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FDI in Retail and its Impact on Indian Economy- An Analytical Study

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Abstract: ***The fabulous and unparalleled growth of FDI across the globe over the last two decades has made it a vital part of the development plan of both the developed and developing nations. It acts as a key mechanism in the development of a country through most modern technology, managerial skills and capabilities in various sectors. Foreign Direct Investment (FDI) Retail is considered to be the means of support of economic development especially for the developing and underdeveloped countries. It has a significant role in the enduring development of a country in capital formation, pretty competitiveness of the domestic economy through technological transfer, intensification of infrastructure, increasing productivity and creation of ample employment opportunities. Permitting FDI Retail proves good as enhancements in the supply chain, elimination of middle-men in agricultural field etc that could do good to consumers and suppliers. The present paper is an attempt to study the trends in flow of FDI Retail in Indian Economy. The paper also focuses on the relation of FDI inflows with various economic indicators.***

Keywords: Foreign Direct Investment (FDI), Retail, Technological Transfer, Economic indicators

1. Introduction

India was a confined economy before liberalization. The liberalization of the economy in the 1990s and the entry of multinationals and Indian corporate lead to the proliferation of brands. The spectacular growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. India is a growing economy and many consider it an attractive country to invest in, particularly in its rapidly growing and changing retail market. India is a founder member of World Trade Organization and signatory to its General Agreement on Trade in Services (GATS). This agreement includes wholesale and retailing services and all member countries are required to open up the retail trade sector to foreign investment. 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 India. Rise in purchasing power, growing consumerism, brand consciousness and globalization have led to retail modernization in India. Since India has embraced LPG, and became a signatory to WTO,entry to multinational giantshas been allowed in this sector. Until 2011, foreign direct investment (FDI) was not allowed in multi-brand retail, forbidding foreign companies from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51 per cent ownership. In January 2012, India allowed 100 per cent FDI investment in single-brand stores, but imposed the requirement that the single brand retailer would have to source 30 percent of its goods from India. On 7 December 2012, India allowed 51 per cent FDI in multi-brand retail. Manmohan Singh, the then prime minister of India, felt that this would be beneficial for both consumers and farmers. Agricultural marketing was also expected to be benefited with the introduction of new technologies.Manmohan Singh had taken the new policy on FDI retail which aimed at making India to a favorite investment destination. As a result of this, international companies were able to amplify their presence in the multi-brand retail sector of India. However, they were not allowed to own more than 51 per cent stakes in these establishments. This step was regarded as the most important one in the last two decades, especially with regard to reforms in India.

2. Statement of the Problem

It is imperative that any developing country should have an additional mobilization of resources in order to make a leap to become at par with the developed countries. This is due to the huge difference in required and available resources.Obviously foreign direct investment is considered to be more stable and most beneficial for the economy of a country as a whole. Though FDI can be made in any allowed sectors, the impact it contributes to the retail sector will be significant as retail sector owns a considerable share among other industries.Foreign Direct Investment flows into the primary market and helps to bring in better management skills, technology transfer and good governance. On the other hand there are concerns rather speculations over the adverse implications of FDI in an economy like India. These speculations range from monopoly of foreign corporate to market manipulation in foreigner's hands. In this context, there is a need to study about FDI in Retail and its Impact on Indian Economy.

3. Review of Literature

Sunita,S.,&Dipti,W. (2012). In their study"Growth and Challenges of Retail Industry in India : An Analysis" stated that Indian retail market constitutes 22 percent of GDP of India and 8per cent of the overall employment. Paper gave concentration on the whole reformation of retail industry and further analyzed the recent threats in the industry as well as future prospect the Indian retail industry. The rating of the retail industry will depend mostly on various factors such as Government decisions and landed property prices, in addition the actions of retailers and needs of the customers also influence the retail industry.

Kalpana,S.(2014). In his study "Retail Sector in India: Present Scenario, Emerging Opportunities and Challenges" analyzed Government policies on allowing 51percent Foreign Direct Investment in multi-brand have been studied in this paper. An endeavor to analyze the current Indian retail industry had been taken. The study observed that new government policies lead to a tough competition among domestic retailers and giant foreign retailers. The future scenario of retail industry will be elimination of middlemen and enhance employment opportunities.

Vidushi,H., &Navneet, G.(2012).In their paper"Retail Sector in India : Issues and Challenges" made a detailed study on the increasing trend of Indian retail industry and observed that consumers are more aware and conscious about various brands irrespective of socio-economic factors. Escalation of retail sector in India, policies, potential and opportunities of retail stores, retail set-up in India, current trends and pros and cons have been taken into consideration for the study. It also aims to study the impact of Indian retail industry due to the entry of global retailers.

Kanwaljeet.(2015). In his study "Organised Retailing in India : Opportunities and Challenges" has observed that Indian retail industry is considered as one of the biggest retail market across the globe. Further analyzed the boost in the Indian Retail Industry due to the favorable FDI policies of the government. Considering all these factors paper aims to offer meticulous information about the expansion and future prospects of retail industry and on the other hand possible threats and challenges has also been studied.

Satyajit,R.(2011).In his paper "An overview of Retail Industry in India: Its Growth, Challenges and Opportunities" has observed that the Indian retail sector is experiencing an amazing development with the varying demographics and an enhancement in the standard of living of people in cities and towns. The growing affluence of India's consuming class, the emergence of retail entrepreneurs and a variety of imported products particularly in the food and grocery section, has been one of the main drivers for the current retail boom in the domestic market.

4. Research Gap

Many studies have been conducted on FDI retail but an in depth study on the economic growth and its relation on NIFTY has not been analyzed. Hence a gap for research is pertinent.

5. Objectives of the Study

1) To analyze the impact of FDI Retail on GDP
2) To study the trend in FDI Retail inflows.
3) To find out the relation between FDI Retail and NIFTY.

6. Scope of the Study

FDI has a major role in the economic development of our country. Growth of FDI has seen in many sectors over the past few years. New reforms/policies have been taken by the government to encourage FDI in Retail Sector. Government has initiated to approve 100 percent FDI in single-brand retail through automatic route. The present study takes into consideration FDI retail inflows into the country in the last 6 years. The relation between FDI retail and economic growth of the country has been examined using the proxy variable GDP and stock market movements has been examined using the proxy variable NIFTY.

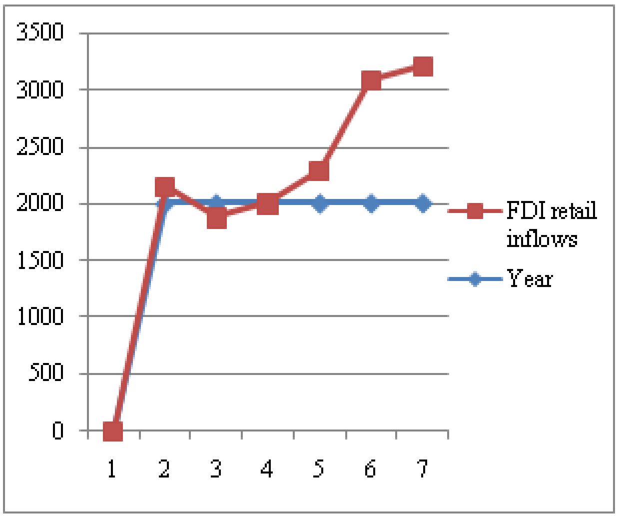
7. Research Methodology

a) Data Collection
Present study is based on secondary data. Data used in this study have been collected for the time period of 2010-2015. A remarkable flow in FDI retail has been observed during this period. Hence this period is been selected for the study. Secondary data for the study have been collected from various bulletins of RBI, Fact sheet of Department of Industrial Policy and Promotion (DIPP), UNCTAD
b) Data analysis and interpretation
Collected data has been processed with the help of SPSS. Data were analyzed by using statistical tools such as ADF Dickey Fuller Unit Root Test, Regression analysis etc. Analysis revealed that the variables are stationary and there exists significant relationships between FDI in Retail and the economic growth of the country.

Table 1: Trend of FDI retail inflows into India

Year	FDI retail inflows (INR Crore)	% Change
2010	139.03	-------
2011	-129.63	-193.23
2012	-8.07	106.225
2013	282.97	3606.44
2014	1071.75	278.75
2015	1196.92	11.68

Interpretation
Foreign Direct Investment (FDI) post liberalization has provided financial support and stability for India. During the year 2010-15 there have been a significant growth in the inflows of FDI into the country. Though there have been declines during the year2011 and 2012, the overall performance shows a significant increase in the inflows from 139.03 Crores in 2010 to 1196.92 Crores (both in INR) in 2015.



The study used time series data. So before checking the variables one need to check whether the relation is auto correlated or not. There is a tendency of the data to be correlated ie, the relation of the variables with its own previous values. So the variables are tested for ACF & PACF and it shows that the data are stationary not spurious hence analysis can be done in the level variable itself. Logarithmic transformation of the data is used for analysis.

8. Analysis - Regression

Table 2: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.300[a]	.090	.077	1209.84842
a. Predictors: (Constant), FDI Retail				

1 per cent variation in FDI retail causes 9 per cent variation in GDP.

Table 3: Anova

ANOVA[a]						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10150552.676	1	10150552.676	6.935	.010[b]
	Residual	102461324.059	70	1463733.201		
	Total	112611876.734	71			
a. Dependent Variable: GDP						
b. Predictors: (Constant), FDI Retail						

F value is significant that is less than .05. So the model is significant

Table 4: Coefficients

Coefficients[a]						
	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7853.970	150.403		52.220	.000
	FDI Retail	3.555	1.350	.300	2.633	.010
a. Dependent Variable: GDP						

Model is GDP = 7853.970* FDI Retail

Table 5: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.370[a]	.137	.125	1144.57186
a. Predictors: (Constant), FDI Retail				

1 per cent variation in FDI retail causes 13.7 per cent variation in NIFTY.

Table 6: Anova

ANOVA[a]						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14575203.451	1	14575203.451	11.126	.001[b]
	Residual	91703131.306	70	1310044.733		
	Total	106278334.757	71			
a. Dependent Variable: NIFTY						
b. Predictors: (Constant), FDI Retail						

F value is significant that is less than .05. So the model is significant.

Table 7: Coefficients

Coefficients[a]						
	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6133.546	142.288		43.107	.000
	FDI Retail	4.260	1.277	.370	3.336	.001

a) Dependent Variable: NIFTY
b) Model is NIFTY = 6133.546* FDI Retail

9. Findings of the Study

1) FDI retail is a predictor of GDP
2) FDI retail is a predictor of NIFTY
3) FDI retail positively affect Indian Economy

10. Conclusion

A remarkable quality of India's economic reorganization plan is that it has emphasized gradual and evolutionary changeover rather than a kneejerk all on a sudden. This shift was adopted since the reforms were introduced in June 1991. The revised FDI retail policy includes 100 percent FDI in Single brand and 51 per cent in multi brand, resulting in access to capital formation and technological enhancement. The present study has proved that FDI retail positively affect Indian Economy so government has to take further more initiative to promote FDI in retail sector and it leads to the economic growth of the country.

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