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## FDI IN RETAILING IN INDIA- A LITERATURE SURVEY

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### Abstract

One key instrument for promoting economic growth is considered to be foreign direct investment, or FDI. Governments create policies that provide incentives to foreign investors to boost foreign direct investment (FDI) in order to raise the foreign exchange reserve or to advance a certain industry. China and other nations engineered policies to encourage foreign direct investment (FDI) by leveraging their abundant human talent and inexpensive resources. This research, which is entirely review-based, sheds light on the following topics: examining Indian FDI policy; FDI policy concerning retailing in India; factors drawing FDI to the Indian retail sector; and the effects of FDI on the retail sector.

**Key words:** Retailing, multi-brand, Foreign Direct Investment, Economic Growth

### Introduction

The Indian government permitted 51% FDI in retail under a single brand and 100% in cash and carry exclusively. FDI in multibrand retail, however, is still prohibited. The cabinet's recent decision to permit 51% FDI in multibrand retail and 100% in single brand retail in November 2011 was one of the significant actions made by the government to promote organized retailing in the nation. Finally, the government has made the audacious choice to announce the eagerly anticipated policy permitting 100% FDI in single brand retail as opposed to the current 51%. Given the foregoing context, a research was suggested to evaluate the effects of the government's decision to permit 51% foreign direct investment (FDI) in multi-brand retail. (FDI) in retail with multiple brands and 100% in retail with a single brand in the Indian retail industry. This research, which is entirely review-based, sheds light on the following topics: examining Indian FDI policy; FDI policy concerning retailing in India; factors drawing FDI to the Indian retail sector; and the effects of FDI on the retail sector.

### A Literature Survey

#### FDI in India

The amount of FDI inflows into India was impacted by the liberalization of FDI in the early 1990s. According to Hill (2020), foreign direct investment (FDI) enables businesses to directly manufacture or sell goods or services in other markets. Direct investment might take the shape of foreign joint ventures, greenfield projects, or mergers and acquisitions (Moosa, 2002).

The following variables were recognized by Rao and Dhar (2021) as contributing to the country's increased FDI inflows: (i) government interest and policies; and (ii) mergers and acquisitions. The government's several successful initiatives to draw in international investors in the middle of the 2000s are credited with the rise in the flow of inbound FDI. The decision to permit 100% FDI in township, housing, and infrastructure projects was taken in 2015.

"Changing policy framework has affected the trends and patterns of FDI inflows received by the country," according to a published by Kumar (2015).

### **FDI in retailing in India**

Traditional industries like manufacturing, infrastructure, and natural resources have seen a decline in investment in recent years, while new industries like retail, tourism, and offshore services have benefited. Mukherjee and Patel (2015) state that US\$ 45 billion was invested in the retail sector of the twenty greatest emerging nations.

While new businesses like retail, tourism, and offshore services have prospered, traditional industries like manufacturing, infrastructure, and natural resources have suffered a fall in investment in recent years. According to Mukherjee and Patel (2015), the retail industry in the top twenty emerging countries received investments of US\$ 45 billion.

One intriguing argument against market-seeking foreign direct investment (FDI) in service industries like retail is that it has minimal effect on the nation's economic progress. "FDI in retail has been key driver of productivity growth in Brazil, Poland, and Thailand," according to Palmade & Anayiotas (2014), who persuasively argue this conclusion.

According to Kim and Hwang (2010), domestic retailers have to develop and expand the scope of their business due to competition from international retailers.

Reforms were implemented in 2006 to allow FDI to participate up to 51% in retail sales of single-brand products; this was eventually increased to 100% in 2011. 2013 saw the government's ultimate approval of foreign direct investment (FDI) up to 51% in multi-brand retail commerce, providing access for multinational behemoths like Tesco, Target, Wal-Mart, and many more.

Following an initial blow to its credibility from multinational retailers such as Wal-Mart, the government recently released a draft note on loosening FDI regulations in the multibrand market (NDTV, 2013). The Indian government is making every effort to get outside investors into the retail industry.

According to Chowdhury and Mavrotas (2016), government reforms that are constructive are essential to drawing in an increasing amount of foreign investment to the nation. Prior to foreign direct investment (FDI) being approved for single-brand and multi-brand retail commerce, foreign corporations used franchising and licensing as their entrance methods (Biswas, 2016). Government worries about foreign cash outflow and ways to safeguard unorganized merchants from overseas competition led to restrictions on direct investment in the retail sector (Mann and Byun, 2021).

According to a study by Mann and Byun (2021), franchising and licensing are the most popular entrance methods into the Indian retail industry. Mukherjee and Patel (2015) also highlight a number of alternative entry avenues,

including distribution, franchising, test marketing, manufacturing and local sourcing, and franchising, that were chosen by several foreign companies prior to FDI reforms in the retail industry.

The percentage of organized commerce in India is 8%, whereas the percentage of unorganized retailing is 92%, according to a Deloitte (2023) analysis. According to a report on Indian retailing published in 2023 by Euromonitor International, Indian consumers are gravitating toward more structured forms of commerce.

Jain et al. (2008) note that major cities like Mumbai, Delhi, Kolkata, Chennai, Bangalore, Hyderabad, and Pune account for around 85% of the organized retail market. According to data, India's organized retail market is expanding at a rate of 40% yearly (CCI, 2022), which presents favorable prospects for international retailers looking to participate in organized retailing in India.

FDI is recognized as a crucial instrument for economic growth in the literature on FDI in developing nations. According to a study by Bajpai and Dasgupta (2014) comparing the inward foreign direct investment flow between India and China, one of the main reasons China receives more FDI than India is because China has liberalized its retail sector, allowing foreign investors to invest freely there while India has placed restrictions on FDI in the retail sector. India's GDP growth and employment have been shown to be mostly influenced by the retail and wholesale trade. 9.9% of all jobs in 2022 were in the retail industry, according to Euromonitor International (2023).

A.T. Kearney (2020), a worldwide management consultancy, placed India third on its global retail development index, behind Kuwait and China. A number of data sources and management consultants have recognized India as a thriving retail market. Even while the Indian retail sector appears to have a lot of promise, there are still a lot of obstacles to overcome, including rivalry from large domestic businesses like Tata Retail, Future Group, and Reliance, as well as the unorganized sector.

According to Chari and Raghavan (2022), local players prefer that the organized retail sector grow before they have to deal with competition from international merchants. These were the main issues and worries that domestic actors and political parties had about FDI. Foreign retailers like Wal-Mart have also expressed concern about the current FDI regulations in the retail sector (NDTV, 2023).

While attending to the demonstrators' concerns, the Indian government is making every effort to draw in investment. Concerns about foreign direct investment in India's retail sector have been noted in literature. There is material out there that lists the advantages of foreign direct investment in India's retail industry.

According to Sathya Kumar C and Sujin G (2022), "changing retail's structure and scale can critically impact several industries." The performance of related sectors including manufacturing, agriculture, and logistics would benefit from the possible expansion of the retail industry.

According to Nandi and Sahu (2007), foreign retailers may offer higher quality at lower prices, hence FDI in retail will benefit consumers.

The benefits of FDI in the retail industry are as follows, according to Chari and Raghavan (2012): a reduction in inflation, better distribution and storage, and a rise in employment.

According to Sathya Kumar C and G Sujin (2022) farmers would gain from foreign direct investment (FDI) in the retail sector, which would also positively affect real estate development. Investing in the organized retail sector will stimulate the growth of major cities' real estate markets.

## In summary

With reference to India, the study focuses on foreign direct investment (FDI) in the retail industry. Foreign direct investment (FDI) in retail was prohibited until 2006. The Indian government authorized 51 percent foreign direct investment (FDI) in single-brand retailing for the first time in 2006. The Indian government authorized 100% FDI in a single brand in 2011. The Indian government recently allowed 51% FDI in many brands. FDI is essential to the growth of a country's economy. This essay examines the Indian retail industry as well as the extent of foreign investment in it to date.

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