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A STUDY ON IMPACT OF FDI ON INDIAN ECONOMY WITH REFERENCE TO RETAIL

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ABSTRACT

The retail industry in India is thriving, and it is one of the country's three main economic drivers alongside agriculture and industry. India's retail industry alone is responsible for over 15% of the country's GDP, making the services sector the greatest contributor. One way of looking at retail is as the link between the producer and the one-to-one consumer market, where purchases are made for direct use. As India opened its doors to the global market, the makeup and nature of FDI have changed significantly.

Foreign direct investment (FDI) is seen as a key factor in helping India's economy thrive. There is renewed optimism and high anticipation that the government's strategy of permitting Foreign Direct Investment in the multiband retail sector would act as a catalyst to support economic progress in our nation.

This research aims to investigate and analyze the effects of FDI in retail on human capital and economic growth as a whole.

Keywords: Retail, FDI, GDP, and GDP growth are all terms that may be used to describe the expansion of the economy.

GENERAL INFORMATION

FDI refers top investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm or starting a joint venture in the foreign country. Direct investment and management of the firms concerned normally go together. In the initial stage of economic reform the limitation for the country (India) is domestic savings. In addition to India many developing countries, least developed country and underdeveloped country are relayed on foreign investment to accelerate their economic growth. Later on, this initial push has resulted in continues growth of countries.

Foreign investment brings 4E's -Efficiency, Equity, Experience and Expertise. In return there is a 5" "E' Expatriation of profit. The direct benefits from the FDI are that foreign capital may enable the country to increase its export and reduce import requirements on the on hand and on the foreign investment may help increase competition and break domestic monopolies.

From 15% of GDP in 1950 to 57% in 2012, the services sector has grown to become India's economic backbone. It ranks sixth in nominal GDP and third in buying power when compared to other service industries. Almost 27% of the labour force is employed in the service industry. In India, retail is part of the larger Service Sector. Around 15% of India's GDP comes from the retail sector. One of the top five retail marketplaces in the world, India's retail sector is worth an estimated US 450 billion.

There are almost 1.2 billion people in India, making it one of the world's fastest expanding retail marketplaces. The retail sector acts as the last connection between producers and end customers. Only found in major metropolitan areas, retailers with greater footprints accounted for around 4% of the industry in 2010. Over 40 million Indians (3.3% of the country's total population) are employed in retail and logistics. In India, the retail industry has a phenomenal growth rate of over 46%.

ABOUT THE FDI IN RETAIL SECTOR

- **Enhancing Retail Capabilities for Development and Expansion**

  Slow development in these years may be attributed to an inexperienced and unproven retail workforce. Foreign direct investment (FDI) in the retail sector will pave the way for the entry of foreign expertise, which has the potential to spur the expansion of the sector as a whole. Capability building, in addition to financial inputs, is crucial to the success of the sector.

  With the introduction of FDI in the retail sector, additional employment possibilities would become available. The widespread use of cutting-edge technology will open doors to new opportunities for learning and development, as well as satisfy the requirements of many people.

- **Supply-chain management and infrastructure enhancements**

With a more sophisticated front end, foreign direct investment (FDI) in retail will increase investment in infrastructure from retail operators, third party supply chain corporations, and the government. There will be less waste, more productivity, and lower prices for the customer as a result of this improved supply chain efficiency.

- **Drive for Increased Productivity in India's Agricultural Community**

Investment in improving agricultural methods has the potential to significantly increase production in the food and agriculture sector. There will be more people in the agricultural community who have a shared interest thanks to foreign direct investment in the retail sector, and this is predicted to greatly increase output. By going around intermediaries, small farmers may increase their revenues.

- **FDI in Retail Trading:**

Sector / Activity	**% of Equity/ FDI Cap**	**Entry Route**
Single Brand product retail trading	100%	Automatic up to 49% Government route beyond 49%
Multi Brand Retail Trading	51%	Government

- **Retail FDI – Advantages and Benefits**

    - Economic Growth – New infrastructure is built when foreign companies come in. Sectors such as real estate and banking will see growth.
      TNC will also pay a lot of taxes to the Indian government, which in turn can be used to build infrastructure.
    - Job Creation - FDI to retail will create many jobs in the organized retail sector.
    - Benefits for Farmers – This will benefit farmers and producers by buying directly from farmers and producers, reducing the number of middlemen. It will improve the margin of Farmers.
    - In the case of vegetables and fruits in the unorganized sector, huge losses are occurring, reaching 40%. Large retail chains can reduce these losses by investing in supply chains and related storage facilities.
    - Foreign companies can bring the best technology, best management practices and new knowledge to Indian players.
    - Desire for Productivity – Agricultural and food production in India is currently very low. FDI in the retail sector will provide support to agricultural infrastructure and agricultural practices.

- Consumer Benefits - Retail FDI means lower prices and a greater variety of products for consumers to choose from. They also have access to international brands.
- Promoting Competition - Promoting competition in the marketplace to benefit both consumers and producers.

➢ Retail FDI – Disadvantages and Concerns

- FDI drains a portion of a country's income abroad and can harm the country's economy as a whole.
- Domestic retailers cannot compete with TNC and may be driven out of the market or at least absorbed by larger players.
- may lower prices at first, but once TNCs are established in the market, they can raise prices and form cartels that harm consumers.
- Farmers who can benefit early may find themselves at the mercy of these large retailers once they gain significant market share.
- The predatory pricing of these large retailers will hurt small and medium players in the sector.

The retail sector is essential in linking manufacturers with their end customers. The retail sector in India has grown rapidly over the last decade, contributing significantly to the country's improving economic situation. By 2025, India is projected to become the third biggest retail market in the world, behind China and the United States. At now, India is the world's fifth-busiest retail market.

INTRODUCTION OF THE STUDY

An example of FDI is when a firm from one nation invests in another firm located in a different country. An overseas investment may be made in a variety of ways, including the establishment of a foreign subsidiary or associate, the purchase of shares in an existing overseas business, or the formation of a merger or joint venture with a foreign business. Increases in foreign direct investment (FDI) may boost economic development since they bring in more money and boost tax income in the nation that receives the FDI.

Countries that are eager to attract foreign direct investment frequently use that money toward building new infrastructure and other social and economic advancements. It has been hypothesized that higher corporate governance standards might result from a foreign firm imposing its rules on a local subsidiary, since more competition from new enterprises would lead to better productivity gains and efficiency in the host nation.

Furthermore, FDI may lead to the transfer of soft skills via training and the creation of jobs, the availability of more cutting-edge technologies for the local market, and access to a wider range of resources for R&D. New enterprises may provide job prospects to the local community.

The India Company, established in the early 2021s, was the first in a long line of foreign direct investments (FDI) in India. Throughout its dominion, the British Empire lavishly financed the Indian subcontinent. Unfortunately, because to a lack of extensive and trustworthy data, academics were unable to provide a whole picture of the development of FDI in India. The bulk of pre-independence FDI came from British corporations.

LITERATURE REVIEW

Author: Bhavya Malhotra

In the Year 2021, the World's Leading Magazine of Business Management and IT

The purpose of this article is to investigate the factors that influence the influx of foreign direct investment (FDI) into India, as well as to assess the effect this investment has on the country's economy. The author has created a table that compares the rates of expansion of foreign direct investment and gross domestic product from 1991–1992 to 2011–2012. (post liberalization period). The author observed a positive correlation, leading them to conclude that FDI influx is good for homegrown firms' access to foreign markets and development of in-house expertise and technology.

The author also discovered a lack of progress in resolving resource, equality, political, and federal obstacles. Malhotra, 2021

Authors: Akanksha Khanna, Dr. Namita Rajput, Dr. Subhodh Kesharwani, et al.

Presented at the June 2022 meeting of the Association for Research in Accounting Systems

The purpose of this article is to apply a SWOT analysis to the question of how the current Indian government's retail FDI policy affects Indian customers and the country's economy. The advantages include more competition, perks for farmers and consumers, and the creation of new jobs, while the disadvantages include a lack of infrastructure, complicated tax and fiscal regulations, and a shaky administration. Possibilities included raising quality standards, adopting advanced distribution and warehousing systems, and expanding retail operations into rural areas; dangers included the loss of jobs, unfair competition, and the out-of-country transfer of profits.

According to the findings, the positives much outweigh the negatives. The government must take care of the dangers by implementing creative solutions and minority-friendly policies. According to research (Rajput, Kesha want, & Khanna 2022)

According to Crisis, by 2020,

organised retail's share of the retail sector is expected to increase by 300 basis points, reaching 10%.

Crisis predicts that the organized retail sector in India would rise from its current 7% to 10% of the market by 2020. According to the data collected, a higher rate of shop expansion would occur if the regulatory climate for single-brand retail was improved and restrictions were loosened. Global single-brand retailers suffering growth difficulties in their main markets would now be more than willing to pitch tent in India, according to Anuj Sethi, Senior Director, CRISIL Ratings. Those already there may increase their financial commitments. Old ways of sourcing impeded our ability to expand our business.

As seen by the rising credit ratio, CRISIL has upgraded the credit quality of its rated 93 categorized merchants.

Author: Anubhav Pandey

Investments by overseas firms in the retail and wholesale of both established and up-and-coming brands

This article explores the effects of foreign direct investment (FDI) laws on the single-brand retail, multi-brand retail, and online-commerce sectors. The Department of Industrial Policy and Promotion (DIPP) has announced a guideline mandating that if a foreign investor puts up more than 51% of the capital for a single brand store, then the store must purchase Indian products worth at least 30% of the total. Indian businesses are responsible for ensuring online retail compliance, and evidence of this may be submitted by international investors. The federal government has established a policy wherein foreign direct investment (FDI) of up to 51% is permitted in multi-brand retail. In addition to addressing the impact of liberalization on multi-brand retail, the essay compares and contrasts the policies of e-commerce with those of multi-brand retail and discusses how these policies are put into practice. Flipkart serves as a case study for today's e-commerce infrastructure. This is according to a recent study (Pandey, 2019).

PROBLEM STATEMENT

In order to catch up to wealthy nations, it is essential for emerging nations to increase their resource mobilization. This is because there is a significant gap between the resources that are needed and those that can be used. Of all, FDI is the safest and best bet for a country's economy since it comes directly from outside. Although FDI may be undertaken in any permitted industry, it will have a disproportionately large effect on the retail sector because of the retail sector's large market share.

Foreign direct investment (FDI) comes into the main market, where they assist to introduce superior managerial abilities, technological transfer, and transparent government. There are, however, worries or suspicions about the negative repercussions of FDI in an economy like India. These theories include anything from the monopoly of a foreign company to the manipulation of the market by a foreign power. Research on the effects of foreign direct investment (FDI) on the Indian retail sector is thus warranted.

OBJECTIVES OF THE STUDY

- In order to examine how the retail sector in India has developed.
- Investigate Foreign Direct Investment Flows in India's Retail Sector.

- The goal of this study is to determine the effect that foreign direct investment has on the Indian retail industry.

RESEARCH METHODOLOGY

Research Design

This research is based on Empirical study. Empirical research is based on observation and measurement of phenomena, as directly analysed by the researcher. The data gathered is to be compared wirth a theory or hypothesis, but the results are still based on actual data analysis. Empirical research does not make to offer definitive or indisputable answers to problems; rather, it depends on our understanding of the subject. The goal of this kind of research is to offer a more comprehensive explanation for a phenomenon that is currently not well understood.

Source of Data

- This research is based on Secondary source of data collection.
- Source of secondary data includes…
  - Books,
  - Published journals,
  - Newspapers,
  - Websites,
  - Government records etc.

Data Collection Method

- This research is conducted through Secondary Data collection method.
- Common secondary data collection method includes…
  - Internet,
  - Libraries,
  - schools/colleges,
  - Organisational Reports

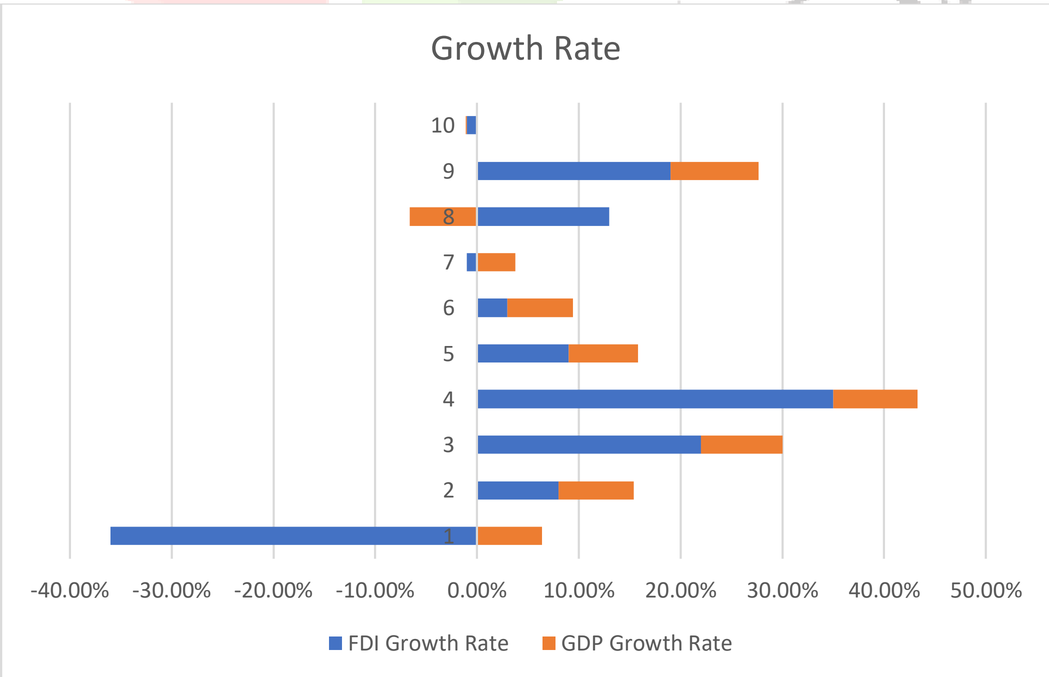
Data Collection Instrument

- Graphs and charts are used to analyse growth.
- Regression Analysis statistical method will be formed.
- Findings and recommendations will be provided to make the research more helpful.

DATA ANALYSIS AND INTERPRETATION

➢ Analyse Growth Rate

Year	Total FDI inflow	Total GDP	FDI Growth Rate	GDP Growth Rate	Relationship between FDI & GDP
2013	22423	1827637.86	-36.00 %	6.39 %	Negative
2014	24299	1856722.12	8.00 %	7.41 %	Positive
2015	29737	2039127.45	22.00 %	8.00 %	Positive
2016	40001	2103587.81	35.00 %	8.26 %	Positive
2017	43478	2294797.98	9.00 %	6.80 %	Positive
2018	44857	2651472.95	3.00 %	6.45 %	Positive
2019	44366	2702929.72	-1.00 %	3.74 %	Negative
2020	49977	2831552.22	13.00 %	-6.60 %	Negative
2021	59636	2667687.95	19.00 %	8.68 %	Positive
2022	58773	3176295.07	-1.00 %	-0.12 %	Positive

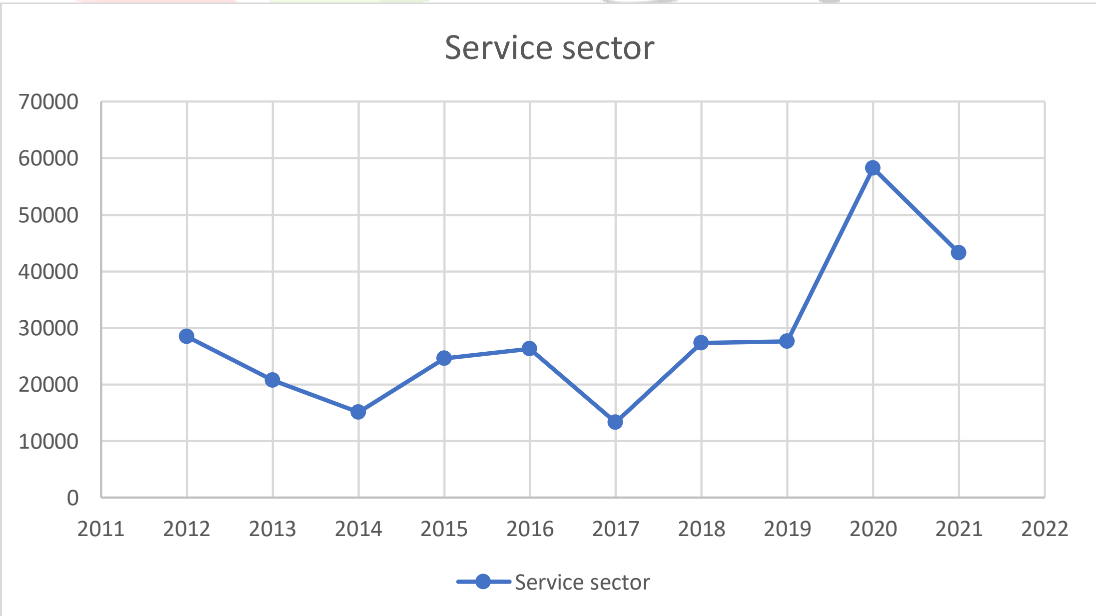


➢ TREND ANALYSIS

The overall influx of FDI into the nation has been analysed, along with its historical trends. From this pattern, one might deduce that FDI has been on the rise. Foreign direct investments have been on the rise since 2017, with a noticeable spike occurring in 2021. The shift in policy, India's emergence as a global market, and technological development are to thank for the increase. The government has raised FDI from 51% to 100% in single-brand retail and from 51% to 100% in multi-brand retail in 2020. Until 2020, FDI in India's multi-brand retail sector was strictly regulated.

1. Service Sector

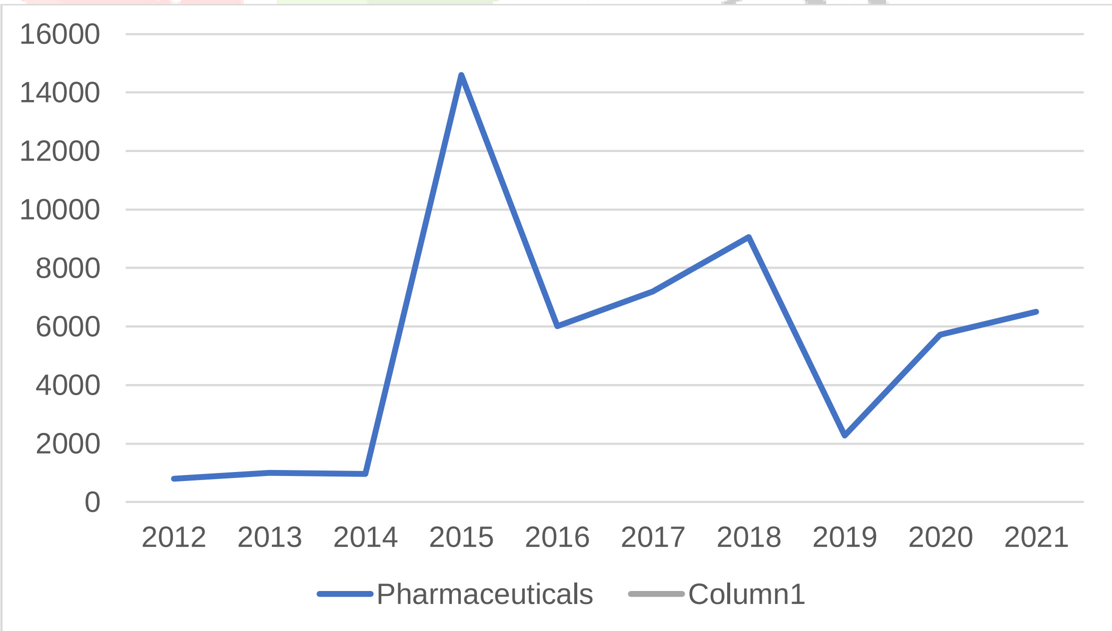
Year	Service sector	Growth
2012	28516	
2013	20776	-37.25%
2014	15,053	-38.02%
2015	24,656	38.95%
2016	26306	6.27%
2017	13,294	-97.88%
2018	27,369	51.43%
2019	27,630	0.94%
2020	58,214	52.54%
2021	43,249	-34.60%



- Based on the data shown above, FDI inflows into the service sector have been on the rise since 2012, all years but 2021 excepted. Foreign direct investment (FDI) inflows increased once again in 2020 as a result of the government's efforts to make it simpler for businesses to operate and attract new investments.

2. Pharmaceuticals sector

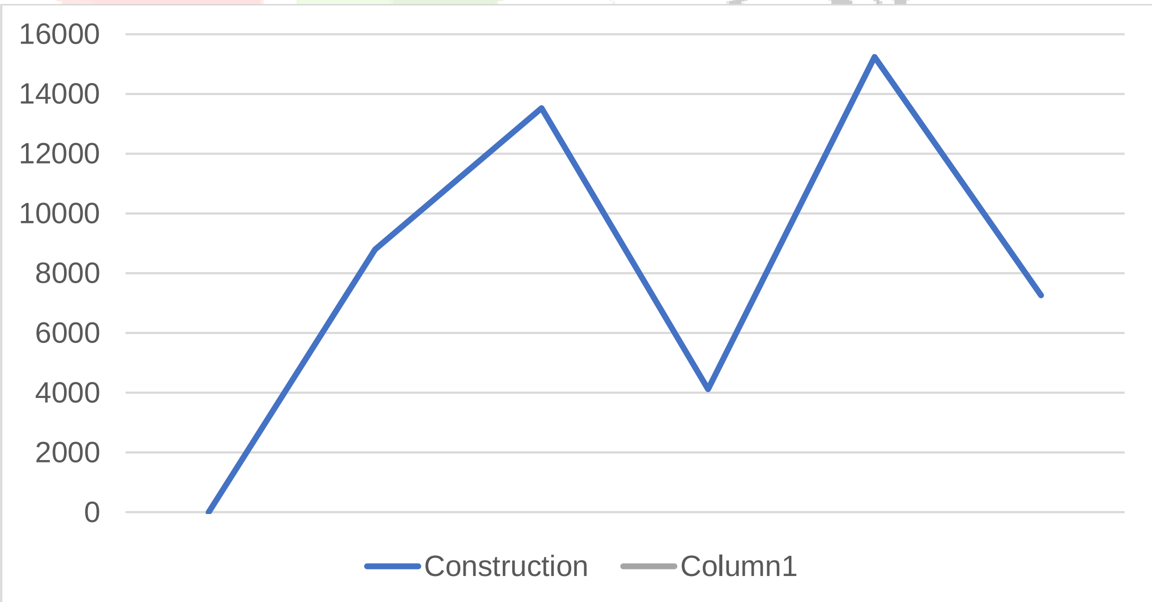
Year	Pharmaceuticals	Growth
2012	800	
2013	1006	20.48%
2014	961	-4.68%
2015	14605	93.42%
2016	6011	-142.97%
2017	7191	16.41%
2018	9052	20.56%
2019	2267	-299.29%
2020	5723	60.39%
2021	6502	11.98%



- According to the above graph, foreign direct investment (FDI) into the pharmaceutical industry had a dramatic uptick in 2020, followed by a period of rather steady expansion in subsequent years. A few possible explanations for this sustained expansion include pricing control and tight labor laws, weak patent system. The government hopes to expand the FDI inflows into the sector by liberalizing the laws further in the hopes of attracting more foreign capital.

3. Construction sector

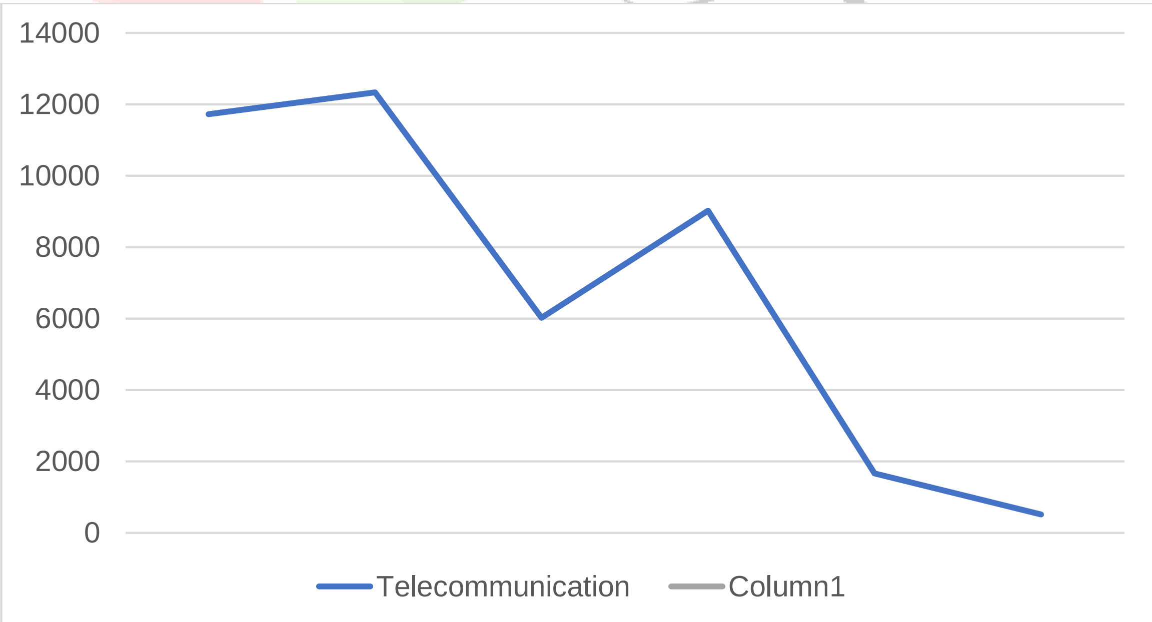
Year	**Construction Development**	**Growth**
2012	8792	
2013	13516	34.95%
2014	4109	-228.94%
2015	15236	73.03%
2016	7248	-110.21%
2017	7508	3.46%
2018	4652	-61.39%
2019	673	-591.23%
2020	703	4.27%
2021	3472	79.75%



- While the government has approved 100% FDI in this sector since 2015, the following chart shows that FDI inflows into the Construction Sector would increase dramatically in 2019 and 2021. Possible causes of explosive expansion include the lowering of minimum built-up area and capital requirement and the loosening of exit requirements. Demonetization and the resulting shortage of cash may explain the recent drop in Investment into this industry.

4. Telecommunication sector

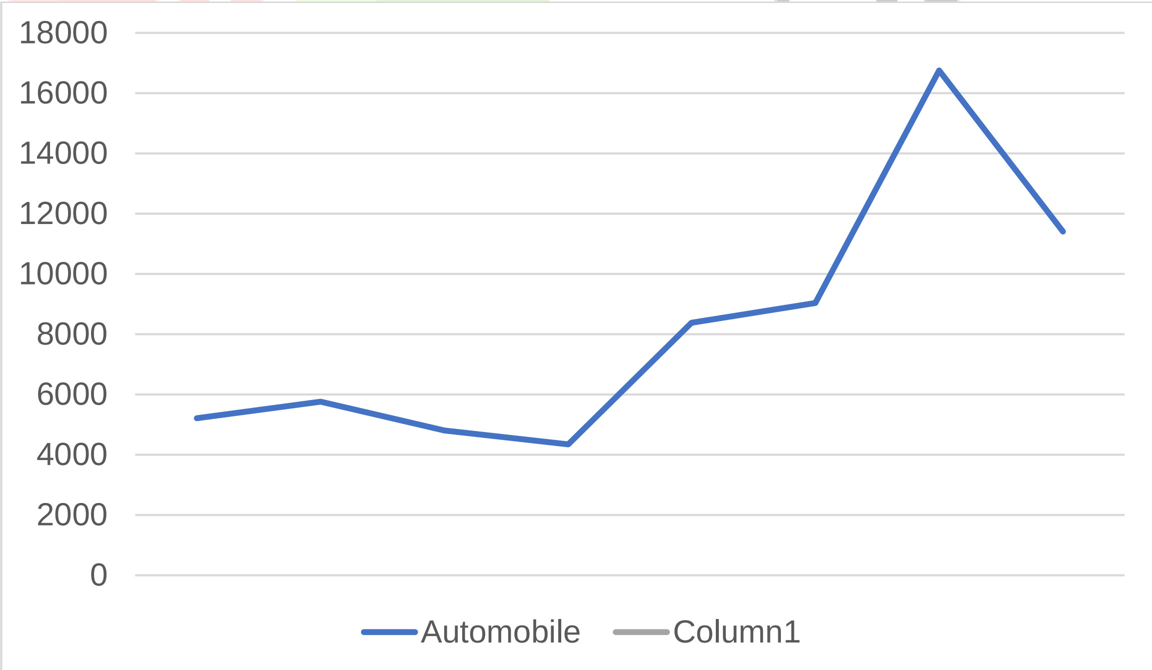
Year	Telecommunication	Growth
2012	11727	
2013	12338	4.95%
2014	6021	104.92%
2015	9012	33.19%
2016	1654	444.86%
2017	502	229.48%
2018	17372	97.11%
2019	6936	150.46%
2020	37435	81.47%
2021	39748	5.82%



- Foreign direct investment (FDI) into the telecommunications industry has increased dramatically during the previous two years. The telecommunications industry is poised for rapid growth in incoming foreign direct investment (FDI) in the coming years, thanks to the exponential development of technology, the advent of services like 3G, 4G, and 5G, and the massive increase in the number of users of telecommunication services due to the entry of Reliance JIO.

5. Automobile sector:

Year	Automobile	Growth
2012	5212	
2013	5754	9.42%
2014	4805	-19.75%
2015	4347	-10.54%
2016	8384	48.15%
2017	9027	7.12%
2018	16760	46.14%
2019	11405	-46.95%
2020	10824	-5.37%
2021	13461	19.59%



- The automotive industry exploded in 2020 and has been expanding steadily since since. As the production of automobiles in Japan and South Korea has gotten pricey over the past few years, some automotive firms have chosen for transferring their headquarters in nations like India and China with a goal of receiving cheap resources.

- **Regression analysis:**

It is possible to accurately determine which factors affect a certain subject by using regression analysis. It is possible to accurately identify the most important and least important components, as well as the interplay between these two groups.

	df	SS	MS	F	Significance
Regression	1	362.8763	362.8763	2.126545	0.0240843
Residual	3	511.9237	170.6412		
Total	4	874.8			

P value = 0.0240843

Overall regression: right-tailed,

$F(1,3) = 2.12655$,

P-value = 0.024084.

Since p-value is less than α (0.05), we accept the Alternative hypothesis (H1) and reject Null Hypothesis (H0).

RESULTS AND FINDINGS

1. This Research finds that there is significant relationship between impact of FDI in Indian economy (with reference to retail).
   i.e. Hypothesis H1 is Accepted.
2. Foreign Direct Investment (FDI) inflow in retail sector has increased during last 10 years.
3. Through this research, it has been observed that there is somewhat significant growth among the sector chosen.
4. In this Research, Analysis has determined the relationship between 5 sectors of Retail Industry in India over a period of 10 years.

CONCLUSION

There is a significant and positive correlation between FDI and GDP. relation that is linear and based on the analysis, we can conclude that there is a linear relationship between "FDI inflows" and "GDP per Capita" that is significant at the 5% level. A strategy for transferring technology and know-how to developing nations, including India, appears to be FDI.

India would become more deeply integrated into the global market as a result of FDI. Therefore, the government should be aware of the positive effects of FDI and take proactive measures to promote it while taking certain precautions, but it should also be aware of its limitations.

Government should exercise extreme caution when establishing a framework for policy so that our economy can make use of all available aid from a variety of sources for its expansion and development. Government should consider FDI's limitations, as it has in the past, as well as its long-term effects on the economy before permitting it in any particular sector.

There are always trade-offs to be made, but FDI has the potential to boost both competition and the supply relative to demand, which should lead to lower pricing for consumers. To this day, India's insurance industry is far from mature.

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