GROWTH AND TRENDS OF FDI IN INDIAN RETAIL SECTOR: AN ANALYTICAL STUDY

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Abstract:

Indian retail is one of the most hunted sectors that hold great potential for attracting FDI as foreign investors are extremely enthusiastic for investing in Indian retail sector. In 1997, FDI was opened in wholesale (cash & carry) through approval route. Further in 2006 wholesale was brought under the automatic route and on the other side 51% FDI was permitted in single retail brand under approval route. 100% FDI was permitted single brand through approval route along with it significant step was taken in multi brand retail by opening the approval route up to 51% in 2011. The main aim of the present paper is to know the FDI equity inflow in selected consumer business in India and evaluate the share of top ten investing countries FDI equity inflow from 2000 to 2019. The paper concluded that the cumulative amount of 4,56,911 million USD of FDI inflow during the period from 2000 to 2019. The share of top ten countries like Mauritius, Singapore, Japan, Netherlands, U.S.A, UK, Germany, Cyprus, France and UAE, contributed totally 87 percent FDI equity inflow into India. Other countries inflow shows around 13 percent. It is observed that the during the period from 2015 to 19 there had been a tremendous growth in FDI in the retail sector, the increase from 169 to 443 USD million.

Key words: Retail, Cumulative, Finance, Regulation, Single & Multi brands etc

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INTRODUCTION

Foreign Direct Investments (FDI) means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 (Ministry of Finance, 2015)[1]. Indian retail is one of the most hunted sectors that hold great potential for attracting FDI as foreign investors are extremely enthusiastic for investing in Indian retail sector. According to Survey, India stands as the fifth most attractive destination for international players (IBEF, 2018) and enjoyed the second highest growth in FDI inflow in the world during 2019. The cumulative amount of FDI inflows from April 2000 to December, 2019 stood at USD 4,56,911 million. The major benefit of FDI is that it is both supplementary and complimentary with regards to local investment. FDI lets a company

[1] Ministry of Finance Report, Government of India, 2015.

gain better access to top class technology and supplementary funds. They are also exposed to management practices in vogue around the world and also get the chance to become a part of the global market system.

FDI IN PRE REFORM PERIOD

The government of India (GOI) followed a policy of "Close Door" till 1950s. In late 1960s and 70s it become restrictive and selective due to the improvement in the technical capacity of domestic industry and to manage the large scale outflows of foreign exchange from India because of remittances of dividends, profits, royalties and technical fees by foreign investors, on the other side it was found that the main motive behind adoption of restrictive attitude towards FDI during these periods was to protect growing industries of India from the threat imposed by private capital from outside country. It was found that the foreign products are going to be huge challenge for domestic industries to compete in domestic market.

FDI IN POST REFORM PERIOD

Policy towards FDI changed since 1991. Now it became the source of capital, technology and managerial skills that is considered vital factors for an open and competitive economy. There was a need to change the policies to attract a greater share of the world FDI inflows. With the introduction of Liberalization, Privatization and Globalization (LPG) India allowed foreign investment in nearly all sectors of the economy[2]. During the economic reform it was supposed that FDI inflows would be more intense towards manufacturing sector that raise the domestic productivity that further leads to increase in production and revenues due to its strong backward and forward linkage effect. At that time retail was not considered as an attractive and promising sector for FDI. Because it assumed that it might spoil the local retails brand & interest. But gradually the government understood the importance of FDI in retail sector and opened retail sector for FDI in phase wise manner.

[2] K. R. Kaushik & Dr. Kapil Kumar Bansal "Foreign Direct Investment in Indian Retail Sector Pros and Cons", International Journal of Emerging Research in Management and Technology, 2012.

Table 1.1 Phases of FDI in Indian Retail Sector:

Years	FDI Policy in Retail
1990	No FDI in retail
1995	World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.
1997	FDI open in wholesale sale cash &carry brought under approval route
2006	FDI cash & carry brought under automatic route[3]. Apart it 51% FDI allowed in single retail under approval route.[4]
2011	100% FDI permitted in single retail -brand through approval route. & 51% FDI allowed in multi brand by approval route.
2017	Sourcing norms applicable for FDI relaxed and will not be applicable up to 3 (three) years from commencement of the business i.e. opening of the first store for entities undertaking single brand retail trading of products having „state-of-art" and „cutting-edge" technology.
2018	100% FDI permitted in single brand through automatic route

Source: Industrial Policy GOI 1980, 2010, 2012, Economic times (2018**)**

The above table shows the phases of FDI policies in Indian retail sector from 1990 – 2018. In 1990, India had no FDI policy in retail sector. After that with the establishment of WTO in 1995, a general agreement on trade and service was considered in retail that included both wholesale and retailing services. In 1997, FDI was opened in wholesale (cash & carry) through approval route. Further in 2006 wholesale was brought under the automatic route and on the other side 51% FDI was permitted in single retail brand under approval route. 100% FDI was permitted single brand through approval route along with it significant step was taken in multi brand retail by opening the approval route up to 51% in 2011. Moreover, in 2017, GOI relaxed the sourcing norms & regulations in FDI policy in retail. It was an attempt to make business friendly environment for all foreign investors. The investors were given relaxation from state of art & cutting edge technology and from use the local sources up to first three years.

[3] Automatic route does not require any prior approval either of the Government or the Reserve Bank of India (RBI).
[4] Approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.

Thus, above discussion describes that it was a crucial step of GOI to integrate itself with the world economy through the member of World Trade Organization (WTO). It was not an easy decision for Indian government. There were various fears like job losses, procurement from international market, competition and loss of entrepreneurial opportunities. But on the side this step enabled the Indian retailers to be part of global retail market and provided an opportunity to know the global retail market scenario. Apart from it also offered the Indian consumers more choices in the form of branded goods and facilitated the greater inflows of investments that further help to improve the Balance of Payment (BOP) of Indian foreign trade. It also lead to the development of more competent and lower cost supply chains, resulting in better quality as well as better priced products for Indian consumers. This increased the consumer spending, which in turn, act as driving force for the growth of all sectors of the Indian economy.

REGULATORY FRAMEWORK FOR FDI IN INDIA

Indian companies can receive FDI under two routes-

1. **Automatic Route** – It does not require prior approval either of Reserve Bank of India (RBI) or government. It is allowed in all activities / sectors except where the provisions of consolidated FDI policy paragraph as Entry route for investment issued by government of India from time to time are attracted.
2. **Government Route** –Government route means that investment in the capital of resident entities by non-resident entities can be made only with the prior approval from FIPB, Ministry of Finance or SIA, DIPP as the case may be. FDI in sectors, not covered under automatic route requires prior approval of the government which is considered by Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.

PROCESS OF FDI IN RETAIL

There is no such procedure for short listing the companies. International companies who are willing to invest in either single or multi brand retail can put in their applications with the Department of Industrial Policy and Promotion. Here the applications will be reviewed in an effort to determine their suitability as per the stated guidelines. Afterwards the Foreign Investment Promotion Board, Ministry of Finance will consider the applications before providing the final approval.

OBJECTIVES OF THE STUDY

1. To understand the overview of FDI in India
2. To study the FDI equity inflow in selected consumer business in India
3. To evaluate the share of top ten investing countries FDI equity inflow from 2000 to 2019.

RESEARCH METHODOLOGY

To the study, information has been gathered mostly from secondary sources such Ministry of Finance Report, Government of India, fact sheet on FDI, DIPP, Deloittee analysis and related websites.

TRENDS OF FDI: Total Cumulative FDI inflows into India during financial year from April, 2000 to December, 2019 as follows:

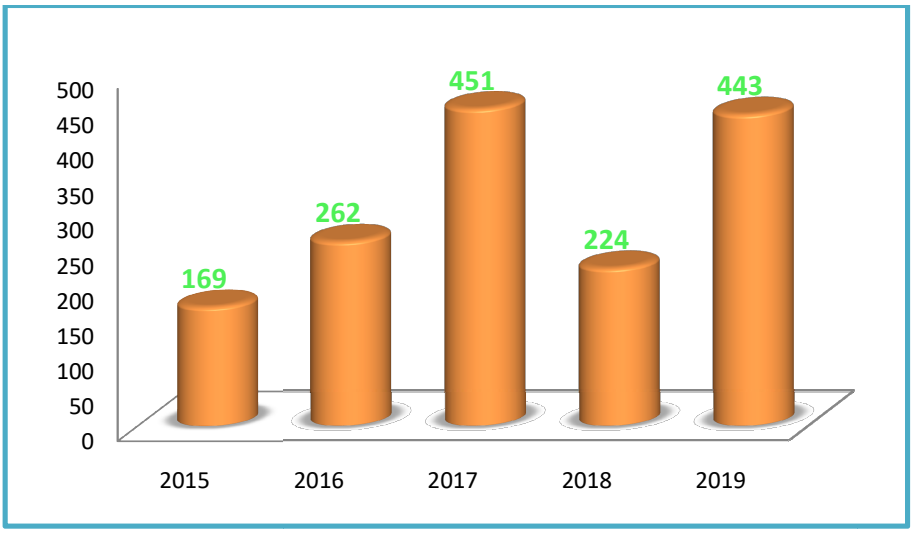
1. Cumulative amount of FDI inflow (equity inflows+Re-investmented earnings Other Capital is 6,58,893 USD million.
2. FDI equity inflows amount of US$ 4,56,911 million

Table 1.2 FDI equity inflow in select sectors related to consumer business
(Amount in US$ millions)

Sector	April 2000 to March 2019	April 2000 to March 2018	April 2000 to March 2017	FDI in 2019	FDI in 2018
Trading	23,021	18,558.99	14,210.86	4,462	4,348
Hotel & tourism	12,351.18	11,275.43	10,143.46	1,076	1,132
Food processing Industries	9,076	8,447.81	7,542.91	628	905
Retail trading	1,655.17	1,212.34	988.56	443	224
Total FDI inflow	**46,103**	**39,494.57**	**32,885.79**	**6,609**	**6,609**

Source: DIPP; Deloitte analysis

Figure 1.1 Annual FDI in India (Retail Trading) Figures in USD millions



Source: DIPP; Deloitte analysis

The above table & figure shows the growth of FDI in Indian Retail as it can be depicted from the data that in 2015 to 19 there had been a tremendous growth in FDI in the retail sector, the increase from 169 to 443 USD million. Retail trading witnessed a year on year growth increase of 98 percent in FDI inflow in FY19. The highest i.e., 451 USD million of FDI inflow in Indian retail sector in FY17, because of it Indian stood the first position in Global Retail Developmental Index 2017 year. There is fluctuation in inflow of foreign direct investments during the study period but overall it shows positive growth. It revealed that recent FDI retail policy brought India a more competitive and attractive market for foreign investors and utilized the potential growth of Indian retail sector. The Indian retail registered significant growth during the last decade shows a promising growth of Indian retail industry in near future.

Table 1.3

Share of Top Ten Investing Countries FDI Equity Inflows from 2000 -2019 (In USD Million)

Rank	Country	Cumulative inflows in USD million	% age to total inflow in USD million
1	Mauritius	1,41,925	31%
2	Singapore	94,651	21%
3	Japan	33,081	7%
4	Netherlands	30,884	7%
5	U.S.A	28,349	6%
6	U.K	27,937	6%
7	Germany	12,074	3%
8	Cyprus	10,107	2%
9	France	7,102	2%
10	UAE	6,916	2%
Sub-total of top 10 countries		**3,93,026**	**87%**
Other countries		63,885	13%
Total FDI inflows from all countries*		4,56,911	100%

Source: Fact sheet on foreign direct investment (FDI) from April, 2000 to Dec, 2019, Govt.of India.

*Includes inflows under NRI Schemes of RBI.

The above table and below chart clearly explains that the share of top ten investing countries FDI Equity inflows from April, 2000 to December, 2019 indicates that the Mauritius ranked as first position in invested cumulative inflows amount US$ in Millions 1,41,925. It is contributed totally 31% FDI Equity Inflows into India. Followed by Singapore secured as second position in invested cumulative inflows amount US$ in Millions 94,651. It is contributed totally 21% FDI Equity Inflows into India. Followed by Japan ranked as third position in invested cumulative inflows amount US$ in Millions 33,081. It is contributed totally 7% FDI Equity Inflows into India.

Fourth position is secured by Netherlands in invested cumulative inflows amount US$ in Millions 30,884. It is contributed totally 7% FDI Equity Inflows into India. Followed by U.S.A ranked as fifth rank in invested cumulative inflows amount US$ in Millions 28,349. It is contributed totally 6% FDI Equity Inflows into India. In the list sixth place secured by U.K. in invested cumulative inflows amount US$ in Millions 27,937. It is contributed totally

6% FDI Equity Inflows into India. Germany secured seventh position in invested cumulative inflows amount US$ in Millions 12,074. It is contributed totally 3% FDI Equity Inflows into India. Eighth position secured by Cyprus in invested cumulative inflows amount US$ in Millions 10,107. It is contributed totally 2% FDI Equity Inflows into India. Followed by France ranked as ninth in this list invested cumulative inflows amount US$ in Millions 7,102. It is contributed totally 2% FDI Equity Inflows into India. In this list tenth position secured by UAE in invested cumulative inflows amount US$ in Millions 6,916. It is contributed totally 2% FDI Equity Inflows into India.

This study results indicates that share of ten top investing countries FDI Equity inflows into India from April, 2000 to December, 2019 shows that the amount of cumulative inflows amount US$ in Millions 3,93,026. It is contributed totally 87% FDI Equity Inflows into India. Other Countries inflows shows that cumulative inflows amount US$ in Millions 63,885. It is contributed totally 13% FDI Equity Inflows into India. Totally during the financial year Rs. April 2000 to December, 2019 cumulative inflows amount US$ in Millions 4,56,911.

Table 1.4 Ranking of Sector wise FDI inflows in India

(Cumulative from April, 2000 to Dec, 2019) (In USD million)

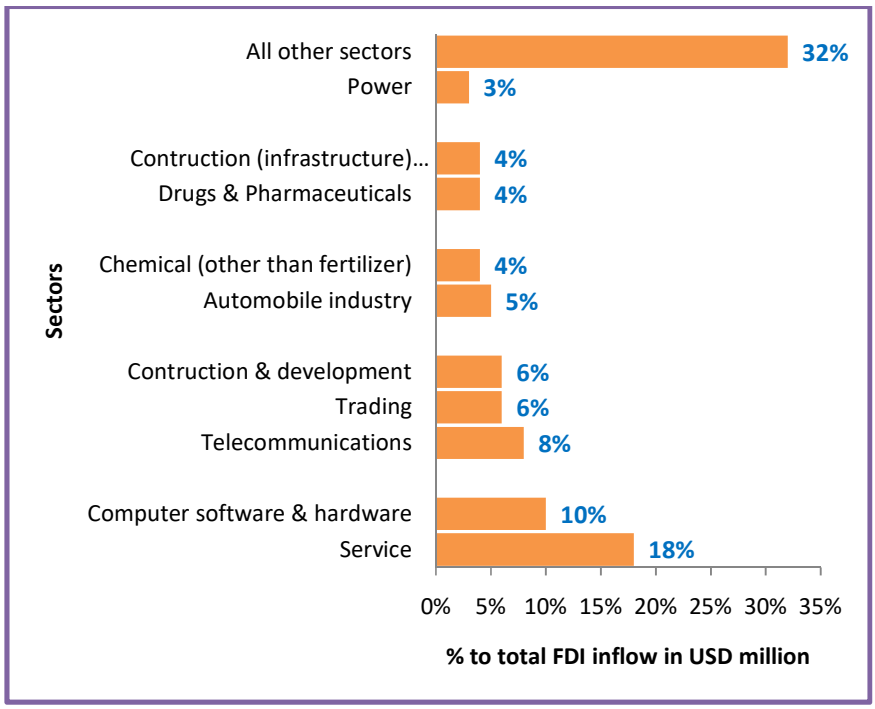
Rank	Sector	Cumulative inflows in USD million	% age to total inflow in USD million
1	Service*	80,671	18%
2	Computer software & hardware	43,587	10%
3	Telecommunications	37,116	8%
4	Trading	26,542	6%
5	Constructions & development	25,371	6%
6	Automobile industry	23,893	5%
7	Chemical (other than fertilizer)	17,442	4%
8	Drugs & Pharmaceuticals	16,397	4%
9	Construction (infrastructure) activities	16,156	4%
10	Power	14653	3%
	All other sectors	1,55,083	32%
	Total FDI inflows from all countries**	**4,56,911**	**100%**

Source: Fact sheet of FDI-DIPP (2019)

*Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis.

***Includes inflows under NRI Schemes of RBI.

Figure 1.2 Ranking of Sector wise FDI inflows in India
(Cumulative from April, 2000 to Dec, 2019) (In USD million)



Source: Fact sheet of FDI-DIPP (2019)

The above table and figure reveals that the share of top ten sector attracting highest FDI equity inflows from April, 2000 to December, 2019 into India. This result of the study indicates that the highest amount of highest FDI equity inflows attracted by services sector 80,671 USD million with 18%, followed by Computer Software & Hardware sector 43,587 USD million with 10% secured as second position. Third place secured by Telecommunications sector 37,116 USD million with 8% of inflows, followed by Construction Development sector 25,371 USD million with 6% FDI equity inflows into India. Trading sector 26,542 USD million with 6% FDI equity inflows followed by Automobile Industry sector 23,893 USD million with 5% of FDI equity inflows. In the list shows that the seventh position secured as Chemical sector 17,442 USD million with 4% of FDI equity inflows, Drugs & Pharmaceutical sector 16,397 USD million with attracted 4% FDI equity inflows, Construction (infrastructure) activities 16,156 USD million with 4% of FDI equity inflows and power attracted 14,653 USD million with 3% FDI equity inflows during the study period. Total top 10 sectors attracted nearly 68% and rest of the sector attracted 1,55,083 USD million with 32% of total FDI equity inflows into India from April, 2000 to December, 2019 into India. It results shows that the out of 63 sectors, only 10 sectors occupied a major share of FDI inflow in India.

CONCLUSION

The cumulative amount of FDI inflows from April 2000 to December, 2019 stood at USD 4,56,911 million. The major benefit of FDI is that it is both supplementary and complimentary with regards to local investment. FDI lets a company gain better access to top class technology and supplementary funds. Retail trading witnessed a year on year growth increase of 98 percent in FDI inflow in FY19. The highest i.e., 451 USD million of FDI inflow in Indian retail sector in FY17, because of it Indian stood the first position in Global Retail Developmental Index 2017 year. The country wise share of FDI, Mauritius ranked as first position in invested cumulative inflows amount US$ in Millions 1,41,925. It is contributed totally 31% FDI Equity Inflows into India. Followed by Singapore, Japan, Netherlands, U.S.A, UK, Germany, Cyprus, France and UAE. These top ten countries was contributed around 87 percent share of FDI inflow in India market, from 2000 to 2019.

REFERENCES

1. Ministry of Finance Report, Government of India, 2015
2. K. R. Kaushik & Dr. Kapil Kumar Bansal “Foreign Direct Investment in Indian Retail Sector Pros and Cons”, International Journal of Emerging Research in Management and Technology, 2012.
3. Automatic route does not require any prior approval either of the Government or the Reserve Bank of India (RBI).
4. Approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.
5. Deloittee Analysis
6. Related websites