FDI in Retail – A Policy of Self-Sustaining Development

Debjani Banerjee
Assistant Professor
Vivekanand Institute Of Management Studies & Research, Mumbai

Abstract

The extent to which foreign direct investment (FDI) can foster self-sustaining development is a highly debated issue, which is causing obstruction towards its implementation in case of Multi Brand retail in India.

The emergence of the new policy to this sector at its nascent stage may facilitate in economic growth and human development. The innovative strategies may attract in increasing fund flow to this sector, leading towards contribution for human development. The paper discusses the positive aspects, and different facets, of FDI to draw some policy lessons regarding the impact of FDI through Retail sector on economic development.

A model has been discussed to show how FDI can help towards sustainable human development. However, a number of challenges will always remain which are in the form of structural weaknesses, institutional bottlenecks and political movements.

The paper would address issues to establish the objective of understanding -

1. The policy and impact of FDI on host Economy

2. The changing policy and liberalizing issues concerning FDI policy in India's retail sector.

3. The impact of the policy to reduce risk in domestic markets.

Key Words:- Modern Retail, Foreign Direct Investment, Sustainable development, liberalization, Growth.

Introduction

FDI simply adds to the overall supply of capital for new investment by foreign investors through purchases of equity capital in the same way as domestic savings does, which adds to the overall supply available to fund new investment. These inflows not only lead to the creation of new fixed assets and/or the use of better technology, but they may also increase the efficiency and productive capacity of a country's economy.

The probability of positive externalities may act as a driver through FDI leading to increasing growth indirectly. Foreign investors may introduce more-advanced technology and management practices; these may then spill over to domestic firms as they observe foreign-firm practices, or as labor—especially skilled labor or management personnel—moves between the two. In a similar way, domestic firms can absorb technical skills and quality control techniques. Competition from foreign investors can also force domestic firms to increase their efficiency and their use of technology to keep pace. These externalities all may affect the organization and adaptability of production, and thereby play a role in increasing growth.'

FDI may contribute to human development too, if it is able to increase household income or tax revenue. If so, FDI may work in much the same way as aid: by increasing the resources on which either governments or households may draw for their human-development spending.

FDI induces momentum to trade. Polpat Kotrajaras et al (2011) in their study on Asian countries stated that the neoclassical endogenous growth model suggests that any factor accumulation results to be the growth driver, FDI as a factor of production would then be able to enhance efficiency and provides growth momentum in the medium-term.

The Solow model (1956) implies that when there is a rise in production as a result of induced trade it results towards transitional growth as the economy adjusts to the specialization and adjustment with the external economy of scale, a new steady state equilibrium is reached. The output so obtained transform to be of greater value. Brems (1970) suggested that FDI increased the capital stock and thus, growth in a host economy by financing capital formation.

Ben-David and Loewy (2003) incorporated the impact of openness as an extension to the traditional neoclassical exogenous growth model. The openness in the form of multi-country trade adopting a liberalized policy can make this endogenously determined growth rate steadier.

The inclusion of technology transfer, diffusion and spillover effect can establish this new endogenous growth model to establish the links between long-run growth and technological progress, thus providing a framework in which trade and FDI can permanently increase the rate of growth in the host country. Romer (1993) pointed out that trade benefits nation by bringing access to new ideas. Grossman and Helpman (1991) have constructed a theoretical model and showed formally that trade in goods serves as a conduit for knowledge flows between countries, which results in turn serve to increase the productivity of capital and labour and hence, the growth rate of output per head. Borensztein et al's. (1998) growth model incorporates that FDI enabled in inclusion of increased varieties of capital goods, being able to include more due to technological progress and that results in reduction in cost. Thus, FDI acts as the main vehicle of technology transfer. In addition, the human capital building model as presented by Lucas (1988) may suggest that trade and FDI could enable inter-country technology transfer, particularly if it reduced the cost or raised the productivity of training.

The study by Nair-Reichert and Weinhold (2001) acknowledges the problems considering the complexity and Trade, FDI and economic growth.The bidirectional causalities between the four variables do not support a trade-led or a FDI-led growth hypothesis (Kwan and Kwok, 1995; Nair- Reichert and Weinhold, 2001).The findings suggest that export expansion, import liberalization and FDI inflows are integral elements in the economic growth process and that these external links has gone hand in hand with growth in Asian economies.

The reports of FDI flows, given by World Economic Outlook, IMF and World Investment Report, UNCTAD, states that these foreign fund flows done in the developing economies started growing from 1980's and expanded at an accelerated rate after 1990. In 1990, just as China was beginning to become a popular place for investors, India was in the middle of economic agony after many years of over-zealous government control over economic activity, isolation and poorly managed fiscal policy.

FDI and Economic Development

There were "half-hearted attempts made by the Rajiv Gandhi government in the mid-1980s to selectively open the economy to foreign trade and relax import restrictions, which did not have the intended consequence of stimulating investment and eventually pushed the balance of payments out of gear. Export growth had turned negative and for the first time Indian industrial production recorded negative 16% growth. In 1990-91 the current account deficit went to 3.1% and inflation was 12% and this crisis led to the adoption of liberalized trade policy.

The government thus expanded the scope of FDI in India by progressively extending the number of sectors and removal of the ceiling of 40% ceiling on foreign equity under FERA Act of 1973. FDI as theoretically been defined by Dunning(1993) stated it to be a transfer of other resources than capital (technology management, organizational and managerial skills, etc) and it is all these taken together makes an enterprise to become the MNE (Multinational Enterprise) rather than only the return from capital per se.

The liberalization policy adopted by the government resulted in economic progress. The post-reform performance of the economy had been good, and between 1994 and1997 Gross Domestic Product (GDP) grew in real terms by over 7%, which placed India among the best-performing countries in the world. (Kali Ranjan & Shankar 2006). When the world observed a slowdown during 2008-09 India yet observed a growth rate of 6.4% followed by 8% in 2009-10 and 8.5% in 2010-11.

India as a "growing" economy has been identified as an attractive destination for investment, particularly in its rapidly growing and changing retail market. The GRDI of A.T. Kearney has ranked India between first five positions as a lucrative destination for retail expansion. However, Foreign Direct Investment (FDI) is restricted in the retail sector, and despite many years of debate, the regulations are still only changing very slowly and there are still lots of uncertainties.

Retail sector, in India occupies a very heavy weighting towards, unorganized, format comprising of 92% approximately which is one of the main issues contributing to the sensitive debate on FDI in India at the moment.

"The emerging market giants China, India, and Brazil are gaining strength out of the crisis, as investors from all regions report strong confidence in their future outlook and see investments to these countries as indispensable to maintain competitiveness in tomorrow's marketplace," stated Johan Gott, manager of the FDI Confidence Index(A.T. Kearney). Investors find these nations potential for Retail growth.

FDI and Human Development-

The distinction to understand the difference between growth and development goes to state on the basis of work by Ranis, Stewart, and Ramirez(2000) These authors had established a linkage through their theoretical and empirical analysis emphasizing that, each can contribute to the other. The evidence shows that a focus on human development tends to reinforce economic growth (a process they label the "virtuous cycle"); by contrast, countries that focus on increasing growth rather than human development tend to find themselves spiraling down

a "vicious cycle" in which poor performance in human development inhibits sustained growth.

Economic development is an outcome of innovation. Liaolan Fu (2008) found innovation to be the key driver of the economic growth in a knowledge economy, which observed FDI to have significant positive impact on the overall regional capacity. This contributed to China's coastal region and not inland region to march towards better growth. Multi brand retail is to come with 51% FDI in those Urban territories whose population is above10lakhs.Hence the interplay of various factors in particular country setting determines, at the regional level, how well the regions employ the resources and develop their technological capabilities (Lall, 1992). In other words, it is the efforts of the agents in a region, i.e.business and government and the strength of the linkages between these agents that determine the performance of a regional innovation system (Braczyk et al.,1998; Fu et al., 2006).

Foreign direct investment contributes to regional innovation in different ways. Primarily through Research and Development. Increasing FDI is found to be a factor contributing to the emergence of newer economies with more sophisticated technology generation (Athreye & Cantwell, 2007).

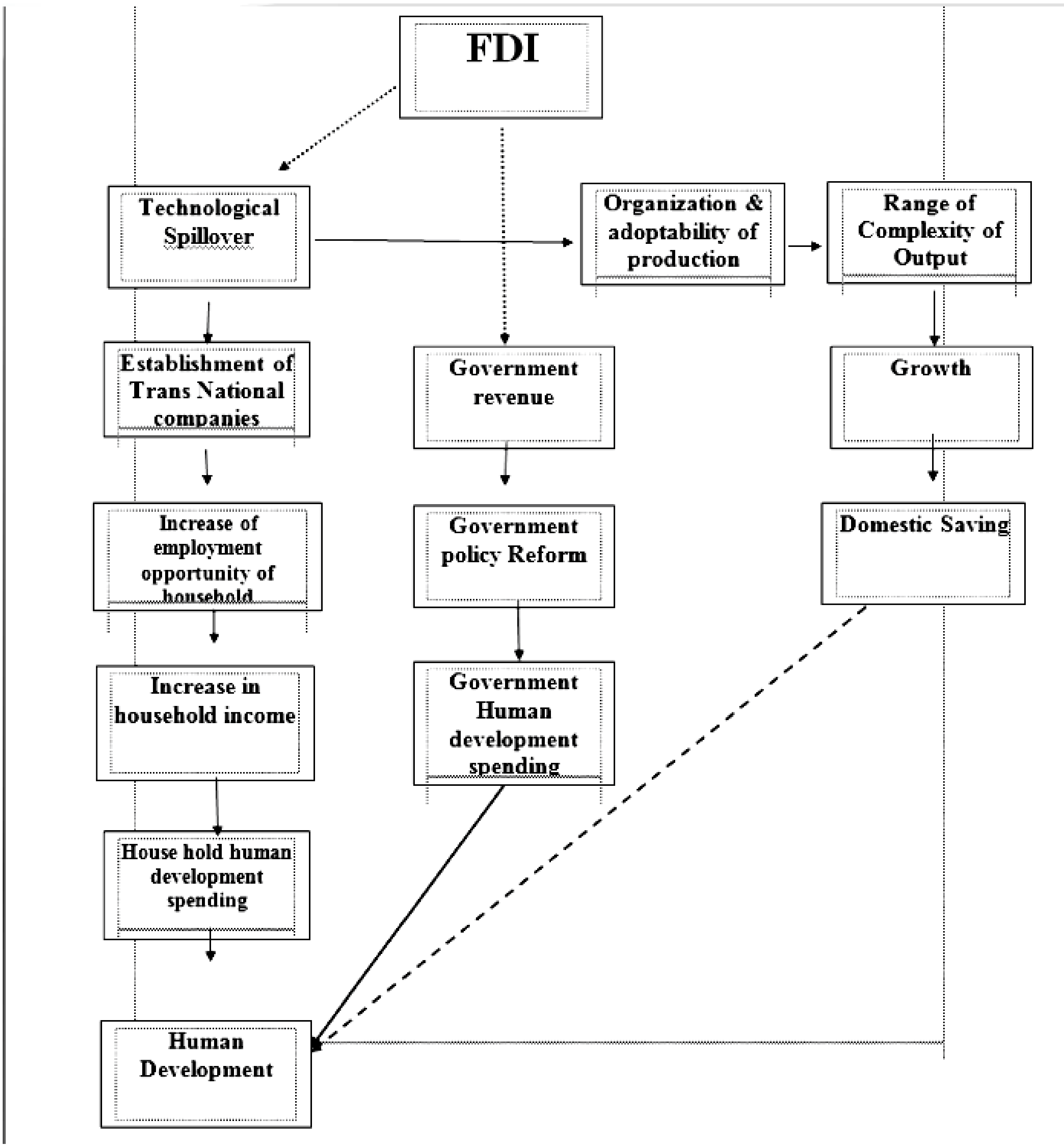
Growth in one sector contributes towards economic growth of the nation but human development is considered a better evaluation of nation's growth. As the wellbeing of its human capital can cause a better self-sustaining development.

The history of development research has many distinction between growth and development ; Sen gives one of its most articulate rationales: "It is as important to recognize the crucial role of wealth in determining living conditions and quality of life as it is to understand the qualified and contingent nature of this relationship. An adequate conception of development must go much beyond the accumulation of wealth and the growth of gross national product and other income related variables.'"

The concept of human development was established in the United Nation Development Programme's Human Development Reports and is meant to provide a more complete picture of development than economic growth. It includes not only income, but also measures of human capital—health and education—the tools that a person needs both to live a successful life in the modern world and to contribute to a country's economic progress.

Development, according to the UN, should have as its basic objective the creation of "an enabling environment for people to enjoy long, healthy, and creative lives".

The model will be able to link the impact that FDI can have towards human development. Retail contributing 39% in GDP, with liberalized policy can attract more capital flow to enhance human development.



The above figure is adapted (and simplified) from Figure 1 of , "The HD-GNP cycle," in Ranis, Stewart, and Ramirez 2000. As cited by Stephen Kossac & Jennifer Tobin (2006) The dotted line suggest the probabilistic approach.

The above model goes to explain the observations of various researches. Each of the study said that FDI created technological spill over. This has been proved with the establishment and operation of the Trans National/ Multinational companies in the host country. Introduction and set up of these companies will create employment opportunity. Increased employment will induce increase in income. Income as is known to be distributed among consumption and savings, to optimize consumer's satisfaction. Increased income and exposure of the human capital towards development will initiate an increase of the Human development spending (spending towards health and education). Which in turn will increase Human development of any nation.

Again it is believed FDI will be able to increase government revenue through increased productivity and better per capita output, both from labour and capital, and also through tax revenue. This increased government revenue will call for Government policy reform. A part of that will be directed towards spending for human development, bringing Human development of the nation.

Technological spill over as an impact of FDI will direct organization's adoptability towards production leading to range of complexity of output. This not only is the contribution of the TNC's but in the zeal of competitiveness the organizations of the host economy also gears up to match for sustainability. Thus the spill over of the technology creates a positive impact in the total output and GDP of the nation leading to growth of the nation. Nations growth increases domestic saving. And any economy with increased domestic saving expects to have good human development.

Impact of FDI on Host Economy- A review of Literature

The 1st objective of the study is to understand the impact of FDI on the host economy.

Maathai K. Mathiyazhagan (2005) did a study on sectorial analysis of FDI on Indian Economy and observed that inflow of FDI has increased output, labour productivity and export in some sector. The inflow of FDI will be able to play a vital role as a source of capital in the core sectors of India. It will also act as a prime source of management, and technology in countries of transition economies. This impact of FDI having positive effects on a host economy's development effort has been observed in various studies.(Caves, 1974; Kokko, 1994; Markusen, 1995; Carves, 1996; Sahoo, Mathiyazhagan and Parida 2001). On this line,Maathai k. Mathiyazhagan has argued that FDI can bring the technological diffusion to the sectors through knowledge spillover and enhances a faster rate of growth of output via increased labour productivity in India.

Sahoo and Mathiyazhagan,(2003) has given few evidences proving long-run relationship between Gross Domestic Product, FDI and export in India. India has also opened up its economy and allowed MNEs in the core sectors

The table 1 shows the cumulative FDI flow in India from 2000 to 2013 which went on increasing over years.

Table : 1

1	CUMULATIVE FDI LOWS INTO INDIA (2000-2013)		
A	TOTAL FDI INFLOWS (from April, 2000 to January, 2013)		
1	(CUMULATIVE AMOUNT FDI INFLOWS (Equity inflows + Reinvested earnings + other capital)		US$ 284.039 millions
2	CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS (excluding, amount remitted through RBI's - NRI Schemes)	Rs. 878.429 crore	US$ 189.962 millions

Table-2

The figures in table 2 shows the volume of fund flow done by top 10 investing countries, consistently investing year on year.

E. SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS ***(Financial years):***

Amount Rupees in crores (US$ in million)

Ranks	Country	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April – Jan.)	Cumulative Inflows (April '00 - Jan. '13)	%age to total Inflows (in terms of US $)
1.	MAURITIUS	31,855 (6,987)	46,710 (9,942)	44,508 (8,175)	333,979 (72,343)	38 %
2.	SINGAPORE	7,730 (1,705)	24,712 (5,257)	9,968 (1,823)	87,558 (18,976)	10 %
3.	U.K.	12,235 (2,711)	36,428 (7,874)	5,625 (1,048)	80,286 (17,517)	9 %
4.	JAPAN	7,063 (1,562)	14,089 (2,972)	9,308 (1,693)	67,159 (14,006)	7 %
5.	U.S.A.	5,353 (1,170)	5,347 (1,115)	2,726 (500)	50,615 (11,064)	6 %
6.	NETHERLANDS	5,501 (1,213)	6,698 (1,409)	8,219 (1,517)	40,544 (8,626)	5 %
7.	CYPRUS	4,171 (913)	7,722 (1,587)	2,365 (435)	32,035 (6,835)	4 %
8.	GERMANY	908 (200)	7,452 (1,622)	3,204 (587)	24,032 (5,208)	3 %
9	FRANCE	3,349 (734)	3,110 (663)	3,159 (585)	16,536 (3,512)	2 %
10.	U.A.E.	1,569 (341)	1,728 (353)	940 (171)	11,260 (2,414)	1 %
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		97,320 (21,383)	165,146 (35,121)	103,956 (19,103)	878,962 (190,083)	-

*Includes inflows under NRI Schemes of RBI.

Note: (i) Cumulative country-wise FDI equity inflows (from April, 2000 to January, 2013) are at – Annex-'A'.
(ii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

Table 3 shows the sectorial distribution of FDI.

F. SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:

Amount in Rs. crores (US$ in million)

Ranks	Sector	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April – Jan.)	Cumulative Inflows (April '00 - Jan.'13)	% age to total Inflows (In terms of US$)
1.	SERVICES SECTOR **	15,054 (3,296)	24,656 (5,216)	25,367 (4,660)	171,345 (37,063)	20 %
2.	CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	7,590 (1,663)	15,236 (3,141)	6,562 (1,206)	100,363 (21,954)	12 %
3.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	7,542 (1,665)	9,012 (1,997)	507 (93)	57,585 (12,645)	7 %
4	COMPUTER SOFTWARE & HARDWARE	3,551 (780)	3,804 (796)	2,382 (435)	52,500 (11,640)	6 %
5	DRUGS & PHARMACEUTICALS	961 (209)	14,605 (3,232)	5,389 (1,008)	48,257 (10,202)	5 %
6	CHEMICALS (OTHER THAN FERTILIZERS)	10,612 (2,354)	18,422 (4,041)	1,466 (268)	40,366 (8,857)	5 %
7	POWER	5,796 (1,272)	7,678 (1,652)	2,871 (526)	36,085 (7,825)	4 %
8	AUTOMOBILE INDUSTRY	5,864 (1,299)	4,347 (923)	4,916 (895)	35,702 (7,653)	4 %
9.	METALLURGICAL INDUSTRIES	5,023 (1,098)	8,348 (1,786)	7,439 (1,385)	34,375 (7,426)	4 %
10	HOTEL & TOURISM	1,405 (308)	4,754 (993)	17,401 (3,190)	32,884 (6,562)	4 %

*Note: (i)** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis*
(ii) Cumulative Sector- wise FDI equity inflows (from April, 2000 to January, 2013) are at - Annex-'B'.
(iii) FDI Sectoral data has been revalidated in line with that of RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

Service attracts maximum contribution and is the most growing one being the largest contributor in GDP. Retail is one of the growing unit in the service sector. A liberalized trade policy will facilitate more fund flow through this sector.

The table 4 shows distribution of FDI among major cities of India. The most developed and progressed states are within the first 10 list of places. In which Mumbai and Delhi the two emerging metro occupies 52% of FDI Flow. In terms of Quality of life Delhi ranked No 1, indicating better human development.

G. STATEMENT ON RBI'S REGIONAL OFFICES (WITH STATE COVERED) RECEIVED FDI EQUITY INFLOW
(from April, 2000 to January, 2013):

Amount Rupees in crores (US$ in million)

S. No.	RBI's - Regional Office[1]	State covered	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April – Jan.)	Cumulative Inflows (April '00 - Jan. '13)	%age to total Inflows (in terms of US$)
1	MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	27,669 (6,067)	44,664 (9,553)	40,909 (7,523)	287,044 (62,144)	33
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	12,184 (2,677)	37,403 (7,983)	17,020 (3,135)	165,112 (36,207)	19
3	BANGALORE	KARNATAKA	6,133 (1,332)	7,235 (1,533)	4,342 (799)	48,234 (10,561)	6
4	CHENNAI	TAMIL NADU, PONDICHERRY	6,115 (1,352)	6,711 (1,422)	11,650 (2,176)	49,408 (10,449)	6
5	AHMEDABAD	GUJARAT	3,294 (724)	4,730 (1,001)	2,470 (455)	38,693 (8,612)	5
6	HYDERABAD	ANDHRA PRADESH	5,753 (1,262)	4,039 (848)	5,635 (1,037)	36,236 (7,846)	4
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	426 (95)	1,817 (394)	1,936 (354)	10,123 (2,236)	1
8	CHANDIGARH	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	1,892 (416)	624 (130)	182 (33)	5,492 (1,186)	1
9	BHOPAL	MADHYA PRADESH, CHATTISGARH	2,093 (451)	569 (123)	858 (155)	4,436 (932)	0.5
10.	KOCHI	KERALA, LAKSHADWEEP	167 (37)	2,274 (471)	342 (63)	4,273 (902)	0.5
11	PANAJI	GOA	1,376 (302)	181 (38)	43 (8)	3,549 (770)	0.4
12	JAIPUR	RAJASTHAN	230 (51)	161 (33)	556 (102)	3,163 (655)	0.3
13	BHUBANESHWAR	ORISSA	68 (15)	125 (26)	285 (52)	1,617 (341)	0.2
14	KANPUR	UTTAR PRADESH, UTTRANCHAL	514 (112)	635 (140)	136 (25)	1,584 (342)	0.2
15	GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	37 (8)	5 (1)	27 (5)	348 (76)	0
16	PATNA	BIHAR, JHARKHAND	25 (5)	123 (24)	41 (8)	190 (37)	0
17	REGION NOT INDICATED[3]		29,344 (6,447)	53,651 (11,399)	17,325 (3,172)	215,725 (46,662)	24.6
SUB. TOTAL			97,320 (21,383)	165,146 (35,121)	103,356 (19,103)	878,429 (189,962)	100.00
18	RBI'S-NRI SCHEMES (from 2000 to 2002)		0	0	0	533 (121)	-
GRAND TOTAL			97,320 (21,383)	165,146 (35,121)	103,356 (19,103)	878,962 (190,083)	-

Includes 'equity capital components' only.
The Region-wise FDI inflows are classified as per RBI's – Regional Office received FDI inflows, furnished by RBI, Mumbai.
Represents, FDI inflows through acquisition of existing shares by transfer from residents to non residents. For this, RBI Regic
se information is not provided by Reserve Bank of India. 3

Table 4 shows the distribution of FDI equity flow among Indian states .

A study by Aitken, et al. (1997) estimated the external effect of FDI on export in Bangladesh, where the entry of a single Korean Multinational in garment exports led to the establishment of a number of domestic export firms, creating the country's largest export industry.

Chen, Chang and Zhang (1995), did a study on Chinese Economy using time series data for the period of 1979-93, the estimated regression between GNP, domestic saving in one period lag, and FDI in one period lag (all in logarithmic value) showed positive relationship between FDI and GNP and it is significant at 5 per cent level for the Chinese economy. A similar support was observed by the study done by Sahoo et al (2002). Hu and Khan (1997) attributed that the spectacular growth rate of Chinese economy during 1952 to 1994 was an outcome of the adoption of China's "open-door" policy, which brought about a dramatic expansion in foreign trade and FDI. Further, study of Bashir (1999) examined the relationship between FDI and growth empirically using panel data, the study found that FDI leads to economic growth; the effect however varies across regions and over time. As cited in his work by Mathiyazhagan(2005) where he quoted the study done by Xu (2000), by using panel data to investigate the U.S. MNEs as a channel of international technology diffusion in 40 countries from 1966 to1994. This study found a strong evidence of technology diffusion from U.S. MNEs affiliated in developed countries (DCs) but weak evidence of such diffusion in the less developed countries (LDCs). The result for the DCs indicates that US MNEs are almost as important as international trade for technology spillover. Nearly 40 per cent of the total factor productivity (TFP) of DCs is attributable to the technology transfer of US affiliates. Further, the study also found that the level of human capital is crucial for a country to benefit from technology spillovers of MNEs. A country needs to achieve a human capital threshold of about 1.9 years (in terms of male secondary school attainment) to benefit from the technology transfer by the MNEs. The results are consistent with the findings of single country study that the technology spillover effects of MNEs are positive in advanced countries but are insignificant in less developed countries.

Ching-Mu-Chen et al (2008) had done a study on Kunshan in Suzhou, China. The study proved how the FDI flow from Taiwan upgrading its economy, which has evolved Kunshan from an impoverished area into a world-class information technology (IT) centre within 25 years.

Changing policy and liberalizing issues concerning FDI policy in India's retail sector.

The 2nd objective aims to establish the aim of changing liberalized policy of FDI in Indian retail sector.

Retailing as a business was prevalent since human civilization letting the "Bulk Broken" as per individual need. Pre 1990's at the Initiation stage of Organized retail it was only manufacturers operated outlets. At the Conceptualization stage between 1990-95 retailers understood the potential of the market and most of them came in the apparel segment. At the Expansion stage between 2005-10 repositioning by existing players and also introduction of many large Indian corporates happened. Substantial development and expansion took place in food and general merchandising category. A pan India expansion took place in top 100 cities in India. Large scale consolidation took place since 2010 onwards. This included movement towards smaller cities and rural areas. Large scale entry of international brands happened. Single brand retail got approval from 51% to 100% & MBRT got approval of 51%. (IBEF)

Retail occupying a big share in unorganized format has created a cause of concern owing to the instability that it might face as a result of competition from international players. But stuidies & researches have proved Capital inflows through FDI to be stable compared to other types of capital flows, Wiboonchutikula et al. (2001) stated that, FDI seems to be encouraging growth in the host economy rather than causing economic instability. FDI is often assumed to be more productive than domestic investment in endogenous growth models. The logic behind this is that FDI encourages the incorporation of new technologies in the production function of the host economy (Borensztein, De Gregorio, and Lee 1998). In this view, FDI-related technological spillovers offset the effects of diminishing returns to capital and keep the economy on a long-term growth path.

Organized retail, which constitutes 8 per cent of the total retail market, will grow much faster

than traditional retail. It is expected to gain a higher share in the growing pie of the retail

market in India. Various estimates put the share of organized retail as 20 per cent by 2020.

(Deloitte study)

The advantage of India is its demand potential. The FDI in modern retail will cater to the need of this rising demand which is an outcome of rapid urbanization, a rising young population, impact of plastic money brand consciousness and advancement of technology. Even the untapped rural market has vast potential. The collective measures of financial houses is boosting the purchasing power of population through easy credit. Modern retail now expanded to different verticals like grocery, food & beverages, department stores, Pharmacy, specialty stores and Cash & carry. With this expansion the trade became more customer centric through strategies of offering discounts, lowering of price by offering best price without any markdown. Offering of value added services like customer loyalty got adopted. Joining partnership to create buzz has become prevalent. The attraction of other sectors welcomed more corporates to engage in this trade.

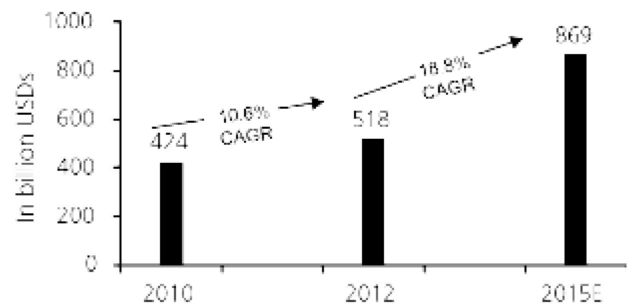
According to the Annual Global Retail Development Index (GRDI) of AT Kearney, Indian retail industry is the most promising emerging market for investment. The country has high market potential, low economic risk, and moderate political risk.

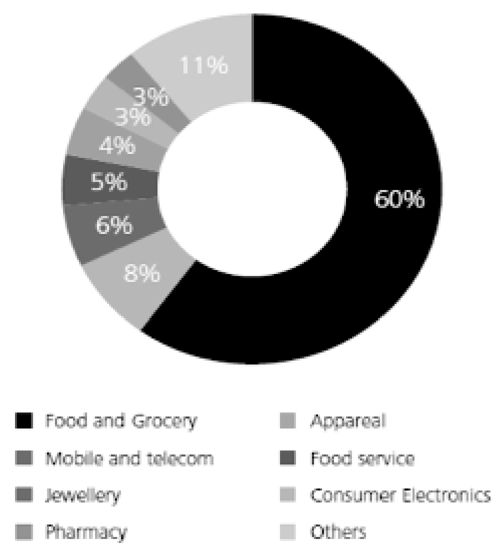
→In market potential, India ranks second after Brazil

→Net retail sales in India is also quite significant among emerging and developed nations; the country is ranked third after China and Brazil.

From an overall perspective, given its high growth potential, India scores well among foreign investors compared to global economy peers; for example, in the FDI Confidence Index 2012, India ranks second, up from third position in 2010.

The Indian retail industry has experienced growth of 10.6% between 2010 and 2012 and is expected to increase to USD 750-850 billion by 2015 with a CAGR of 18.8%. Food and Grocery is the largest category within the retail sector with 60 per cent share followed by Apparel and Mobile segment. (Deloitte)





Source: India Retail Report 2013, Images Group

As studies prove the impact of technology transfer and other management efficiency to be the contribution and carry forward of FDI towards the host economy then Organized Retail will definitely be able to gain benefit from the efficiency gain through the developed logistic & supply chain management. The efficiency gain will not only be enjoyed by the Trans National companies but would be benefitted by the entire economy. Right thing would reach the Right Place in Right Time increasing both Time utility & Place utility. Keeping this in wider benefit of the sector's growth and impact on subsidiary industries, Government introduced the next leap of liberalizing the trade policy.

This will be able to facilitate in restoring the loss of food items that happens as a result of inefficient storage condition. The good aspect of the proposed " Retail revolution' may result in improving supply chain logistics, including cold storage, which will be able to tune India broadly towards the western style market economy. This advanced innovation will be able to save the 30 per cent wastage of perishables that we have been moaning about for 30 years. This will bring forth the view if we prefer to eat fresh and waste what we cannot consume, or whether not to waste, and eat preserved food and optimize in efficiency gain. So is it better to eat something than nothing at all.

"As retailing in India is attracting the attention of many global players, the Indian Government is paying increased attention to the country's retail environment. FDI in retailing remains a widely debated and heated issue in India's economic and political environment. However, the Government is gradually taking steps to open the sector." (KPMG 2009)

The NSSO's 64th round data quoted by the discussion paper stated that "More than 2/3rd of the total employment, in the broad category of trade, hotels and restaurants, is in the retail sector '

FDI in MBR-51% as the status Policy passed

- Minimum investment cap is USD100 million
- 30 per cent procurement of manufactured or processed products must be from SMEs
- Minimum 50 per cent of total FDI must be invested in back-end infrastructure (logistics, cold storage, soil testing labs, seed farming and agro-processing units)
- Removes the middlemen and provides a better price to farmers
- Development in the retail supply chain system
- 50 per cent of the jobs in the retail outlet could be reserved for rural youth and a certain amount of farm produce could be required to be procured from poor farmers
- To ensure the Public Distribution System (PDS) and Food Security System (FSS), government reserves the right to procure a certain amount of food grains
- Multi brand retail would keep food and commodity prices under control
- Will cut agricultural waste as mega retailers would develop backend infrastructure
- Consumers will receive higher quality products at lower prices and better service

FDI in Single Brand 100% as the status policy passed.

Products to be sold under the same brand internationally

- Sale of multi brand goods is not allowed, even if produced by the same manufacturer
- For FDI above 51 per cent, 30 per cent sourcing must be from SMEs
- Consumerism of the retail market
- Any additional product categories to be sold under single brand retail must first receive additional government approval . (Deloitte)

The impact of policy to reduce risk in domestic markets.

The third objective is to analyze how the policy can implement reducing risk in domestic market.

The 30% sourcing is adopted as a protection towards domestic traders, had to abide for first 5 year. This window was allowed to investors to achieve the 30% sourcing creating a bridge of development for the domestic firms to compete and get enough time to prepare and gear up.

Retail trading through e-commerce channel has been prohibited for companies with FDI in MBRT, objective being controlling the foreign players from expanding their business using technology. This will give scope to domestic retailer to increase their foot print. Even the approval to start a retail outlet has been left with States / Union Territories, for better understanding from the point of view of local needs. The cities not having population exceeding 1 million, are left out of the ambit of the new retail expansion. So that the initial thrust of opening are allowed in large cities of the State's choice.

This policy condition will not have uniform impact on all verticals of retail. It might have a low impact in one segment but could be a major stumbling block for another segment. A Minimum FDI investment of USD 100 million and a constraint of maximum 51 per cent stake of the foreign entity imply that the minimum investment required by both, the foreign and the Indian partner together, is more than INR 1000cr. With the restriction of expansion with minimum population needed, Mass Grocery and Apparel are two of the fastest growing organized retail segments. In both these segments there are large domestic retailers who could be potential joint venture partners for foreign retailers.

The requirement of 50 per cent of FDI in backend infrastructure in the first three years which is for the logistics, cold storage, and soil testing labs, seed farming and agro-processing units will call for Minimum investment of INR 250-220cr. Which will be to invest in backend infrastructure. This will facilitate the system to take care of endogenous growth and share the benefit of efficiency gain. This development will be able to extend the expansion for rural marketing. This will also create a wider coverage and dominant role of private labels to match with that of developing countries. Present share of US & UK are 19 & 39% while India has only 6% (Deloitte)

Considering India‘s price being very competitive it has already attracted large retail players to use it as a sourcing base. Global retailers such as Walmart, GAP, Tesco and JC Penney are increasing their sourcing from India and are moving from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices.

FDI in multi-brand retail is likely to bolster retail capabilities by attracting foreign investments. Appropriate implementation of the policy is expected to address a number of supply side constraints plaguing the Indian agricultural sector and help reduce inflationary pressures. Indian agriculture has been traditionally plagued with low food-grains productivity and inefficient distribution. Increased scale of investments and better supply chain processes will help increase productivity and distribution efficiency. The agricultural sector can see higher use of technology in farming, packaging and storing leading to reduction in supply chain impediments, thereby, reducing supply side inflationary pressures. Better retail access is also likely to provide consumers with wider product choice and rationalized prices.

The experience of China and Indonesia shows that traditional and modern retail can co-exist and grow, albeit at different rates. While kirana stores may be growing at 2 to 5%, organised retail may be growing at 20 to 40% CAGR or more. This is due to the fact that organised retail is growing at a low base. In Indonesia, even after the emergence of supermarkets, 90% of fresh food and 70% of entire food is still controlled by traditional retailers. In Japan, organized retailers co-opt several kirana stores and hawkers drawn from the pool of traditional retailers and are upgraded with capital infusion and trained to meet the demands of customers. (PWC & FICCI)

Recommendation & Suggestions:-

Government should recognize the MSME segment which is subject to face the threat and bite of the global competition. There needs to be standardized and official definition of micro, small and medium enterprises (MSMEs). In fact, no official definition of small and micro trading enterprises is available in the Country. MSME Act 2006 also did not address this issue. They, undoubtedly, contribute a substantial chunk being large in number. Bringing retail sector under the purview of MSMEs would enable them to access benefits, schemes, bank-finance at better rates & terms. Further, this would strengthen retail MSEs and help them emerge strong to face the challenges that the big retail chains might throw upon them.

In absence of estimation of this informal sector not being under the ambit of any structure the sector cannot grow the rate at which it needed to.

As the state has the right of approval of MBRT establishment, in their cities there should be some set norms of trade area in terms of distance, so that the MSME's can dwell hand in hand with the principal of co-existence of both organized and unorganized retailers.

To conclude, it can be said that India being a part of this global economy as a part of free trade regime, imminently needs to adopt liberalized open door policy in retail sector.

Indian traders and business communities might survive the competition. Though there would be causalities initially, particularly among MSE retailers. The Government's needs to adopt policy of reducing this causality rate. As such Government has to maintain symmetry in safeguarding the interest of both organized and unorganized sector, while respecting WTO agreements. Thus ensuring a level playing field midst competition so that all stakeholders involved must get benefited and a mutual gain enables the nation a self-sustaining development.

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