategic advantages like patents, superior technology etc.
- **Restrictive Clauses**: Due to their strong bargaining power, they introduce restrictive clauses in collaboration agreements, Ex. Technology cannot be passed to the third parties, pricing of products will be by the MNC, exports from host country will be restricted and managerial posts will be filled by parent company. MNC's do not transfer R&D, training and other facilities to host countries. They do not develop local skills. [7]

12. DATA ANALYSIS AND HYPOTHESES TESTING

- **For economists**

Hypothesis framed:

- H_0 = Economists are having favorable attitude towards FDI in retail sector.
- H_a = Economists are having unfavorable attitude towards FDI in retail sector.

Table 1: Number of cases in each cluster

CLUSTER (Economists)	
1.	18.0
2.	12.0
Valid	30.00
Missing	0.00

Table 2: Cluster centers for Economists

Parameters	CLUSTER	
	1 (Faithful Believers)	2 (Willy-nilly Partners)
Variety	4.00	5.00
Quality	5.00	3.00
Price	5.00	2.00
Natural Resources	2.00	4.00
Employment	4.00	3.00
Competition	3.00	5.00
Revenue	4.00	4.00
Modernization	5.00	3.00
Infrastructure	4.00	5.00

Analysis

The behavior of Economists coming under Cluster 1 are having favorable attitude regarding variety- as more variety is available, quality- as they are getting a good quality product, generation of employment- they believe that FDI will increase more job opportunities, utilization of natural resources-economists believe that it had no/less impact on our natural resources, revenue- by giving permission to them it will generate revenue through the taxes, license, etc. hence will help in the growth of our country , modernization- with coming of FDI, it will lead to the generation of new and positive ideas and infrastructure- FDI will give birth to new infrastructures, whereas response of them regarding competition was neutral. But on the parameters like price they were against the FDI by saying that price of products will increase.

The behavior of economists coming under Cluster 2 are having favorable attitude regarding variety- as number of options are available for them, price- coming of FDI will reduce the price of the products, competition- they believe that there will be good fight amongst the FDI and Indian market, revenue- more revenue can be generated in the form of taxes, etc. and infrastructure- FDI will give birth to new infrastructure, whereas response regarding quality, employment and modernization was neutral. But regarding utilization of natural resources, they were against FDI as it would result in the scarcity of the resources for host country.

- **For consumers**

Hypothesis framed

- H_0 = Consumers are having favorable attitude towards FDI in retail sector.
- H_a = Consumers are having unfavorable attitude towards FDI in retail sector.

Table 3: Number of cases in each cluster

CLUSTER (For Consumers)	
1	20.00
2	33.00
3	47.00
Valid	100.00
Missing	00.00

Table 4: Cluster centers for Consumers

	CLUSTER		
	1 (Opponents)	2 (Enthusiasts)	3 (Confused)
Variety	5.00	5.00	3.00
Quality	3.00	5.00	3.00
Price	2.00	4.00	4.00
Natural Resources	4.00	2.00	4.00
Employment	3.00	4.00	5.00
Competition	5.00	3.00	5.00
Revenue	4.00	5.00	4.00
Modernization	3.00	4.00	5.00
Infrastructure	5.00	4.00	4.00

Analysis

The perception of the consumers coming under cluster 1 were having favorable attitude regarding variety- as more variety is available, price- consumer feel that the prices of the products will be lower in compare to Indian rates, competition- fair competition will be observed, revenue- generation of revenue through taxes, and infrastructure- will lead to the growth of new infrastructure whereas on the parameters like quality, employment and modernization, they were neutral and were against the utilization of the natural resources by FDI as they believe that there will be wastage of resources.

The perception of the consumers coming under cluster 2 were having favorable attitude regarding variety- more variety is available, quality- they will get good quality of products, natural resources- they will use less natural resources in compare to Indian companies, employment- more job opportunities are available, revenue- increase in revenue through different modes, modernization- and infrastructure- will give rise to new infrastructure, whereas opinion regarding competition was found to be neutral. But on the variants like price they were against it as FDI will provide products at higher prices in comparison to Indian firms.

The perception of the consumers coming under cluster 3 were having favorable attitude towards employment- as FDI will lead to the generation of new job opportunities, competition- increase in competition will ultimately benefit the consumer, revenue- generation of revenue through taxes, modernization and infrastructure- lead to the development of new infrastructure whereas some of their opinion were found to be neutral regarding variety and quality. But on the parameters like price they were against it by saying that they will have to pay extra amount to purchase the product.

13. CONCLUSION

- Most of the economists and consumers believe that FDI in retail sector will increase number of options (variety) to the consumers. FDI increases the variety of products and services offered to the consumers as it opens the world market to people.
- Mixed response was observed when talked about improvement in quality of product. It was observed that people in India are still apprehensive about the quality of products serving “value for money” to them.
- Majority of the economists and consumers feel that FDI in retail will result into increase in price of products. It has been seen that foreign goods or more appropriately the “branded items” have higher prices. This may gradually lead to rise in even the prices of the goods offered by domestic companies.
- Consumers are of the opinion that FDI will result into extra utilization of natural resources whereas economists are not much concerned about this issue. The public at large feels that manufacturing units under FDI may eat up important reserves of non-renewable resources and

largely affect our national goal of sustainable development.

- Many of the consumers and economists feel that FDI will generate a lot of job opportunities. However, they feel that it is most likely that only lower-level and middle-level management will offer employment to the most countries, while the higher-level management positions may be captured by personnel of the country in which the company has been incorporated.
- Perception of economists and consumers were found to be very similar regarding the competition, as they believe that FDI will increase competition. Increasing competition, they feel, will definitely motivate the domestic corporations to compete at a global level and match international standards.
- A lot of consumers and economists were in favor of FDI regarding the modernization. Time ensures the survival of the fittest. The integration of the global economy will most likely result in emergence of the modern and best products and services making lives more comfortable.
- Regarding the infrastructure, consumers and economists strongly believe that it will increase the infrastructure. Development in connection with FDI, the public feels, would help in development of backward areas and standard of living at a holistic level.

14. SUGGESTIONS

Since 1991, India has opened its arms towards foreign investments realizing the merits of foreign investment and global integrity in order to pace up with other developing nations. But the experience with foreign intrusion in Indian economy hasn't been fulfilled up to the hopes. Most of the MNC's have entered in low tech areas such as soft drinks, toilet goods, electronics, etc. Several Indian companies were forced to sell out or serve as affiliates of MNC's. Also the problems of unemployment crisis and poverty have not been attended by foreign investment and they continue to prevail. Therefore, it is necessary for the government to make sure that the national interests are protected. Following are some of the measures we suggest:

- Steps should be taken to ensure that MNC's bring latest technology and shouldn't transfer their obsolete technology to the host country.
- Government should make it statutorily enforceable for the foreign companies to develop the area on the periphery of its area of operation specially the backward zones and this expenditure will exclude the 2% CSR expenditure that the companies have to incur according to the revised Company Act, 2013.
- Foreign companies should be strictly instructed to recruit Indian personnel not only for lower and middle level but also for higher levels of management.
- In order to encourage women participation in corporate governance, 30% seats at the higher level and 40% seats at middle level of management should be reserved for women.
- Appropriate job security should be provided to employees specially those belonging to rural sectors. The job facilities should match with those offered in the government jobs.
- It should be ensured that FDI contributes to export promotion and import substitution. It should make our nation self-sufficient rather than dependent.

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