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Trends of FDI Inflows in Retail in India

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Abstract:
In the era of liberalization, privatisation and globalisation no under developed or developing economy can ensure its growth in isolation from the world developed economies. Every economy has to open up the barriers for the foreign countries to ensure their speedy growth and development. India being a developing economy does not have sufficient financial resources to invest on large scale in big industrial projects. Therefore, the Foreign Direct Investment (FDI) is sought to be the only alternative available o ensure the path of growth and development. India is allowing FDI from foreign nations in various sectors of which retail is one.Retailing is known to be one of the strongest pillars of any developing and developed economy, as major chunk of population usually involve in this sector.. The Foreign Direct Investment (FDI) in retail began after India became the member of World Trade Organisation (WTO) in 1995.The present paper is an attempt to analyse the trends of FDI inflow by different countries in India and to study the sector specific trends i.e. of FDI inflow in retail sector. Various secondary data sources have been used to achieve the objectives.

Keywords: *FDI, Trends, Retail, CAGR, FDI inflows*

1. Foreign Direct Investment in Retail Sector of India

In past few decades, because of the economic liberalisation in most of the developing economies, FDI has soared and dominated Official Development Assistance (ODA) which was earlier an important source of external funding required for economic development. During 1980s, developing economies were dependent upon official loans and aids, commonly recognized as ODA. Debt relief, Technical Co-operation, Emergency/Distress Relief, Special Purpose Grants, and Loans on concessional rates and Aids were the major components of ODA. Governments of developed countries and multilateral agencies were the main source of this ODA. FDI refers to the foreign capital employed in the domestic country to increase the production capacity of the economy. Foreign direct investment reflects the objectives of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in an economy other than that of investor (direct investment enterprise) (IMF). The lasting interest implies the existence of long term relationship between direct investor and enterprise and a significant degree of influence on the management of enterprise. The estimated FDI inflow in the financial year 2013-2014 (from April 2013 to January 2014) was US$ 28,807 million. The FDI reforms introduced by government in 1991 lured investors from all over the world and as a result the FDI inflows from 1991-2013 in India has increased manifold as compared to pre reform era i.e. before 1991.

Government of India maintained a control over the FDI in retail sector and have been removing the barriers slowly and steadily. The FDI in retail began after India became the member of World Trade Organisation (WTO) in 1995. And in 1995 the WTO's General Agreement on Trade in Services came into force which includes the wholesale and retailing services. There had been no specific restrictions on the entry of foreign retailers into the Indian market till 1996; a few foreign players were granted permission for retailing under this earlier regime (Joseph, Soundararajan, Gupta and Sahu, 2008). In 1997 there were no specific regulations for allowing FDI in retail in India. Foreign players were first allowed in "cash and carry wholesale trading system" through approval route with 100% rights allowed. FDI approval route means that prior approval either of Government of India or the Reserve Bank of India was required under FDI policy. Foreign players were allowed to enter Indian market only if they manufacture or source locally, enter into franchising agreement, if they are cash and carry operators (Mukhrjee and Patel, 2005). Cash and carry wholesale trading means sales of goods/ merchandise to retailers, industrial, commercial, institutional or other professional business users or to the wholesalers and related subordinate service providers (www.dipp.nic.ac.in). The FDI policy further relaxed in 2006 when 100% FDI was allowed in cash and carry wholesale through automatic route. Now automatic route means FDI without prior approval either of the Government of India or the RBI as specified in the FDI Policy, issued by the Government of India from time to time. In 2006 government also permitted up to 51% investment in singe brand retailing. The FDI in multi brand retailing was still not permitted in India (Roy, Pandit and Dey, 2012).

2. Review of Literature

Jhamb and Bhardwaj in their study The case of FDI in the Retail Sector in India (2006) evaluates the current FDI regime and focuses on the market potential of retail in future. India's retail sector was estimated to be US $180 Billion and has grown by average 10% in past 5 years. Allowing FDI in retail will push the growth of organised segment but it should be done in a phased manner. The paper draws the conclusion to support the FDI in retail sector based on the global experiences of other nations such as China, Poland, Thailand, and UK.

Renuka et al in their research studied the impact of FDI on Indian economy with special reference to Indian retail sector (2013). The research claims the positivity in the impact of FDI reforms on Indian Retail segment. India is termed as a second most attractive destination for investors to invest. The study further depicts the various sectors in which FDI is invested in India. A major part of FDI inflows are in service sector, construction, telecommunication and computer hardware and software. Mauritius is the top investor of FDI in India. The paper says that the advantages of 100% FDI in retail will surely outweigh the disadvantages attached to it. The live examples are Thailand and China.

Joseph and Soundarajan in their study "Retail in India: A critical assessment" (2009) have stated that only 1.7% shops were shut down due to the competition from big retailers. Small shoppers in India are competing successfully by adopting better business practices and technology. The study shows the positive effects of FDI as the domestic sector taking advantage of the foreign retailers, as the other sectors of Indian economy have been benefited by FDI.

A study "Retail sector in India: Is it necessary to invite FDI" (2012) by Goyal, Kumar and Roy in their paper supports the FDI in retail sector. The study evaluates various positive effects of promoting FDI in Indian retail. Taking an example from various developed nations, the study discusses the retail growth as one of the major reason for the success of their economies. Allowing FDI in retail may offer consumers good quality products at lower prices. Also the paper points that presence of foreign retailers will help in increasing the Indian exports which will also improve our balance of payment.

Ravindra, Murthy and Rao in their study "Will Foreign Direct Investment in retail sector is viable for Indian economy?" (2013) attempts to view the viability of allowing FDI in Indian retail. The main objective of the study is to observe the growth and evolution of retail sector in India. The study is based on secondary data. The study further enumerates that FDI will be have a spill over effect for Indian economy by integrating the Indian economy around the global. However the FDI should be allowed with precautions but it should not be discouraged.

Uppal and Juneja in their study "emerging trends of FDI inflows in India: responses and challenges" (2013), said that FDI is the most essential instrument needed for economic development of nation. The study is focused on analysing FDI inflows from different nations in India.

Chopra and Sachdeva conducted a study on "Analysis of FDI inflows and outflows in India" (2014) have concluded the role of foreign direct investment and trade in promoting economic growth across selected budding country i.e. India and the interface among FDI, trade, and economic growth. They evaluated a strong positive interface between FDI and trade in advancing economic growth.

Nandal in his study "Impact analysis of FDI in retail industry in India" (2013) has supported the inflow of FDI in India. Huge investments in infrastructure would lead to augment in farm productivity, manufacturing and food processing as well as cold storage facilities.

3. Objectives

1. To analyse the FDI inflow trends by different counties in India
2. To analyse the FDI inflow trends in retail in India.

4. Research Methodology

The paper is concerned with analysing the trends of major countries investing in India. For this purpose comparative research design has been used. The study is based on secondary data. The data has been collected from 2006-07 to 2013-14. For analysing the data a simple statistical technique of percentage and Compounded Annual Growth Rate (CAGR) is been used.

- Percentage is calculated by: Current Year- Base Year/ Base Year
- CAGR is calculated by: ((ending value/ beginning value)^1/n)) -1

5. Findings of Study

From the analysis of table in annexure 2, it can easily be observed the total of FDI inflows from different nations have increased by 0.72% over the years. Though Mauritius was the most significant contributor of FDI in previous years but currently its contribution has been declining at a noticeable rate. On the other hand the inflows from Singapore have been increasing from past few years. In 2013-14 Singapore was the top contributor of FDI in Indian economy. Other than that the FDI inflows from Japan has the highest growth rate in terms of FDI inflows. While the inflows from UK & USA have been declining. Luxembourg stands at the bottom of list of contribution but the trend shows a constant hike in inflows from the country. All other countries have shown some increase in FDI inflows when compared with base years.

CAGR (compounded annual growth rate) in case of total FDI inflows from all countries is 7.05%. Japan, Singapore and Switzerland have the highest CAGR while Mauritius, UK and USA have negative growth rate. Again in case of Luxemburg it's growing continuously. CAGR of all their countries is growing steadily.
From annexure 1, it can be easily evaluated that FDI inflows in retail sector have grown manifolds. When compared with the base year there is 23.23 % increase in inflows of FDI in retail sector.

6. Conclusion
Global retailers have always kept their eyes on India for investment. After the new economic policy of 1991 Indian economy has shown tremendous growth. It is clearly observed that FDI inflows in India have been growing though slow and steady but smoothly. Indian economy should look forward for more foreign investments in future to promote its growth and development.

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Annexure 1

Sector Specific Inflows in FDI IN RETAIL	
Years	**FDI Inflows in US $Million**
2006-07	47
2007-08	200
2008-09	294
2009-10	536
2010-11	391
2011-12	567
2012-13	551
2013-14	1139
% increase	23.23
CAGR	309.4

Table 1
** Source: RBI website*

Annexure 2

Country wise FDI inflows in India										
Source/ Industry	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**% Increase**	**CAGR (%)**
1	**2**	**3**	**4**	**5**	**6**	**4**	**5**	**6**		
Total FDI	9,307	19,425	22,697	22,461	14,939	23,473	18,286	16,054	0.72	7.05%
Mauritius	3,780	9,518	10,165	9,801	5,616	8,142	8,059	3,695	-0.02	-0.28%
Singapore	582	2,827	3,360	2,218	1,540	3,306	1,605	4,415	6.59	28.83%
U.S.A	706	950	1,236	2,212	1,071	994	478	617	-0.13	-1.67%
Cyprus	58	570	1,211	1,623	571	1,568	415	546	8.41	32.35%
Japan	80	457	266	971	1,256	2,089	1,340	1,795	21.44	47.53%
Netherlands	559	601	682	804	1,417	1,289	1,700	1,157	1.07	9.52%
United Kingdom	1,809	508	690	643	538	2,760	1,022	111	-0.94	-29.45%
Germany	116	486	611	602	163	368	467	650	4.6	24.04%
UAE	215	226	234	373	188	346	173	239	0.11	1.33%
France	100	136	437	283	486	589	547	229	1.29	10.91%
Switzerland	57	192	135	96	133	211	268	356	5.25	25.73%
Hong Kong	60	106	155	137	209	262	66	85	0.42	4.45%
Spain	62	48	363	125	183	251	348	181	1.92	14.33%
South Korea	68	86	95	159	136	226	224	189	1.78	13.63%
Luxembourg	0	15	23	40	248	89	34	539	34.93	56.47%
Others	1,055	2,699	3,035	2,376	1,184	983	1540	1,249	0.18	2.13%

Table 2
** Source: RBI website*
*** For Luxemberg the base year is taken as 2007-08*
**** CAGR & % increase : Author's Compilation*