SELINUS UNIVERSITY
OF SCIENCES AND LITERATURE

THE IMPACT OF FOREIGN DIRECT INVESTMENT IN RETAIL INDUSTRY ON INDIAN ECONOMY

By OBAIDA MARIE KAKAT

A DISSERTATION

Presented to the Department of
International Business
program at Selinus University

Faculty of Business & Media
in fulfillment of the requirements
for the degree of
Doctor of Philosophy
in International Business

2023

Acknowledgement

I want to express my gratitude to anybody who helped to complete my thesis.

I first thank God for providing safety and the ability to perform my work.

My thank to my academic advisor who encouraged and directed me.

I also thank my family and friends who encouraged and prayed for me throughout the time of my research.

This thesis is heartily dedicated to my Parents (Marie & Rajaa) for their sacrifices, love, endless support and encouragement.

Declaration

I, Obaida Marie Kakat
declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research, entitled
“THE IMPACT OF FOREIGN DIRECT INVESTMENT IN RETAIL INDUSTRY ON INDIAN ECONOMY”

Has been prepared under the valuable guidance and supervision towards the fulfilment of the requirements for the degree of Doctor of Philosophy in International Business at Selinus University.

Obaida Marie Kakat
Reg.No. UNISE1777IT

CONTENTS

CHAPTER – I

INTRODUCTION

1.1 Introduction

As per the Global Retail Development Index 2021, the Indian retail industry is Comfortably placed in the 2nd position among the top thirty rising markets for retail. The Sector is estimated to grow manifold with employment opportunities shooting up in the near future.

Retailing in India is slightly different than in developed markets. India's retail industry is divided into organized unorganized sectors. Post liberalization, organized retail has grown exponentially and is a testament of the Indian middle class's Burgeoning purchasing power.

As a consequence, the opening up the wholesale and single brand retail sector to foreign direct investment (FDI) was inevitable. India is ranked as the third most attractive nation for retail investment among 30 emerging markets with domestic companies like the Future Group, Tata's Westside, Reliance Fresh, Raheja Group and Bharti competing for market share.

The main laws that regulate are Foreign Exchange Management Act, (FEMA) 1999, The Companies Act, 2013 etc.

However, retailing is one of the few sectors where foreign direct investment (FDI) is not allowed fully at present. The current regulation on retail allows 100% FDI in wholesale cash-and-carry trading in single-brand retailing, while 51% is permitted in multi-brand retailing. The policy of FDI allowing in single as well as in multi-brand retail was challenged because there is no clear answer and ample views has been expressed by that in favor and against FDI.

Now India is in the midst of the retail boom. The sector witnessed significant transformation in the past decade from small-unorganized family-owned retail formats to organized retailing. Indian business houses and manufactures are setting up retail formats while estate market. With the growth in organized retailing, unorganized retailers are fast changing their business companies and venture capitalist are investing in retail infrastructure. Many international brands have entered the models.

Foreign Investors are watching India, ready for a piece of the action in the retail market, but there are still plenty of uncertainties, restrictions and potential socioeconomic risk.

The investing company may make its overseas investment in a number of ways- either by sitting up a subsidiary up or associate company in the foreign country by acquiring shares of an overseas company, or through a merger or joint venture. The accepted threshold for a foreign direct investment relationship, as defined by the OECD, is 10%. That is, the foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company. Highly productive advantages of foreign direct investment have been constantly being harvested by both governmental and private companies and organization of all over the world.

The foreign direct investment is profitable both to the country receiving investment (foreign capital and funds) And the investor. For the investor company FDI offers an exclusive opportunity to enter into the international or global business, new markets and marketing channels, elusive access to new technology and expertise, expansion of company with new or more product or services, and cheaper production facilities. While the host country receives foreign funds for development, transfer of new profitable technology, wealth of expertise and experience, and increased job opportunities.

Owing to the ever-increasing globalization of businesses of almost all sectors, liberalization of trade policies, and loosing of foreign investment restrictions, the foreign direct investment (FDI) has been quite revolutionary and vital for faster economic growth of most of the developing and developed countries of all across the world for last few decades.

It has been observed that more than two-third (2/3rd) of direct foreign investment is made in infrastructure, commercial and residential buildings, machinery, equipment, mines and land.

FDI is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

The simplest explanation of FDI would be a direct investment by corporation in a commercial venture in another country. A key to separating this action from involvement in other ventures in a foreign country is that business enterprise operates completely outside the economy of the corporation's home country.

FDI refers to the net inflows of investment to acquire a lasting management interest (10 percent or more in voting stock) in an enterprise operating in a foreign economy. It is the sum of equity capital, reinvestment of earning, other long-term capital, and short-term capital as shown in the balance of payment. It usually involves participation in management, joint-venture, transfer of technology and expertise.

There are two types of FDI: *inward* foreign direct investment and *outward* foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares (CIA.gov).

Foreign direct investment reflects the objective 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 the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transaction between them and among affiliated enterprises, both incorporated and unincorporated. FDI is one example of international factor movement and it is a measure of ownership of productive assets as factories, mines and land. Increasing foreign investment can be used as one measure of growing economic globalization.

FDI plays a very important role in the development of any economy but this development always has two aspects i.e. positive as well as negative. Experiences of FDI in retail trade of various countries like China, Thailand, etc. have been good. In this context, it is pertinent to examine certain key aspects in relation to the entry of FDI in retail sector in India, a country which witnesses vast socio-economic inequalities among its population.

India has been identified as a class society as per geographical indications such as metro, cities based on grades, districts headquarters and village. Though traditionally these types of indications were arrived for the purpose of revenue administration but this has resulted in variations in the living patterns of the population. Even in metropolitan cities up to the village there exist clearly rich and poor population and their consumption patterns depends upon their levels of income and earnings. The apprehensions with this move of FDI in retail sector are of various dimensions such as the dominance of Multinational Companies (MNCs) over the retail sector with their well-structured strategies to induce the Indian customers to be carried only to the retail sector of MNCs and also their future strategies in obtaining the guidance of the products from the Indian farmers and their storage strategies. Thus, there is a need to know whether this move initiated by the government would be beneficial or detrimental to the interest and welfare of the vast number of retail entrepreneurs and the middle, lower middle class and poor population in the country.

FDI provides an inflow of foreign capital and funds (“the money that invested in such developing-country projects increased 40 times over in less than 30 years”), in addition to an increase in the transfer of skills, technology, and job opportunities. Many of the *Four Asian Tigers* benefited from investing abroad. A recent meta-analysis of the effect of foreign direct investment on local firms in developing and transition countries suggest that foreign investment robustly increases local productivity growth (which Foreigners are worth wooing? Meta-Analysis of vertical spillovers form FDI, William Davidson Institute, working paper 996).

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has not been matched by similar increases in per-capita income and sanitary water and waste disposal. Some argue that FDI –when skillfully applied- is one of the fastest means of development. However, given its many benefits for both investing firms and hosting countries, and the large jumps in development where best practices are followed, eking out advances with even moderate long-term impacts often has been a struggle. Recently, research and practice are finding ways to make FDI more assured and beneficial by continually engaging with local realities, adjusting contracts and reconfiguring policies as blockages and opening emerge.

1.2 Problem Statement

In this study, evidence is presented showing the inequitable share of FDI that in India in general. The retail sector holds up to 88 percent in 2021 of the unorganized workforces in India. It is a source of livelihood for a major portion of the population in the country. The challenges are that the FDI would improve the efficiency of the retail trade, brings new innovative technology and quality products to the consumers besides leading to economic growth is not able to outweigh the threat of livelihood that it poses on the lives of the people involved in the unorganized retail sector. Hence, there is a need to study the impact of FDI on the Retail sector for the purpose of finding the best policies that will enhance the India's attractiveness to investors and will lead to consensus between proponents of FDI in India and opposition, and to increase the government's commitment towards the WTO regime. The sheer potential of retail sector and its contribution in Indian economy highlights the relevance of this thesis.

1.3 Research Purposes

The key aim of this study is to achieve the following objectives:

I. To review the changes in FDI policies in India in past years
II. To assess the impact of FDI in Retail sector in India
III. To discuss the advantages and disadvantages of FDI for host country and investors
IV. To assess the attractiveness and risks of FDI in India retail sector for Foreign Investors
V. To Determine current and future trends of FDI in Retail sector in India

1.4 Research Methodology

The study is based on different literatures, Case studies, Surveys and analysis of organized retail market. A study of much debated topic of this nature certainly needs the details from the prevailing policies as well as empirical analysis within adequate means of sample study. Hence, the Study involves doctrinal as well as empirical analysis. The doctrinal research consists of a detailed examination of the primary data involving various trade policy initiatives. The secondary data that will be involved in the research will be taken from The empirical survey analysis presented by the government of India from time to time, research scholars and institutions including the research articles available from various sources like published materials in journals, academic textbooks and other related sources, also from Internet (Websites such as www.finmin.nic.in and www.cpasind.com) and news industry reports.

1.5 Significance of the Research

Foreign Direct Investment (FDI) and its positive implications have been largely explored and identified by researchers and financial experts. However, some of the negative impacts of this process include hindrance in the smooth flow of domestic investment, risk due to political changes, unemployment, impact on the rate of exchange and non-viability of the economy. Based on the diverse implications of FDI, this study would prove to be significant in providing insight into both positive as well as the negative impact on the Indian economy. This clearly indicates that it would play a crucial role in expanding the knowledge and understanding of the readers regarding FDI and its implications. Apart from this, it would also act as an informative medium for future researchers as well as the organizations of India. It is so because it would help the researchers by expanding their scope of the study and would provide insight to the Indian organizations regarding the ways or measures to enhance capital inflows and to boost the Indian economy, also to understand the retail sector and the regulatory system.

1.6 The Project Study's Limitations

The limitation of this study are as follows:

- Time, Resource and Primary data constraints.

The Study confines to the core areas relating to FDI in retail sector in India and its impact on the small and medium class traders as well as the consumers and economic. However, the study will not include in depth analysis of the impact of FDI in retail sector affecting the small traders and consumers and their levels of income and living standards etc. Inconsistency of data and statistics available on India and FDI/Retail. It was noted that data available, particularly in relation to India's retail sector, was often inconsistent. However, for the purposes of this research being more of an exploratory nature, this did not have too much impact on the findings. Up-to-data data was also hard to source.

CHAPTER – II

FDI- LITERATURE REVIEW

There is a reasonable amount of literature available on FDI in India, although it is by no means abundant in the specific area of Retail. Current policy is in a state of flux, hence a review of literature on the latest policy proposal and arguments for and against changing policy will be the back-bone of his study.

It is important with a review such as this to ensure that sources of information are reliable and trustworthy as possible. A broad range of opinions from institutional and corporate material, to academic and business-oriented literature as well as the newspapers/ online media and internet resources will be reviewed and each source was considered for its reliability, and potential to misconstrue the truth.

2.1 Definitions of Key Phrases

- **Foreign Direct Investment**- when a firm invests directly in production or other facilities, over which it has effective control, in a foreign country.
- **Manufacturing FDI**- requires the establishment of production facilities.
- **Service FDI**- requires building service facilities or an investment foothold via capital contributions or building office facilities.
- **Foreign subsidiaries**- overseas units or entities.
- **Host country**- the country in which a foreign subsidiary operates.
- **Flow of FDI**- the amount of FDI undertaken over a given time.
- **Stock of FDI**- total accumulated value of foreign-owned assets.
- **Outflows/Inflow of FDI**- the flow of FDI out of or into a country.
- **Foreign Portfolio Investment**- the investment by individuals, firms, or public bodies in foreign financial instruments.
- **Stocks, bonds, other forms of debt**- Differs from FDI, which is the investment in physical assets.
- **Foreign Direct Investor-** is an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which has a direct investment enterprise

that is, a subsidiary, associate or branch-operating in a country other than the country or countries of residence of the foreign direct investor or investors.

- **Foreign Investment Promotion Board (FIPB) –** The FIPB is a government body that offers a single window clearance for proposal on foreign direct investment in the country that are not allowed access through the automatic route. Consisting of Senior Secretaries drawn from different ministries with Secretary, Economic Affairs in the chair, this high-powered body discusses and examines proposals for foreign investment in the country for restricted sectors (as laid out in the press notes and extant foreign investment policy) on a regular basis. Currently proposals for investment beyond 600 crores required the concurrence of the CCEA (Cabinet Committee on Economic Affairs). The threshold limit is likely to be raised to 1200 crores soon. The Board thus plays an important role in the administration and implementation of the Government's FDI policy. In circumstances where there is ambiguity or a conflict of interpretation, the FIPB has stepped in to provide solutions. Through its fast track working it has established its reputation as a body that does not unreasonably delay and is objective in its decision making. It therefore has a strong record of actively encouraging the flow of FDI into the country. The FIPB is assisted in this task by a FIPB Secretariat. The launch of e-filing facility is an important initiative of the Secretariat to further the cause of enhanced accessibility and transparency.

Retailing Formats:

- **Modern retail formats-** The growth of western-Style malls is changing the way urban consumers shop. We are seeing many bigger boxes, value-based format setting up shop. The size of these stores is about 50,000 square feet, a department from the smaller mom & pop-type store that dominates the local retail landscape.
- **Shoppers' Stop-** Department store format.
- **Westside-** emulates the Marks & Spencer model of 100% private label, very good value for money merchandise for the entire family.
- **Giant and Big Bazaar-**hypermarket/ cash & carry store.
- **Food World and Nilgiris-** supermarket format.

- **Pantaloons and The Home Store-** specialty retailing.

A new entrant in the retail environment is the **“discounter”** format. It is also known as **cash-and-carry** or **hypermarket**. These formats usually work on bulk buying and bulk selling. Shopping experience in terms of ambience or the service is not mainstay here.

2.2 Overview of FDI

2.2.1 Definition of FDI

The literature on FDI provides us several formal attempts made by different thinkers while defining the concept of FDI. The greatest problem with such attempts or the existing definitions of FDI is that they are not comprehensive. This is because FDI is expanding its arena by associating itself with wide range of developmental activities in which case, the FDI can only be perceived as ever evolving and consequently, no present definition can capture the continuous growth of FDI in a complete manner. Nevertheless, some of the definitions have been successful in defining the core attributes and contents of FDI. Keeping this as the criterion, the following definitions on FDI have been chosen with a view to highlight or reiterate the core contents and attributes of FDI. The flipsides or the criticisms of these definitions have been excluded as they are not the focal point of this discussion and for the reason that like no definition is absolute so are its limitations / advantages or criticisms.

The Organization for Economic Co-operation and Development **(OECD)** has defined FDI as a direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise).

According to The International Monetary Fund (**IM**F) has defined FDI as a “cross border investment” in which an investor that is “resident in one economy [has] control or a significant degree of influence on the management of an enterprise that is resident in another economy.

The United Nation’s 1999 World Investment Report and United Nations Conference on Trade and Development (UNCTAD) 1999 defines FDI as “an investment involving a long-term relationship and reflecting a lasting interest and **control** of a resident entity in one economy (foreign direct investor or parent' enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)

'**Control**' as defined by the UN, is ownership of greater than or equal to 10% of ordinary shares or access to voting rights in an incorporated firm. For an unincorporated firm one needs to consider an equivalent criterion. Ownership share amounting to less than that stated above is termed as portfolio investment and is not categorized as FDI.

In Indian scenario FDI is that investment, which is made to serve the business interests of the investor in a company, which is in a different nation distinct from the investor's country of origin. A parent business enterprise and its foreign affiliate are the two side of the FDI relationship. Together they comprise an MNC. It is an investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule I of Foreign Exchange Management (Transfer of Issue of Security by a Person Resident outside India) Regulations, 2000.

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stuck markets. FDI is ought to be more useful to a country than investments in the equity of its companies because equity investments are potentially "hot money" which can leave at the first sign of trouble, whereas FDI is durable and generally useful weather things go well or badly. The parent firm needs to have at least 10% of the ordinary shares of its foreign affiliates. The investing firm may also qualify for an FDI if it owns voting power in a business enterprise operating in a foreign country.

2.2.2 Types of FDI

A foreign direct investor may be classified in any sector of the economy and could be one of the following:

- An individual
- A group of related individuals
- An incorporated or related unincorporated entity
- A public company or private company

- A group of related enterprises
- A government body
- An estate (law), trust or other social institution
- Any combination of above

There are **different types of foreign direct investment,** depends on its types in the segment.

I. Direction

1. Inward FDI:

Inward direct investment, also called direct investment in the reporting economy, includes all liabilities and assets transferred between resident direct investment enterprises and their direct investors.

2. Outward FDI:

Outward direct investment, also called direct investment abroad, includes assets and liabilities transferred between direct investors and their direct investment enterprises.

II. Target:

1. Horizontal:

The most common type of FDI is Horizontal FDI, which primarily revolves around investing funds in a foreign company belonging to the same industry as that owned or operated by the FDI investor. Here, a company invests in another company located in a different country, wherein both the companies are producing similar goods. For example, the Spain-based company Zara may invest in or purchase the Indian company Fab India, which also produces similar products as Zara does. Since both the companies belong to the same industry of merchandise and apparel, the FDI is classified as horizontal FDI.

2. Vertical:

May not necessarily belong to the same industry. As such, when vertical FDI happens, a business invests in an overseas firm which may supply or sell products. Vertical FDIs are further categorized as backward vertical integrations and forward vertical integrations. For instance, the Swiss Coffee producer Nescafe may invest in coffee plantations in countries such as Brazil, Columbia, Vietnam, etc. Since the investing firm purchases, a supplier in the supply chain, this type of FDI is known as backward vertical integration. Conversely, forward vertical integration is said to occur when a company invests in another foreign company which is ranked higher in the supply chain, for instance, a coffee company in India may wish to invest in a French grocery brand.

3. Conglomerate:

When investments are made in two completely different companies of entirely different industries, the transaction is known as conglomerate FDI. As such, the FDI is not linked directly to the investors business. For instance, the US retailer Walmart may invest in TATA Motors, the Indian automobile manufacturer.

III. Motive

1. Natural resource-seeking investment:

Motivated by investor interest in accessing and exploiting natural resources.

2. Market-seeking investment:

Motivated by investor interest in serving domestic or regional markets.

3. Strategic asset-seeking investment:

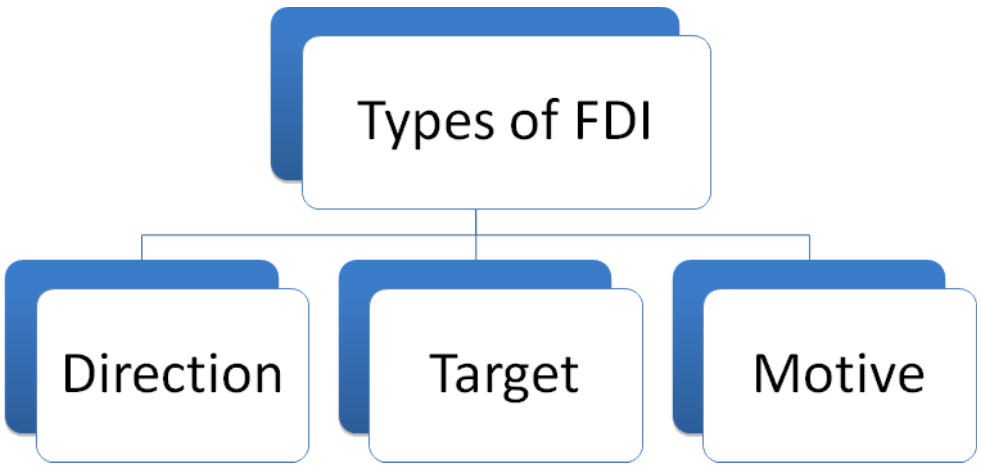
Motivated by investor interest in acquiring strategic assets (brands, human capital, distribution networks, etc.) that will enable a firm to compete in a given market. Takes place through mergers and acquisitions.

4. Efficiency-seeking investment:

FDI that comes into a country seeking to benefit from factors that enable it to compete in international markets.

Figure 1. Types of FDI.

(Analytical Study of Foreign Direct Investment in India, Report, Deepak Kumar)



2.2.3 Methods of FDI

FDI is a critical driver of economic growth for developing economies. Overseas investment is more than just the transfer of money from one country to another, it also:

(1) Diversifies investors' portfolio.

(2) Promotes stable long-term lending.

(3) Provides technology to developing nations.

(4) Generates employment by creating more job opportunities.

(5) Brings in managerial expertise.

(6) Improves existing infrastructure.

(7) Increases return without increasing risk.

There are **Two Methods** of foreign direct investment, may acquire voting power of an enterprise in an economy namely Greenfield and brownfield investment.

GREENFIELD INVESTMENT: Under this type of investment, a foreign company builds up their own factory or company in a different or the host country, where they train people to work in their organization. For example, Burger King opening up its chain in India.

BROWNFIELD INVESTMENT: Under this type of investment, the foreign investor doesn't build a company from scratch in another country but expand their existing business in the host country by the means of cross border mergers and acquisitions. This allows the foreign investor to set up their operations in the host country immediately.

2.2.4 Foreign direct investment incentives

In nations that have open economies governments tend to incentivize a certain degree of foreign direct investment. Typically, FDI helps the country in which the investment is made, and generates revenue for the investor(s).

Foreign Direct investment incentive may take the following forms.

Tax Incentives/Concessions

A major incentive for FDI is taxation. There are several ways to encourage FDI through tax benefits. General corporate income tax can be reduced. **Tax holidays** are also used, which means that a company won't have to pay corporate tax for a month/year/18 month, etc. We'll talk about special economic zones later, but another tax break is the **tax-privileged zone**. Think of a cordoned-off area where the corporate tax rate is lower than the companies around it.

Maquiladoras

A **maquiladora** is a factory near the US-Mexico border (on the Mexican side). Maquiladoras are run by American corporations and produce goods for US markets. Maquiladoras enjoy duty-free imports for the raw materials they need for manufacturing. When the product is imported back to the US, the US Company pays a duty only on the value added to the product, not the raw materials that were exported.

Tariffs

Tariffs, or taxes on trade, can be a real drag to free trade. If goods have higher tariffs, countries are less likely to export and import goods. In order to foster FDI, these tariffs might be removed/adjusted for a specific company in order to encourage them to invest. As an example, let's say a sugar producer wants to build a plant in a foreign country. However, the tariffs on sugar are higher than other goods. The foreign nation may waive the tariffs for the export of sugar for this company to encourage FDI.

Economic Zones

One way to encourage FDI is to establish **special economic zones** in a country, which are also called **export processing zones**. These areas have different economic regulations than other parts of the country. An economic zone brings with it reduced taxation and reduced tariffs, and so it's a prime opportunity for FDI. China is the leader in special economic zones: the entire Hainan province is set up as a special economic zone.

Subsidies

Governments may also choose to offset the investment cost of the FDI by providing subsidies, or paying for some of the expenses of the project. Opponents to this practice claim it takes money from taxpayers and gives it to foreign entities. This is true in the short term, but the investment is also intended to boost the economy (local and national). Land can also be used as a subsidy, either through reduced price or by giving it away for free. However, if large tracts of land are going to be subsidized, then why not set up a special economic zone?

Relocation & Expatriation

Governments can help with capital costs when it comes to relocating the business. This can include helping with payment for individual staff moves (and their families).

Soft loan

A soft loan is a loan with no interest or a below-market interest rate (BMIR is a rate that is below the prevailing commercial bank interest rate in effect at a particular time). Also called “soft financing” or “concessional funding,” soft loans have relaxed terms, such as extended grace periods in which only interest or service charges are due, and interest holidays. Soft loans typically offer longer repayment (also known as amortization) schedules (in some cases up to 50 years) than conventional bank loans. **Soft loans** are often offered by development banks or federal governments (or government agencies) to FDI.

2.2.5 Entry Mode

The manner in which a firm chooses to enter a foreign market through FDI is referred to as entry mode. Entry mode examples include international franchising, branches, contractual alliances, equity joint ventures, and wholly foreign owned subsidiaries. Once the entry mode is selected, firms determine the specific approach they will use to establish or realize the chosen entry mode. Specific investment approaches include (a) greenfield investment (b) cross-border mergers, (c) cross-border acquisitions, and (d) sharing or utilizing existing facilities.

2.2.6 FDI Versus Foreign Portfolio Investment

Foreign portfolio investment is investment by individuals, firms, or public organs (e.g., governments or nonprofit organizations) in foreign financial instruments such as government bonds, corporate bonds, mutual funds, and foreign stocks. In other words, portfolio investment is the investment in financial assets comprising stocks, bonds, and other forms of debt denominated in terms of a foreign country’s national currency, whereas FDI is the investment in real or physical assets, such as factories and distribution facilities. As such, FDI involves control over foreign production or operations undertaken by the multinational enterprise (MNE), but portfolio investment does not. To understand foreign portfolio investment, one needs to be familiar with portfolio theory. Portfolio theory describes the behavior of individuals or firms administering large amounts of financial assets in search of the highest possible risk-adjusted net return. Fundamental to this theory is the idea that a guaranteed rate of return (9% per year fixed over the next five years) is preferable to a rate of return that is higher on average but fluctuates over time (e.g., average 9.5% per year but with high volatility during this five-year period). The variability of the rate of return over time is referred to as the financial risk in portfolio investment. The key task of portfolio management is to reduce the variability (or risk) of a group of stocks so that the variability of the whole set is less than that of its component parts. If it is possible to identify some stocks whose yields will increase when the yields of others decrease, then, by including both types of securities in the portfolio, the portfolio's overall variability will be reduced. This is why some people interpret this theory as "putting eggs in different baskets rather than one basket." This logic also applies to the establishment of a conglomerate that diversifies into many product lines rather than specializing in a single line of products.

2.3 The Strategic logic Behind FDI

Different MNEs might have different strategic logic underlying FDI. Resource seeking FDI attempts to acquire particular resources at a lower real cost than could be obtained in the home country. Resource seekers can be further classified into three groups: those seeking physical resources, those seeking cheap and/or skilled labor, and those seeking technological, organizational, and managerial skills. Market-seeking FDI attempts to secure market share and sales growth in the target foreign market. Apart from market size and the prospects for market growth, the reasons for market-seeking FDI include situations in which the firm's main suppliers or customers have set up foreign producing facilities abroad and the firm needs to follow them overseas, also the firm's products need to be adapted to local tastes or needs, and to indigenous resources and capabilities, and the firm considers it necessary, as part of its global production and marketing strategy, to maintain a physical presence in the leading markets served by its competitors. Efficiency-seeking FDI attempts to rationalize the structure of established resource-based or marketing-seeking investment in such a way that the firm can gain from the common governance of geographically dispersed activities. MNEs with this motive generally aim to take advantage of different factor endowments, cultures, economic systems and policies, and market structures by concentrating production in a limited number of locations to supply multiple markets. Finally, strategic asset-seeking FDI attempts to acquire the assets of foreign firms so as to promote their long-term strategic objectives, especially advancing their international competitiveness. MNEs with this intention often establish global strategic alliances or acquire local firms. Many MNEs today pursue pluralistic goals and engage in FDI that combines characteristics of several of the preceding categories. Procter & Gamble, for instance, has sales in over 140 countries and on-the-ground operations in over 70 countries. Its strategic aims behind product and geographical diversifications include better resources, larger markets, and higher efficiency.

2.4 Worldwide Perspective on the Value and Benefits of Foreign Direct Investment

Why is FDI important for any consideration of going global?

The simple answer is that making a direct foreign investment allows companies to accomplish several tasks as:

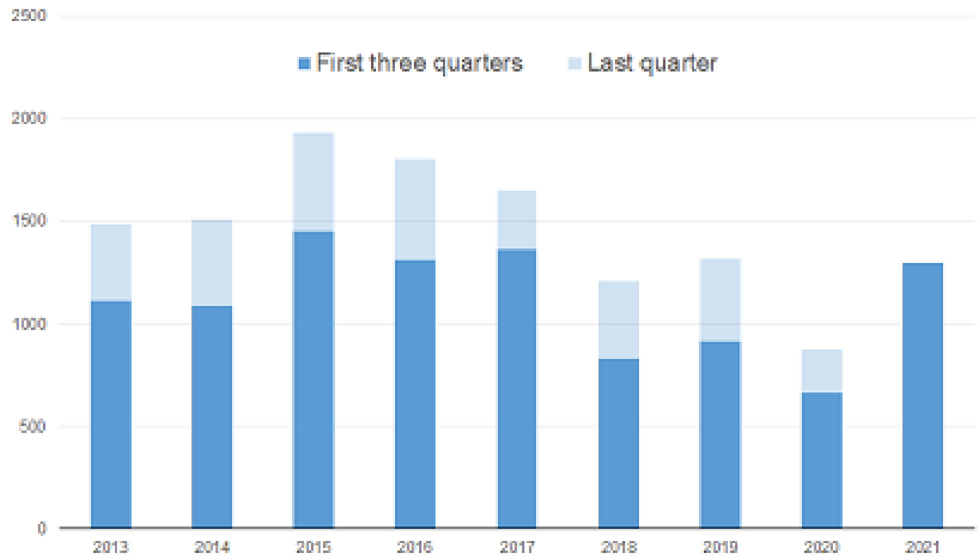
1. Avoiding foreign government pressure for local production.
2. Circumventing trade barriers, hidden and otherwise.
3. Making the move from domestic export sales to a locally-based national sales office.
4. Capability to increase total production capacity.
5. Opportunities for co-production, join ventures with local partners, joint marketing arrangement, licensing, etc.

FDI has increased rapidly over the last two decades. Between 2000 and 2021 the share of FDI in global GDP increased from 22% to 38%. After a decline during the Great Recession in 2008 and the pandemic in 2020, mergers and acquisitions (M&As), the most dynamic components of FDI have recovered, reaching a record value of USD 1.3 trillion in the first quarter of 2021. The intensification of FDI activity has important implications for both origin and destination countries in terms of, economic growth, productivity, wages and employment. Moreover, the expansion of multinational enterprises (MNEs) has been accompanied by the creation of complex cross-border production chains, which also has important implications. Since the beginning of the 2000s there has been a gradual shift in the global FDI landscape, with emerging market economies (EMEs) gaining in prominence both as a source and as a destination for such investment. EMEs have attracted a growing share of FDI flows, reaching more than 56% of inward FDI (IFDI) and 41% of outward FDI (OFDI) in the world's total flows in 2021. In addition, FDI flows are dominated by a relatively small number of M&As. Moreover, evidence suggests that FDI and exports are not competing but complementary strategies for serving foreign markets.

In Q3 2021, global FDI flows continued their upward trajectory increasing by 3% compared to Q2. Global FDI flows continue to exceed pre-pandemic levels, being, in the first nine months of 2021, 43% higher than levels recorded in the first nine months of 2019. Top recipients of FDI inflows worldwide in the first nine months of 2021 were the United States (USD 253 billion), China (USD 249 billion) and the United Kingdom (USD 52 billion). Top sources of FDI outflows worldwide were the United States (USD 332 billion), Japan (USD 124 billion) and the Netherlands (USD 90 billion).

Figure 2. World Foreign Direct Investment.

Source: OECD International Direct Investment Statistics database.



2.5 The Impact of FDI

2.5.1 The Impact of FDI on the Host Country

The impact of FDI on national welfare is best assessed from the perspective of the home and host countries, although those too vary internally by region and constituency. While nationals of the Netherlands, Finland, and the United States find FDI and globalization the least threatening, those from Colombia, the Philippines, and Venezuela perceive it as a threat.1 In Venezuela, the attitude toward inward FDI has turned much more negative in recent years. At the same time, many of the factors that may make FDI attractive to a host country may make it look detrimental to the home country. For instance, although FDI benefits employment in the host country, this is often accompanied by job losses in the home country. A case in point would be any labor-intensive industry in the United States (e.g., garments, furniture) that moved much of its operations first to Mexico and, later, to China.

2.5.2 The Impact of FDI on Domestic Enterprises

Thanks to their resource endowment, foreign invested enterprises are likely to be more productive than their local counterparts. The contribution of foreign affiliates to exports tends to be much higher than their proportional share in a national economy would suggest. For instance, firms with foreign equity (both wholly and partially owned) accounted in 2016 for roughly 56% of China's exports. FDI could adversely affect domestic enterprises. Its superiority is sometimes rooted in favorable treatment (e.g., lower taxation rates or tax breaks) offered by host governments but not accorded to local firms. Thus, local firms may be institutionally discriminated against, resulting in lesser competition in the industry. Heightened competition contributed by FDI could hurt individual local firms who lose market share, resulting in layoffs, profit reduction, and/or the closure of facilities and factories. Such negative effects were felt in Nigeria when the oil MNEs of Shell (Anglo-Dutch), Chevron (U.S.), and Texaco (U.S.) started operations there. Local firms such as the Nigerian National Petroleum Corporation (NNPC) have yielded the market-leader position to those MNEs. In response to the pressures of FDI, local enterprises seek to improve productivity and strengthen competitiveness on their own or through alliances with other local firms or with MNEs. Since the establishment of NAFTA, the number of Mexican firms undertaking outbound FDI has grown manifold. The Mexican food firm Bimbo used its supplier relationship with McDonald's to piggyback on the U.S. firm and establish supply bases throughout Latin America. Chinese manufacturers such as appliance-maker Haier are now exporting to both developing and developed markets and have begun to establish manufacturing plants abroad, a step that was inconceivable before a massive FDI flow into China changed work practices and standards there. FDI tends to create innovation and knowledge, which are eventually dispersed throughout the many levels of the local economy. The extent to which local firms can take advantage of this depends on a host of other factors (e.g., local infrastructure and government policies). UNCTAD (United Nations Center for Trade and Development) documented the various relationships between MNEs and domestic firms, ranging from purchasing to joint ventures to various contractual relationships. The key point is that the spillover from FDI is substantial. In typical developed economies, for example, MNE affiliates realize between 10% and 20% of their input locally, and there is some evidence that local procurement increases over time. Such relationships are also important to MNEs in that they enable them to tap local resources while producing a beneficial outcome for the host country.

2.5.3 The Impact of FDI on Employment

The emphasis of most host governments today is placed on jobs requiring knowledge and high added value. Host governments are especially keen on attracting firms that will augment high-end employment, and home governments are especially worried about losing such jobs. One consequence of the increased diversity of functional areas for FDI is frequent criticism of FDI as a deployment of the less desirable segments of the production process abroad while retaining the most attractive portions, especially R&D, at home. Still, developed countries like the United States are concerned about the loss of those jobs and the resulting downward pressure on domestic wages. when a job moves abroad, the displaced workers are unlikely to find a higher paying job than the one they lost. Recently, the more sophisticated parts of the value chain, including R&D, are also performed abroad, putting higher end jobs on the line in the home country.

2.6 Theories on FDI

2.6.1 Monopolistic Advantage Theory

The monopolistic advantage theory suggests that the MNE possesses monopolistic advantages, enabling it to operate subsidiaries abroad more profitably than local competing firms can. Monopolistic advantage is the benefit accrued to a firm that maintains a monopolistic power in the market. Such advantages are specific to the investing firm rather than to the location of its production. Stephen H. Hymer found that FDI takes place because powerful MNEs choose industries or markets in which they have greater competitive advantages, such as technological knowledge not available to other firms operating in a given country. These competitive advantages are also referred to as firm-specific or ownership-specific advantages. According to this theory, monopolistic advantages come from two sources: superior knowledge and economies of scale. The term knowledge includes production technologies, managerial skills, industrial organization, and knowledge of product. Although the MNE could possibly exploit its already developed superior knowledge through licensing to foreign markets, many types of knowledge cannot be directly sold. This is because it is impossible to package technological knowledge in a license, as is true for managerial expertise, industrial organization, knowledge of markets, and such. Even when the knowledge can be embodied in a license, the local producer may be unwilling to pay its full value because of uncertainties about its utilization. Given these reasons, the MNE realizes that it can obtain a higher return by producing directly through a subsidiary than by selling the license. Besides superior knowledge, another determinant of FDI is the opportunity to achieve economies of scale. Economies of scale occur through either horizontal or vertical FDI. An increase in production through horizontal investment permits a reduction in unit cost of services such as financing, marketing, and technological research. Because each overseas plant produces the same product in its entirety, horizontal investment may also have the advantage of allowing the firm to even out the effects of business cycles in various markets by rearranging sales destinations across nations. Through vertical investment in which each affiliate produces those parts of the final product for which local production costs are lower, the MNE may benefit from local advantages in production costs while achieving maximum economies of scale in the production of single components. Such an international integration of production would be much more difficult through trade because of the need for close coordination of different producers and production phases.

2.6.2 Product Life-Cycle Theory

International product life-cycle theory provides a theoretical explanation for both trade and FDI. The theory, developed by Raymond Vernon, explains why U.S. manufacturers shift from exporting to FDI. The manufacturers initially gain a monopolistic export advantage from product innovations developed for the U.S. market. In the new product stage, production continues to be concentrated in the United States even though production costs in some foreign countries may be lower. When the product becomes standardized in its growth product stage, the U.S. manufacturer has an incentive to invest abroad to exploit lower manufacturing costs and to prevent the loss of the export market to local producers. The U.S. manufacturer's first investment will be made in another industrial country where export sales are large enough to support economies of scale in local production. In the mature product stage, cost competition among all producers, including imitating foreign firms, intensifies. At this stage, the U.S. manufacturer may also shift production from the country of the initial FDI to a lower-cost country, sustaining the old subsidiary with new products. Vernon's theory is more relevant to manufacturers' initial entries into foreign markets than to MNEs that have FDI already in place. Many MNEs are able to develop new products abroad for subsequent sale in the United States, thus standing the product life-cycle model on its head. For example, Procter & Gamble employed more than 8,000 scientists and researchers in 2000 in 18 technical centers in nine countries. Many new products in the health care and beauty care segments were developed in these offshore research centers and subsequently marketed in the United States and other foreign countries. MNEs can also transfer new products from the United States directly to their existing foreign subsidiaries, thereby skipping the export stage. Otis Elevator, a wholly owned subsidiary of United Technologies Corp., offers its products in more than 200 countries and maintains major manufacturing facilities in Europe, Asia, and the Americas. Despite being headquartered in the United States, 80% of Otis's 2005 revenues of $9.6 billion were generated elsewhere. Most of Otis's new elevators, escalators, moving walkways, and shuttle systems were first developed in the United States and then transferred to and manufactured by its foreign subsidiaries in the target overseas markets, although the company increasingly engages in development work abroad.

2.6.3 Internalization Theory

Internalization theory holds that the available external market fails to provide an efficient environment in which the firm can profit by using its technology or production resources. Therefore, the firm tends to produce an internal market via investment in multiple countries and thus creates the needed market to achieve its objective. A typical MNE consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and different national subsidiaries. These MNEs achieve their objectives not only through exploiting their proprietary knowledge but also through internalizing operations and management. Internalization is the activity in which an MNE internalizes its globally dispersed foreign operations through a unified governance structure and common ownership. Internalization theorists argue that internalization creates "contracting" through a unified, integrated intra-firm governance structure. It takes place either because there is no market for the intermediate products needed by MNEs (e.g., Falk, a global power transmission manufacturer, must use intermediate goods such as couplings and backstops produced by its Brazilian subsidiary owing to the unavailability from any outside source) or because the external market for such products is inefficient (e.g., IBM's speech-recognition technology is "transacted" internally among different units because the external market has not been developed enough to properly value and protect such expertise). The costs of transactions conducted at arm's length in an external market (i.e., a fair price in an open market) may be higher than transactions within an intra-organizational market. The incentives to internalize activities are to avoid disadvantages in external mechanisms of resource allocation or to benefit from an internally integrated and Intra-organizational network.

Internalization theory also specifies that the common governance of activities in different locations (e.g., Rubbermaid's subsidiary in China uses materials supplied by its sister subsidiary in Thailand and then ships products to the United States, Europe, and Japan) is likely to result in transaction gains. In many industries, MNEs are no longer able to compete as a collection of nationally independent subsidiaries; rather, competition is based in part on the ability to link or integrate subsidiary activities across geographic locations. To summarize, internalization advantages include the following:

1. To avoid search and negotiating costs
2. To avoid costs of moral hazard (moral hazard refers to hidden detrimental action by external partners such as suppliers, buyers, and joint venture partners)
3. To avoid costs of violated contracts and ensuing litigation
4. To capture economies of interdependent activities
5. To avoid government intervention (e.g., quotas, tariffs, price controls)
6. To control supplies and conditions of sale of inputs (including technology)
7. To control market outlets

8. To better apply cross-subsidization, predatory pricing, and transfer pricing.

Through internalization, global competitive advantages are developed by forming international economies of scale and scope and by triggering organizational learning across national markets. Operational flexibility can leverage the degree of integration. The allocation and dispersal of resources (both tangible and intangible) serve as a primary device for maintaining operational flexibility in global business activities. Essentially, by directing resource flows, an MNE may shift its activities in response to changes in tax structures, labor rates, exchange rates, governmental policy, competitor moves, or other uncertainties. Thus, resource flows are a necessary condition for achieving either location-specific or competitive advantages in global business. Resource flow requires internalization within an MNE network because it involves interdependence among subsidiaries. Internalization, in turn, requires centralized decision-making responsibility and authority. Nevertheless, control should be segmented by product line and distributed among different subsidiaries, depending on particular capabilities and environmental conditions

2.6.4 The Eclectic Paradigm

The eclectic paradigm offers a general framework for explaining international production. This paradigm includes three variables: ownership-specific (O), location-specific (L), and internalization (I), all identified in earlier theories of trade and FDI. The paradigm is also called the OLI framework. The key assertion is that all three factors (OLI) are important in determining the extent and pattern of FDI.

Ownership-specific variables include tangible assets such as natural endowments, manpower, and capital but also intangible assets such as technology and information, managerial, marketing, and entrepreneurial skills, and organizational systems.

Location-specific (or country-specific) variables refer to factor endowments introduced in the preceding chapter as well as market structure, government legislation and policies, and the political, legal, and cultural environments in which FDI is undertaken. Finally, internalization refers to the firm's inherent flexibility and capacity to produce and market through its own internal subsidiaries. It is the inability of the market to produce a satisfactory deal between potential buyers and sellers of intermediate products that explains why MNEs often choose internalization over the market route for exploiting differences in comparative advantages between countries.

The eclectic paradigm distinguishes between structural and transactional market failure. Structural market failure is an external condition that gives rise to monopoly advantages as a result of entry barriers erected or increased by incumbent firms or governments. Structural market failure thus discriminates between firms in terms of their ability to gain and sustain control over property rights or to govern geographically dispersed valued-added activities. Transactional market failure is the failure of intermediate product markets to transact goods and services at a lower cost than that incurred via internalization.

Overall, the eclectic paradigm provides a more comprehensive view explaining FDI than do the product life-cycle theory, the monopolistic advantage theory, or the internalization theory. It combines and integrates country specific, ownership-specific, and internalization factors in articulating the logic and benefits of international production. Although today's international business environment and MNE behavior are markedly different from what they were two decades ago, when the theory first emerged, the OLI advantages are still vital to explaining why FDI takes place and where MNEs' superior returns come from. The eclectic paradigm, like other theories of FDI, has some limitations, however. First, it does not adequately address how an MNE's ownership specific advantages such as distinctive resources and capabilities should be deployed and exploited in international production. Possessing these resources is indeed important, but it will not yield high returns for the MNE unless they are efficiently deployed, allocated, and utilized in foreign production and operations. Second, the paradigm does not explicitly delineate the ongoing, evolving process of international production. FDI itself is a dynamic process in which resource commitment, production scale, and investment approaches are changing over time. The product life-cycle theory also falls short on explaining the dynamics of the FDI process. Third, the conventional wisdom seems inadequate in illuminating how geographically dispersed international production should be appropriately coordinated and integrated. The internalization perspective addresses how an MNE could circumvent or exploit market failure for intermediate products and services but does not discuss how a firm could integrate a multitude of sophisticated international production and balance global integration with local adaptation. To redress these deficiencies, several new theoretical perspectives have emerged in recent years. We introduce these perspectives next.

2.7 Citations

AT Kearney (2009), the well-established international management consultancy, in their Annual Global Retail Index, ranked India as No. 1 out of 30 of top emerging markets, and done for some years. (2009 Global Retail Development Index, AT Kearny).

McKinsey Global Institute in their study about **the rise of India's consumer market** in long term say that if India continues on its current high-growth path, over the next decade the Indian market will undergo a major transformation. Income level will almost triple, and India will climb from its position as the ninth-largest consumer market today (in 2022) to become the world's fifth-largest consumer market by 2025.

As Indian incomes rise, the shape of the country's income pyramid will also change dramatically. Over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will swell by more than ten times from its current of 66 million to 583 million people. By 2025 over 23 million Indians (Almost the population of Australia today) will number the among the country's wealthiest citizens.

The geographic pattern of India's income and consumption growth will shift too. By 2025 the Indian consumer market will largely be an urban story, with 62 percent of consumption in urban areas versus 42 percent today. While much of this new wealth and consumption will be created in urban areas, rural households will benefit, with annual real consumption will be created in urban areas, rural households will benefit, with annual real rural income growth per household accelerating from 2.8 percent over the past two decades to 3.5 percent over the next one.

Indian spending patterns will also evolve, with basic necessities such as food and apparel declining in relative importance and categories such as communications and health care growing rapidly.

The Indian media regularly discusses the issues of FDI in Retailing. **The Hindu Business Line's** opinion on the "Great FDI in Indian Retail debate" is that organized retail at present accounts for mere 10% of the total market (2019) as against 22% in China and 40% in Thailand, and that there is a growing demand for modern retailing formats that offer a clean and hygienic environment to shop in. This has created significant debate for allowing FDI regulation to open up, although little has changed for multi-brand retailing restrictions to date.

Radhika determines the major difference between organized and unorganized retailing that it lies on its number of store operations. An unorganized outlet may be just stand alone or can have a maximum of 2-3 outlets in a city, where as the organized outlets are any retail chain with more than two outlets which is professionally managed (even if its family run) has an accounting transparency… and organized Supply Chain Management with centralized quality control and sourcing (certain parts can be locally made) can be termed as an “organized retailing” in India.

CHAPTER – III
FOREIGN DIRECT INVESTMENT IN INDIA

3.1 Background of FDI in India Across the Time

FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. However, researchers could not portray the complete history of FDI pouring in India due to lack of abundant and authentic data.

Before independence major amount of FDI came from the British companies. British companies' setup their units in mining sector and in those sectors that suits their own economic and business interest. The commodities and resources of the colonies served mainly the interests of some powerful States that were determined by the States that practiced colonization.

After Independence India continued to provide commodities and resources for the developed countries, but on somewhat different terms. Indeed, the newly formed independent States required capital for their self-sustenance, administration and development. In this way, such newly formed independent States could not help but to import or borrow capital in all its forms from either investors or the lending States. However, lending States required guarantee against loans and the investors needed protection for their investments. Protection could be by means of direct control of the investment or through the political, economic, and legal infrastructure that supported it. Due to these issues and others such as Health, poverty, employment, education, technology obsolesce, global competition, research and development. The need for foreign investments were strongly felt, and gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and mobilize foreign exchange resources. The first Prime Minister of India considered foreign investment as "necessary" not only to supplement domestic capital but also to secure scientific, technical, and industrial knowledge and capital equipment. With time and per economic and political regimes there have been changes in the FDI policy too.

During the 1977s period the government adopted a selective and highly restrictive foreign policy as far as foreign capital, type of FDI and ownerships of foreign companies was concerned. Government had setup Foreign Investment Board and enacted Foreign Exchange Regulation Act in order to regulate flow of foreign capital and FDI flow in India. The soaring oil Prices continued low exports and deterioration in Balance of Payment position during 1980s forced the government to make necessary changes in the foreign policy. It is during this period that the government had encouraged FDI, allowed MNCs to operate in India. Thus, resulting in the partial liberalization of Indian Economy. The government introduced reforms in the industrial sector, aimed at increasing competency, efficiency and growth in industry through a stable pragmatic and non-discriminatory policy for FDI flow. The Indian Economic Liberalization Policy of 1991 was introduced to make Indian economy further market-oriented and accordingly, this policy, among others, brought out reduction in import tariffs, introduced deregulation of markets besides lessening taxes. In particular, this policy paved way for the use and role of private as well foreign investments. At the international scenario too, the FDI continues as an important means for almost all nations to attain development and thus, it is an integral part of the globalization of the world economy. Globalization is the process in which corporations move money, products and factories across the world to increase a firm's value. If a domestic firm can increase its value by investing in foreign economies, it will become a multinational firm. Globalization, in the form of FDI accelerated in the mid-1980s as many developing countries started receiving a bigger share of global FDI flows than before. Almost all developing countries are now eager to take part in the worldwide competition for FDI. The regulations and restrictions on FDI have been relaxed substantially since the early 1990s. Be that as it may, globalization activities provide a ‘win-win’ scenario, for both FDI-providing Multinational Companies (MNCs) in advanced countries and FDI-receiving developing economies. Especially, the scarcities of all types of resources in the developing nations. For example, financial, capital, technology, and skills which are required for their economic development, made them accept FDI as the only way to circumvent scarcities and attain development. Today, much of the development related activities, or market, and State functions in developing States depend upon the FDI.

3.2 Overview of Foreign Direct Investment in India

Starting from a baseline of less than USD 1 billion in 1990, a recent **UNCTAD survey** projected India as the second most important FDI destination (after China) for transitional corporations. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. According to **UNCTAD's 2021 World Investment Report**, FDI inflows reached an all-time high of USD 64 billion in 2020, registering a 27% increase compared to 2019 (where FDI had reached USD 51 billion). The stock of FDI reached USD 480 billion in 2020. India ranks 5th among the top 20 FDI host economies and the largest host in the sub-region; the country historically accounts for 70-80% of inflows into the region.

In the midst of India's struggle to contain the COVID-19 pandemic, robust investments through acquisitions in ICT (software and hardware) and construction supported FDI. Cross-border mergers and acquisitions increased by 83% to USD 27 billion, with large deals involving ICT, healthcare, infrastructure and energy. Major transactions included the acquisition of Jio Platforms by Jaadhu (US) for USD 5.7 billion, the acquisition of Tower Infrastructure Trust by Brookfield (Canada) and GIC (Singapore) for USD 3.7 billion and the sale of Larsen & Toubro India's electrical and automation division for USD 2.1 billion. The merger of Unilever India with GlaxoSmithKline Consumer Healthcare India for USD 4.6 billion also contributed. During the year, India has relaxed administrative regulations for foreign investors in some industrial sectors by abolishing the requirement for approval by the Reserve Bank of India under certain conditions. The overall growth of FDI in India is thanks to its many assets, especially its high degree of specialization in services, with a skilled, English-speaking and inexpensive labor force and a potential market of one billion inhabitants. Singapore, Mauritius, the Netherlands, Japan, the U.S., the U.K., France and Germany are the main investing countries in India. Investments were mainly oriented towards services, computer software and hardware, telecommunications, trade, the automobile industry, construction, chemicals.

India ranked 63rd out of 190 countries in the **last Doing Business report,** published in 2020 by the World Bank, a significant improvement from the previous year's spot, when it ranked 77th. As such, India joined the list of 10 most improved economies for the third year in a row. The country has conducted a remarkable reform effort, and given the size of the country's economy, these reform efforts are particularly commendable. Since the implementation of these reforms, more than 2,000 companies have used the new law. Global investors typically focus on India mainly because of its demographics, but also for its stable barometers, whether it be inflation, fiscal deficit or growth. However, the country still has several restrictive laws on foreign investment, excessive bureaucracy, and high levels of corruption. Still, given India’s growing demographics, and huge e-commerce and technological markets, activity in both areas are expected to grow in the following years. Among the biggest investments that occurred in recent years is the merger Sony Pictures Networks India, a subsidiary of Sony Pictures Entertainment Inc., and Zee Entertainment Enterprises for USD 1.575 billion.

Figure 3. FDI in India.

Source: UNCTAD, Latest available data.

Foreign Direct Investment	2018	2019	2020
FDI Inward Flow (million USD)	42,156	50,558	64,062
FDI Stock (million USD)	386,169	426,944	480,298
Number of Greenfield Investments*	779	701	401
Value of Greenfield Investments (million USD)	54,140	29,788	24,071

Foreign investment was introduced in 1991 as Foreign Exchange Management Act (FEMA), driven by Finance minister **Manmohan Singh**. The decision of permitting foreign direct investment (FDI) in the retail sector has been a debate in India for a considerable period of time. FDI has been permitted in several sectors by the government of India; however, retail has been as issue deliberated over in view of its expected effect on several sections of the economy, particularly small businesses. The government of India has permitted any foreign multinational through FDI, to invest in India up to 51% in joint venture for the retail of its exclusive/ branded product. This only permits investment in retail with respect to branded retail, meaning confined to a single brand. It is worth mentioning that at present foreign brands are retailing in India through franchise agreements. The major rationalization act carried out by the Government of India by bring about changes in the policies pertaining to FDI is with the view of providing more jobs and improving the economy of the country. It is for the purpose that whilst allowing FDI the Government of India has taken due care and has only permitted FDI in retail for single brands. That, by doing so, would not displace the existing people in employment and in the alternative, it would give a boost to investment and create more employment. Further, by permitting foreign direct investment in single brands it would also not dispense with the retailers in the local markets and the unorganized sector, which employ a huge number of people in the retail sector.

Foreign direct investment (FDI) doesn’t have too many supporters in the Indian political class. Although is it favored by Prime Minister **Narendra Modi**, it is a safe bet that a majority of politicians in the congress and outside are uneasy about the concept. They seem to believe that it means inviting foreigners to come and exploit the country, as the East Indian Company once did. Even if the political parties do not seriously believe this, they apparently would still like to exploit the paranoia about foreigners to secure votes for them. Among the most consistent opponent of FDI are the trade union specially those affiliated to the Left such as the **Center of India Trade Union (CITU),** which is aligned to the **CPI (M)**, and the **ALL-Indian Trade Union Congress (ALTUC)**, which is close the CPI, they regard FDI as an integral part of what they call neo-liberal economic policies, which according to them are heavily tilted in favor of the rich. They also regard it as an instrument of America’s imperialism, which has the backing of the World Bank and International Monetary fund.

The loss of employment on this sector is the main argument advanced by the left against FDI in this sector. It is a matter of pleasant surprise, therefore, that **Dr Sharad Joshi**, who claim to represent Bahrat against India, has spoken in favor of FDI in the retail business. Dr Joshi who is the founder of the **Maharashtra-based Shetkari Sanghathan** and is a **Rajya Sabha** member, told a meeting of the parliamentary consultative committee of the Union commerce and industry ministry that fears of the family run small stores going out of business are unforced. Instead, he expects a huge increase in economic activity in the rural areas and a large-scale increase in employment opportunities. Because of his expertise in rural economy, his view will undoubtedly attract a great deal of attention and influence thinking in both official and unofficial circles. According to him, FDI in the retail sector will have a multiplier effect any generating jobs in construction, furnishing, hardware, food, processing, packing management, data processing, etc. because the supermarkets have a huge potential for aiding development. As has said, "a nationwide retail network or, even better, number of competing networks will bring about an economic revolution and can delivered a body blow to the problem of poverty and unemployment." He also said that the supermarkets and the small stores can be complimentary to one another and not end up in a bitter competition. Both have their advantages. The small stores score over the supermarkets by offering fresher products and grater personal attention. The supermarkets can be somewhat impersonal in this regard. But they do allow the consumers to shop for everything less than one roof.

The economy of India is the third largest in the word as measured **by purchasing power parity (PPP),** with a **gross domestic product (GDP)** of US 2.93 trillion in 2021. When measured in USD exchange-rate terms, it is the fifth largest in the world. It is the fastest growing major economy in the world, with a GDP growth rate of 9.2% at the first quarter of 2021-2022. However, India's huge population results in per capita income of $6461 at PPP and $ 2191 at nominal in 2021.

The economy is diverse and encompasses agriculture, handicrafts, textile, manufacturing, and a multitude of services. Although two-third of Indian workforce still earn their livelihood, directly or indirectly, through agriculture, services are a growing sector and are playing an increasingly important role of Indian's economy. The advent of the digital age, and the large number of young and educated populace fluent in English, is gradually transforming India as an important 'back office' destination for global companies for the outsourcing of their customer services and technical support. India is a major exporter of highly-skilled workers in software and financial services, and software engineering.

India followed a socialist-inspired approach for most of its independent history, with strict government control over private sector participation, foreign trade, and foreign direct investment. However, since the early 1990s, India has gradually opened up its markets through economic reform by reducing government controls on foreign trade and investment. The privatization of publicly owned industries and the opening up of certain sectors to private and foreign interests has proceeded slowly amid political debate. India faces a burgeoning population and the challenge of reducing economic and social in equality. Poverty remains a serious problem, although it has declined significantly since independence, mainly due to the green revolution and economic reforms.

FDI up to 100% is allowed under the automatic route in all activities/sectors except the following which will require approval of the Government: Activities/items that require an Industrial License; Proposals in which the foreign collaborator has a previous/existing venture/tie up in India.

FDI in India includes, FDI inflows as well as FDI outflow from India. Also FDI foreign direct investment and FII foreign institutional investors are a separate case study while preparing a report on FDI and economic growth in India. FDI and FII in India have Registered growth in terms of both FDI flows in India and outflows from India. The FDI statistics and data are evident of the emergence of India as both a potential market and investing country. FDI has helped the Indian economy grow. And government continues to encourage more investments of this sort. FDI in India has played an important role in the development of the Indian economy and has-in a lot of ways- enabled India to achieve ascertain degree of financial stability, growth and development. This money has allowed India to focus on the areas that may have needed economic attention, and address the various problems that continue to challenge the country. India has continually sought to attract FDI from the world's major investors and trying to cope all the difficulties. As an Ex: in 2004, India received $5.3 billion in FDI, big growth compared to previous years, but less than 10% of the $60.6 billion that flowed into China. Why does India, with a stable democracy and a smoother approval process, lag so far behind China in FDI amounts? Although the Chinese approval process is complex, it includes both national and regional approval in the same process. Federal democracy is perversely an important for India. Local authorities are not part of the approvals process and have their own rights, and this often leads to projects getting bogged down in red tape and bureaucracy. India actually receives less than half the FDI that federal government approves.

3.3 Indian Government Policy on FDI

3.3.1 Policy Course Review.

FDI Policy is reviewed on an ongoing basis and measures fir its further liberalization is taken. It's revised from time to time by the Department for Promotion of Industry and Internal Trade **(DPIIT)** under the Ministry of Commerce and Industry, Government of India (**GOI**).

Non-residents investing in India are required to comply with India's Foreign Direct Investment Policy (FDI Policy) and other foreign investment and foreign exchange regulations, including the Foreign Exchange Management Act **(FEMA)** and the regulations and notifications thereunder.

The FDI policy of India has imposed certain foreign direct investment regulations as per the FDI theory of the Government of India. These include FDI limits in India for example:

- Foreign direct investment in India in infrastructure development projects excluding arms and ammunitions, atomic energy sector, railways system, extraction of coal and lignite and mining industry up to 100% equity participation with the capping amount as Rs. 1500 crores.
- FDI figures in equity contribution in the finance sector cannot exceed more than 40% in banking services including credit card operations and insurance sector only in joint venture with local insurance companies.
- FDI limit of maximum 49% in telecommunication sector especially in the GSM services.

2021 Policy Update

The GOI is yet to issue any formal clarifications on the scope of Press Note 3 and the criteria for evaluation of applications for approval under Press Note 3.

However, the GOI did introduce several progressive changes to the FDI Policy. In particular:

- In a long-awaited move, the cap for FDI (under the automatic route) in insurance companies has been increased from 49 percent to 74 percent; non-investors will now be able to exercise a greater degree of control over Indian insurance companies, although the increase in FDI limits has been accompanied by certain additional conditions (including, among others, the requirement of a majority of the board of directors of an insurance company to be constituted of Indian resident individuals, inclusion of independent directors on boards of insurance companies and solvency-linked restrictions on dividend payments)

- The FDI cap in the telecom sector (under the automatic route) has been increased from 49 percent to 100 percent, to accompany other major structural and process reforms for the telecom sector, which are primarily aimed at increasing liquidity and reducing the regulatory burden of the telecom sector

The changes to the FDI Policy are expected to drive significant inbound investments in the strategically important sectors of insurance and telecom.

3.3.2 Government Approvals for Foreign Companies Doing Business in India

Non-resident investors do not require any prior licensing or registration for foreign direct investment (FDI) in India. India regulates FDI depending on the sector in which the investment is proposed to be made.

A foreign company planning to set up business operations in India has the following options:

1- Investment under automatic route. **2-** Investment through prior approval of Government.

Under the automatic route

The investment may be made without any approval from any government agency. Examples of sectors under the automatic route include, among others, infrastructure, healthcare, manufacturing and renewable energy.

Under the approval route

FDI in activities not covered under the automatic route, requires prior government approval is required for FDI. Sectors under the approval route include, among others, multi-brand retail, broadcasting, banking, defense, mining, print media and biotechnology. FDI is prohibited in a limited number of sectors such as manufacturing of tobacco, trading in transferrable development rights, real estate business (subject to limited exceptions), and gambling and betting, including casinos.

FDI in certain sectors permitted under either route is also subject to a specified cap and/or conditions. Where a cap is prescribed for a sector, the FDI in any entity in that sector cannot exceed the prescribed cap. The GOI revises the list of sectors under the automatic route, approval route and prohibited category, as well as any caps and other conditions applicable to FDI in any sectors, on a periodic basis.

On April 18, 2020, via new regulation dubbed Press Note 3, the GOI added all FDI by nonresident entities located in (or having "beneficial owners" in) countries that share a land border with India to the approval route, regardless of the quantum of investment or sector. Countries that share a border with India include Pakistan, Bangladesh, China, Nepal, Myanmar and Bhutan.

The term "beneficial owner" has not been defined in the context of Press Note 3. Several market participants have adopted the approach of using thresholds defined in other statutes as benchmarks for determining beneficial ownership in the context of Press Note 3.

Files Requirement?

If FDI is permitted under the approval route, the target company resident in India is required to file the application for approval. The application requires detailed information and documentation about the proposed investment, including incorporation documents and financial documents of the investor, terms of the foreign investment, and other documents required to verify the identity and suitability of the investor and the risks involved in approving the proposed FDI.

The DPIIT processes the applications received under the approval route and coordinates with the relevant ministry or department of the GOI that has the primary responsibility for the relevant sector (the Competent Authority) to jointly review such applications.

Reviewing Deals

All investment applications in sectors under the approval route are reviewed. Proposed investments in certain sectors such as defense, broadcasting and telecommunication also go through an additional layer of security clearance from the Ministry of Home Affairs. And again, all investments from countries that share a land border with India are subject to review by the **DPIIT** and the Competent Authority. FDI by Non-Resident Indians (**NRIs**) is regulated by separate regulations.

Trends in the Review Process

The approval process was revamped in 2017 to establish the Foreign Investment Facilitation Portal, which serves as a single window for prospective investors to communicate with the GOI. The DPIIT has been tasked with the responsibility of facilitating FDI. The DPIIT's concurrence is mandatory for a Competent Authority to reject an application or to impose any additional conditions not provided in the FDI Policy or applicable law.

The GOI has not laid out specific criteria for evaluation of investments, and appears to be mainly concerned with national security. With the heightened scrutiny, direct investments by Chinese investors and transactions with significant indirect participation of Chinese investors are being put on hold while awaiting more specific guidance from the GOI on Press Note 3. While a number of applications have been filed under Press Note 3, until date only a limited number of proposals have received approval.

Review Process Timeline

The DPIIT, along with the relevant Competent Authority, is required to make its decision within eight to 10 weeks after receiving an application. A single governmental department relevant to the sector (subject to security clearance, if applicable) identified by the DPIIT is required to take the lead in processing the application.

All applications under Press Note 3 require security clearance, which coupled with the increased scrutiny involved in such applications, almost always results in a significantly elongated approval timeline.

3.4 FDI Inflow Analysis in India

3.4.1 Overall FDI Inflows

India's inward investment regime went through a series of changes since economics reforms were ushered in three decades back. The expectation of the policy makers was that an "investor friendly" regime will help India establish itself as preferred destination of foreign investors. This expectation remained largely unfulfilled despite the consistent attempts to increase the attractiveness of India by further changes in policies that included opening up of individual sectors, lowering the hitherto existing caps on foreign holding and improving investment procedures. But after 2005-06, official statistics started reporting steep increases in FDI inflows.

FDI inflows to India remained sluggish, when global FDI flows to EMEs had recovered in 2010-11, despite sound domestic economic performance ahead of global recovery. The paper gathers evidence through a panel exercise that actual FDI to India during the year 2010-11 fell short of its potential level (reflecting underlying macroeconomic parameters) partly on account of amplification of policy uncertainty as measured through Kauffmann's Index.

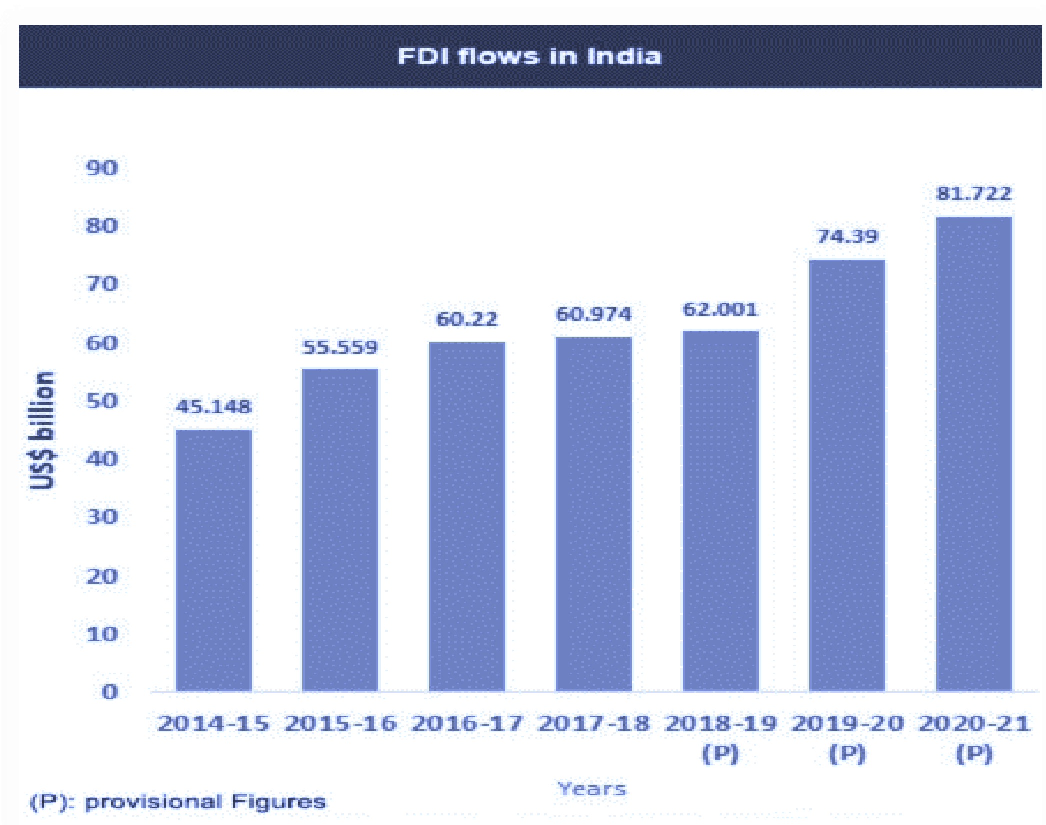
FDI inflows to India witnessed significant moderation in 2010-11 while other EMEs in Asia and Latin America received large inflows. This had raised concerns in the wake of widening current account deficit in India beyond the perceived sustainable level of 3.0 per cent of GDP during April-December 2010. This also assumes significance as FDI is generally known to be the most stable component of capital flows needed to finance the current account deficit. Moreover, it adds to investible resources, provides access to advanced technologies, assists in gaining production know-how and promotes exports.

India registered the highest ever annual foreign direct investment (FDI) Inflow of $81.97 billion (provisional figure) in the financial year 2020-21, according to the Ministry of Commerce and Industry. FDI inflows in the last seven financial years (2014-21) stands at $440.27 billion, which is nearly 58 per cent of the total FDI inflow in the last 21 financial years (2000-2021: $763.83 billion).

The top five countries from where FDI equity inflows were received during April 2019 and Dec 2021 are Mauritius 27 per cent, Singapore 22 per cent, USA 9 per cent, Netherlands 7 per cent, and Japan with UK 6 per cent each.

Figure 4. Overall FDI inflows from 2014 to 2021

Source: Department for Promotion of Industry and Internal Trade (DPIIT)



The service sector attracted the largest share of FDI inflows at 16 per cent, followed by the computer software and hardware sector at 14 per cent. Telecommunications saw FDI inflow of 7 per cent, while Trading & Automobile Industry attracted FDI inflow of 6 per cent each, during the same period in the last more than six years, according to commerce ministry data.

Figure 5: SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:

Source: Department for Promotion of Industry and Internal Trade (DPIIT

The top five countries from where FDI equity inflows were received during April 2019 and Dec 2021 are Mauritius 27 per cent, Singapore 22 per cent, USA 9 per cent, Netherlands 7 per cent, and Japan with UK 6 per cent each.

Figure 6: SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS April 2019-Dec 2021.

Source: Department for Promotion of Industry and Internal Trade (DPIIT)

Ranks	*Country*	**Amt. in Rupees Crores/ Amt. in US$ Million**	***2019-20* (April – March)**	***2020-21* (April – March)**	***2021-22* (April – December)**	***Cumulative Inflows* (April, 00 – December,21)**	***%age to total Inflows (in terms of US $)***
1	**MAURITIUS**	**Rupees Crores**	**57,785**	**41,661**	**48,815**	**886,416**	
		US$ Million	**8,241**	**5,639**	**6,580**	**154,930**	**27%**
2	**SINGAPORE**	**Rupees Crores**	**103,615**	**129,227**	**86,780**	**825,569**	
		US$ Million	**14,671**	**17,419**	**11,689**	**126,778**	**22%**
3	**U.S.A.**	**Rupees Crores**	**29,850**	**102,499**	**55,811**	**334,532**	
		US$ Million	**4,223**	**13,823**	**7,523**	**51,125**	**9%**
4	**NETHERLANDS**	**Rupees Crores**	**46,071**	**20,830**	**19,723**	**248,875**	

		US$ Million	6,500	2,789	2,661	248,875	7%
5	JAPAN	Rupees Crores	22,774	14,441	6,814	217,360	
		US$ Million	3,226	1,950	917.24	36,366	6%
6	U.K.	Rupees Crores	10,041	15,225	10,661	176,298	
		US$ Million	1,422	2,043	1,441	31,695	6%
7	Germany	Rupees Crores	3,467	4,910	4,326	78,180	
		US$ Million	488	667	581.65	13,444	2%
8	CAYMAN ISLANDS	Rupees Crores	26,397	20,779	20,302	90,929	
		US$ Million	3,702	2,799	2,742	13,077	2%
9	UAE	Rupees Crores	2,393	31,242	6,277	79,221	
		US$ Million	339	4,203	843.49	12,037	2%
10	CYPRUS	Rupees Crores	6,449	2,839	1036.85	61,870	
		US$ Million	879	386	139.87	11,274	2%
TOTAL FDI EQUITY INFLOWS FROM ALL COUNTRIES		Rupees Crores	353,558	442,569	319,977	3,494,457	
		US$ Million	49,977	59,636	43,174	572,807	-

Mauritius

Mauritius invested Rs. 886,416 crores (US$ 154,930 Million) in India up to the December 2021, equal to 27 per cent of total FDI inflows. Many companies based outside of India utilize Mauritian holding companies to take advantage of the India-Mauritius Double Taxation Avoidance Agreement (ATAA). The DTAA allows foreign firms to bypass Indian capital gains taxes, and may allow some India-based firms to avoid paying certain taxes through a process known as "round tripping" The extent of round tripping by Indian companies through Mauritius is unknown. However, the Indian government is concerned enough about this problem to have asked the government of Mauritius to set up a joint monitoring mechanism to study these investment flows. The potential loss of tax revenue is of particular concern to the Indian government. These are the sectors which attracting more FDI from Mauritius Electrical equipment, Gypsum and cement products, Telecommunications Services sector that includes both non-financial and financial Fuels.

Singapore

Singapore continues to be the single largest investor in India amongst the Singapore with FDI inflows into Rs. 825,569 crores (US$ 126,778 Million) up to December 2021 Sector-wise disruption of FDI inflows received from Singapore the highest inflows have been in the services sector (financial and non-financial), which accounts for about 30% of FDI inflows from Singapore. Petroleum and natural gas occupy the second followed by computer software and hardware, mining and construction.

U.S.A.

The United State is the third largest source of FDI in India (9% of the total), valued at Rs. 334,532 crores (US$ 51,125 Million) in cumulative inflows up to December 2021. According to Indian government, the top sectors attracting, food processing, and services. According to the available M&A data, the two top sectors attracting FDI inflows from the United State are computer systems design and programming and manufacturing.

Netherlands

FDI from Netherlands to India has increased at a very fast pace over the last few years. Netherlands ranks fourth among all the countries that make investments in India. The total flow of FDI form Netherland to India came to Rs. 248,875 Crores (US$ 248,875 Million) up to December 2021. The total percentage of FDI from Netherlands to India stood at 7% out of the total foreign direct investment in the country.

Following Various industries attracting FDI from Netherlands to India are:

- Food processing industries
- Telecommunications that include services of cellular mobile, basic telephone, and radio paging
- Horticulture
- Electrical equipment that includes computer software and electronics
- Service sector that includes non-financial and financial services

Japan

Japan is the 5th largest investor in the Indian economy with cumulative FDI inflows of Rs. 217,360 crores (US$36,366.30 million) during December 2021, contributing nearly 6.58% to India's total FDI inflows during the same period. Over, 1455 Japanese companies currently operate across India. These companies stretch across sectors such as automobiles, health and medical care, transportation, power and energy, urban environment management, and agricultural and rural development.

3.5 Barriers Restricting Foreign Direct Investment

Foreign direct investment may be politically controversial or difficult because it partly reverses previous policies intended to protect the growth of local investment or of infant industries. When these kinds of barriers against outside investment seem to have not worked sufficiently, it can be politically expedient for a host country to open a small "tunnel" as focus for FDI. The nature of the FDI tunnel depends on the country or jurisdiction's needs and policies. FDI is not restricted to developing countries. For example, lagging regions in the France, Germany, Ireland, and USA have for a half century-maintained offices to recruit and incentivize modernizing technology, and also to leverage and uplift its huge pool or rural workers.

To secure greater benefits for lesser costs, this tunnel needs to be focused on a particular industry and on closely negotiated, specific terms. These terms define the tradeoffs of certain levels and types of investment by a firm, and specified concessions by the host jurisdiction. The investing firm needs sufficient cooperation and opening of the country or even regional markets at a distinct advantage over (global) competitors. The hosting country needs sufficient contractual promises to politically sell uncertain benefits-versus the better-known costs of concessions or damage to local interests.

The benefits of FDI to the host country:

- **Encouraging technology transfer to local suppliers**

  The use of modern technology could become possible with foreign capital and aid to enhance the productivity.

- **Creation of a large number of new jobs**

  Many industrial units have been set up with foreign capital and by foreign collaboration, opened branches in host countries and hastening the transfer of premium-paying skills to the host country's work force. These have created employment opportunity in host countries.

- **Increasing of Capital**

  Many countries suffer from lack of capital. Since savings do not increase in the same ratio as the income does, the gap is filled by foreign capital.

- **Exploitation of natural resources**

  Due to the lack of capital. Resources have not been properly exploited. Foreign capital can help to make proper uses of natural resources

- **Decrease the Inflation**

  Foreign capital has also made imports of essential goods possible on a large scale. It increases total availability of goods and reduces the rate of inflation.

3.6 The Risk of Investing in India

Sovereign Risk

India is an Effervescent parliamentary democracy since its political freedom from British rule more than 70 years ago. The country does not face any real threat of a serious revolutionary movement which might lead to a collapse of state machinery. Sovereign risk in India in hence nil for both "Foreign direct investment" and "foreign portfolio investment."

Many Industrial and Business houses have restrained themselves from investing in the North-Eastern part of the country due to unstable conditions. Nonetheless investing in these parts is lucrative due to the rich mineral reserve here and high level of literacy. Kashmir on the northern tip is a militancy affected area and hence investment in the state of Kashmir is restricted by law.

Political Risk

India has enjoyed successive years of elected representative government at the Union as well as federal level. India suffered political instability for a few years in the sense in there was no single party which won clear majority and hence it led to the formation of coalition governments. However, political stability has firmly returned since the general elections in 1999, with strong and healthy coalition governments emerging.

Nonetheless, political instability did not change India's bright economic course though it delayed certain decisions relating to the economy. Economic liberalization which mostly interested foreign investors has been accepted as essential by all political parties including the Communist Party of India. Though there are bleak chances of political instability in the future, even if such a situation arises the economic policy of India would hardly be affected. Being a strong democratic nation, the chances of an army coup or foreign dictatorship are minimal. Hence, political risk in India is practically absent.

Commercial Risk

Commercial risk exists in any business ventures of a country. Each and every product or service is profitably accepted in the market. Hence it is advisable to study the demand/supply condition for a particular product or service before making any major investment. In India one can avail the facilities of a large number of market research firms in exchange for a professional fee to study the state of demand/supply for any product. As it is, entering the consumer market involves some kind of gamble and hence involves commercial risk.

Risk Due to Armed Attacks

In the recent past, India has witnessed several armed attacks on its soil which could have a negative impact in investor confidence. Not only business environment and return on investment, but also the overall security conditions in a nation have an effect on FDI's. Though some of the financial experts think otherwise. They believe the negative impact of these attacks would be a short-term phenomenon. In the long run, it is the micro and macro-economic conditions of the Indian economy that would decide the flow of foreign investment and in this regard, India would continue to be a favorable investment destination.

CHAPTER – IV

RETAIL INDUSTRY IN INDIA

4.1 Definition of Retail and Retail Industry

In 2004, The High Court of Delhi (Association of Traders of Maharashtra v. Union of India, (79) DRJ 426) defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e., Wholesale). *A sale to the ultimate consumer.*

Retail is the sale of goods to end users, not for resale, but for use and consumption by the purchaser. The retail transaction is at the end of the supply chain. Manufacturers sell large quantities of products to retailers, and retailers sell small quantities of those products to consumers. Example: A person who wants to obtain a product for their own personal use will usually purchase it at a retail store or from some other retail marketing channel.

Retail is derived from a French word with the prefix re and the verb tailer meaning "to cut again". It was first recorded as a noun with the meaning of a sale in small a "sale in small quantities" in 1433 (from Middle French retail, "piece cut off, scrap, paring"). Like the French, the word retail in both Dutch and German (Detailhandel and Einzelhandel, respectively) also refers to the sale of small quantities of items.

Evidently, retail trade is one that cut off smaller portion from large lumps of goods. It is a process through which goods are transported to final consumers. In other words, retailing consists of the activities involved in selling directly to the ultimate consumer for personal, non-business use. It embraces the direct-to-customer sale activities of the producer, whether through his own stores by house-to-house canvassing or by mail-order business. Manufacturers engage in retailing when they make direct-to-consumer sales of their products through their own stores (as Bata and Corona shoe companies, D.C.M stores, Mafatlas and Bombay Dyeing) by door-to-door canvass or mail order or even on telephone. Even on telephone. Even a wholesaler engages in retailing when sells directly to an ultimate consumer, although his main business may still be wholesaling.

A retailer is a merchant or occasionally an agent or a business enterprise, whose main business is selling directly to ultimate consumers for non-business use. He performs many marketing activities such as buying, selling, risk-trading and developing information about customer’s wants. A retailer may sell infrequently to industrial users, but these are wholesale transactions, not retail sales. If over one half of the amount of volume of business comes from sales to ultimate consumers, i.e., sales at retail, he is classified as a retailer. Retailing occurs in all marketing channels for consumer products.

Retailing is “an act of making a sale to the final consumer”. According to this definition, the retail sector in India is prominently divided into organized and unorganized retail trade shops, with the latter making up 88% (unorganized) of it. The unorganized retail sector is largely composed of local kirana shops, owner manned general stores, pan/beedi shops, pavement vendors, convenient stores etc.; it is the kind of retailing an average Indian can relate to as it comes naturally to them hence it is the largest source of self-employment there. On the other hand, organized retailing refers to corporate-backed hypermarkets, retail chains and privately owned large business which are only allowed to retail under a license and are liable to huge sales and income taxes. The growth of retailing in India under the organized sector is such that in spite of owning a meager 10-12% of the sector, it is responsible for trade worth 280 to 494 (US billion), compared to 460 of China’s. Statically speaking, retail in India is growing at a rate of 21% annually.

In 2004, The High Court of Delhi defined the term ‘retail’ as a sale for final consumption in contrast to sale for further sale or processing (i.e., wholesale). A sale to the ultimate consumer.

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and individual buyers such as the government and other bulk customers. Retailing is the last link that connect the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

Retail sector includes all the shops that sell goods to the ultimate customer, who buys them for personal and not business use. It encompasses all kinds of shops, from kiosks and small groceries to supermarket chain and large department stores. In addition to traditional bricks-and-mortar shops, the retail sector includes mail-order and online businesses.

4.2 Overview of Retail Industry in India

4.2.1 General Overview

Despite the coronavirus pandemic in 2020, retailing in India is one of the booming business enterprises of its economy and accounts for 10 to 11% of its GDP in 2021 and share in the employment of around 8%. The Indian retail market is estimated to reach US$ 1.5 Trillion by 2030, from US$ 0.793 Trillion, and the third retail market, from the fifth in the world by 2025. Driven by socio-demographic and economic factors such as urbanization, income growth and rise in nuclear families. On the other hand, the Indian e-commerce industry is expected to cross US$350 Billion by 2030 from US$ 62 billion in 2021 growing at a CAGR of 23%.

India's retailing industry is essentially owner manned small shops account for more than 90% in 2020, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. Over 20 million outlets operate in the country and only 4% of them being larger than 500sq ft (46m^2) in size. India has about 12 shop outlets for every 1000 people.

Most Indian shopping takes place in open markets or millions of small independent grocery and retail shops. The product typically has no price label in these small retail shops; although some products do have a manufactured suggested retail price (MSRP) pre-printed on the packaging. Price is sometimes negotiated between the shopper and shopkeeper. The informed decision between competitive products.

The typical Indian retail shops are very small. Vast majority of the unorganized retail shops in India employ family members, do not have the scale to procure or transport products at high volume wholesale level have limited to no quality control or fake-versus-authentic products screening technology and have no training on safe and hygienic storage, packaging or logistics. The unorganized retail shops source their products from a chain of middlemen who mark up the product as it moves from farmer or producer to the consumer. The unorganized retail shops typically offer no after-sales support or service. Finally, most transactions at unorganized retail shops are done with cash, with all sales being final.

4.2.2 Phased Growth of Retail Sector in India

1995: Emerging. The Indian retail market is classified as an Emerging Market.

2003 – 2004: Growth. Standing as $230.00 billion, India's retail market enters the Growth phase, characterized by the entry of new domestic and international participants and expansion by existing retailers in India.

2005 – 2006: Retail Boom. The beginning of the market retail boom, India is also ranked as the #1 market for Global Retail Development Indices.

2006 -2007: Maintaining its #1 position as the market with the most opportunity for retail growth, India's retail market grew to $330 billion.

2008: The Indian retail boom is at its peak and this phase has been termed the "high retail gold rush".

2010: Continued growth expected to grow retail market to $427 billion by 2010.

(Overview of the Indian Retail Market, Sensomatic Study Report, http://www.sensomatic.com)

2011: Indian retail sector accounts for 22% of the country's GDP and contributes to 8% of total employment

Hypermarkets, accounting for 14% of mall space.

2013-2019: Its overall size is estimated to be INR 31 trillion ($534 billion) in 2013-14, with a compound annual growth rate (CAGR) of 15% over the last five years, which is much higher than the growth of the Indian GDP in the same period. Going forward, the overall retail sector growth is witnessed a CAGR of 12-13%, which worth INR55 trillion ($948 billion) in 2018-19.

2020: Despite the coronavirus pandemic in 2020, India's retail market grew at 5.5 percent and therewith outnumbered all other global economies struggling in the face-off against the pandemic. With a contribution of around 10 percent to India's GDP and a share in the employment of around eight percent, the retail sector is also domestically of high significance.

The retail market size in India was expected to amount to 1.7 trillion U.S. dollars by 2026, up from 883 billion dollars in 2020. While an overall increase was noted up to 2019, 2020 marked a decrease due to the coronavirus pandemic. Nevertheless, the market is estimated to recover in 2022.

4.2.3 Main Segments in Retail Industry in India

Some sectors that occupy a prominent position with the retail industry are: Food and general retail, fashion and apparel, fast-food restaurants, fast moving consumer goods, music, furniture, health, luxury goods and consumer durables, electronics and telecom.

- **Food and Grocery retail**

  The food market in India is largely unorganized. The expenditure on food products by Indian households is the highest in the world. With rapid urbanization and consumerism sharing 60% of total retail sector, there exists huge untapped potential which needs to be explored.

- **Apparel**

  Demand for stitched garments and western outfits is increasing at the rate of 40% to 45%. Factors critical to the success of this segment are easy availability and affordability of fashionable garments along with value-added benefits.

- **Beauty and Wellness**

  Pharmacy retailing in India is largely occupied by a local pharmacist. However new chemist stores like 98.3 are emerging which offer drugs, health and beauty care products.

- **Consumer durable**

The market for consumer durable is the US $6.5 billion and is expected to grow at the rate of 18%.

- **Furniture and furnishings**

  There has been a new trend evident in the market wherein the modern retailers are setting up home furnishings sections in hypermarkets and specialty stores. This segment faces tough competition from local retailers.

- **Online shopping**
- As Online shopping has gained popularity amongst a large number of people especially youngsters, online retailers are flourishing as an important sales medium for various consumer brands. Everything ranging from apparel to accessories for all age groups is available online these days. Brands like PUMA, NIKE etc. have recorded huge rapid increments in their online sales started from 2012 to 2020. Nike, a footwear brand, has its associations only with online retailers such as Myntra and Jabong. And it has recently launched its new variety of cricket gear on Jabong. These online retailers help such brands widen their visibility and make them easily accessible to buyers.

Figure 7. Area' Space in Total Retail Market in India
(Source: Indian Retail report, https://www.india-briefing.com/).

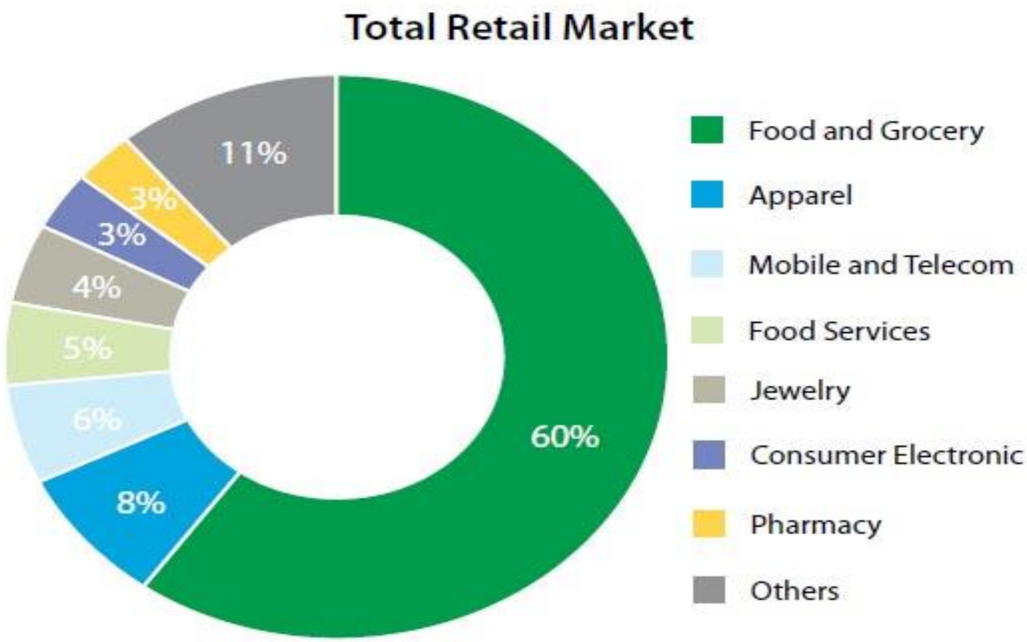
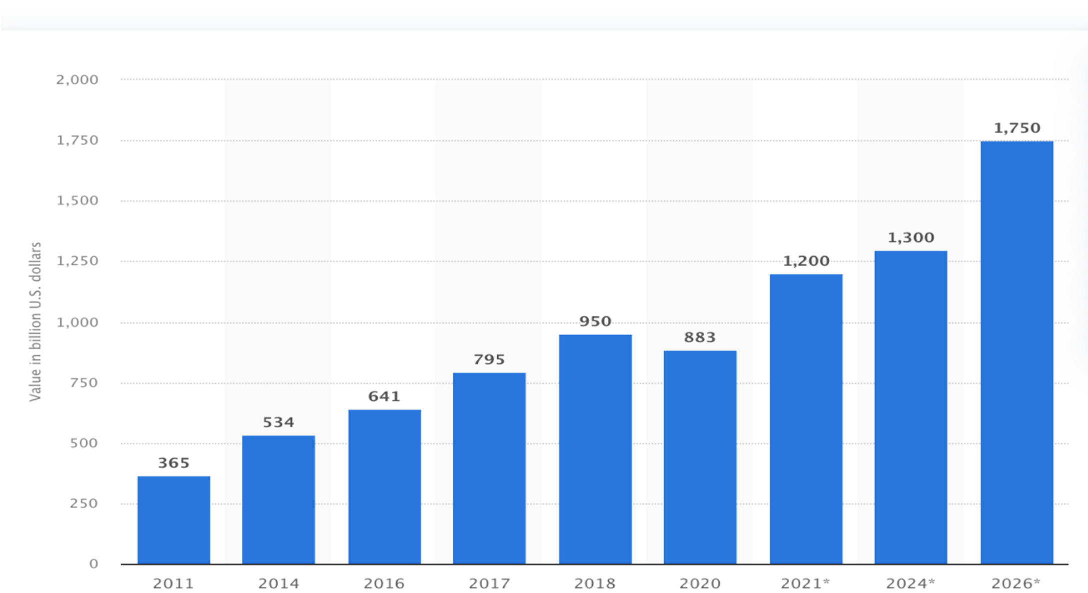


Figure 8. Retail market size across India from 2011 to 2020, with estimates until 2026 *(in billion U.S. dollars)*
(Source: https://www.statista.com/statistics/935872/india-retail-market-size/)



4.3 Retail Formats in India

4.3.1 Types of Retail Formats

In a country like India, where the population and economy are growing, the retail business is a booming one, and there are a number of retail formats. We can divide Indian retail market in three forms which are mentioned below:

1. **Store Retailers**
2. **Non-store retailers**
3. **Service retailers**

1. STORE RETAIL FORMATS:

1) **Mom-and-pop Store**

These are small family-owned businesses, which sell a small collection of goods to the customers. They are individually run and cater to small sections of the society. These stores are known for their high standards of customer service. They provide home delivery and credit facility without any interest to its customers.

2) **Convenience Store**

Convenience is offered in a lot of ways to the customers through easily accessible store locations and small store size that allows the customers to do quick shopping and fast checkout. The product selection offered by these retailers is very limited and the price of the products can be high.

3) **Supermarkets**

One of the other popular retail formats in India is the supermarkets. A supermarket is a grocery store that sells food and household goods. They are large, most often self-service and offer a huge variety of products. People head to supermarkets when they need to stock up on groceries and other items. They provide products for reasonable prices, and of mid

4) **Department stores**

Department stores are general merchandisers. They offer to the customers mid- to high-quality products. Though they sell general goods, some department stores sell only a select line of products. Examples in India would include stores like Westside and Lifestyle the popular department stores.

5) **Category Killers**

Specialty stores are called category killers. Category killers are specialized in their fields and offer one category of products. Most popular examples of category killers include electronic stores like Best Buy and sports accessories stores like Sports Authority.

6) **Discount Stores**

Discount stores offer product at lower price than market price. The main reason behind this low price is the additional stock left over towards the end of any season. Discount stores sell their goods at a reduced rate with an aim of drawing bargain shoppers.

7) **Mass Discounters**

These are general and specialty store that provide huge discounts on their merchandise to finish block stock and its small difference between discount stores and mass discounters is that it provide lesser services to customers.

8) **Warehouse Stores**

These are the type of mass discounters that provide comparatively less price than the traditional mass discounters. Moreover, these stores often requires the buyers to make the purchases in quantities that are greater than what can be purchased at mass discount stores. These retail outlets provide few services and product selection can be limited.

The retail design and layout is as the name suggests that is warehouse style with consumers often selecting products off the ground from the shipping package. Some forms of warehouse stores called warehouse clubs require customers to purchase memberships in order to gain access to the outlet.

9) **Street vendors**

Street vendors, or hawkers who sell goods on the streets, are quite popular in India. Through shouting out their wares, they draw the attention of customers. Street vendors are found in almost every city in India, and the business capital of Mumbai has a number of shopping areas comprised solely of street vendors. These hawkers sell not just clothes and accessories, but also local food.

10) **Kiosks**

Kiosks are box-like shops, which sell small and inexpensive items like cigarettes, toffees, newspapers and magazines, water packets and sometimes, tea and coffee. These are most commonly found on every street in a city, and cater primarily to local residents.

11) **Hypermarkets**

Similar to supermarkets, hypermarkets in India are a combination of supermarket and department store. These are large retailers that provide all kinds of groceries and general goods. Saravana Stores in Chennai, Big Bazaar and Reliance Fresh are hypermarkets that draw enormous crowds.

12) **Malls**

One of the most popular and most visited retail formats in India is the mall. These are the largest retail format in India. Malls provide everything that a person wants to buy, all under one roof. From clothes and accessories to food or cinemas, malls provide all of this, and more. Examples include Spencers Plaza in Chennai, India, or the Forum Mall in Bangalore.

NON-STORE RETAIL FORMATS:

Catalog Retailers

Retailers such as Lands' End and LL Bean have built their business by having customers place orders after seeing products that appear in a mailed catalog. Orders are then delivered by a third-party shipper.

E-retailers

Possibly the most publicized retail model in India to evolve in the last 50 years is the Retailer that principally sells via the Internet. There are thousands of online-only retail sellers of which Amazon.com is the most famous. These retailers offer shopping convenience including being open for business all day, every day. Electronic retailers or e-tailers also have the ability to offer a wide selection of product since all they really need in order to attract orders is a picture and description of the product. That is, they may not need to have the product on-hand the way physical stores do. Instead an e-tailer can wait until an order is received from their customers before placing their own order with their suppliers. This cuts down significantly on the cost of maintaining products in-stock.

Vending

Vending machines is a automatic machine from where we can purchase items like coldrinks, chocolates by throughing coins in it.While most consumers are well aware of vending machines allowing customers but newer devices are entering the market containing more expensive and bulkier products. These systems require the vending machine have either Internet or telecommunications access to permit purchase using credit cards.

SERVICE RETAILERS:

Service retailers are those which provide different services to customers.

Such as: Ownership Styles Followed by Different Category Retailers:

1) **Individually Owned and Operated:**

This structure refers to single ownership stores having one or more stores under it. Single ownership of retail outlets most frequently occurs with small retail stores, though there are some cases, for instance in the automotive or furniture industries, where single ownership involves very large outlets.

There are no restrictions on who, where and what type of business a person want to open. A person can start any legal business without any problem.

Because of the ease and flexibility of getting started, there can be a lot of competition in a particular area for a certain type of customer. There is no branding, no preset guidelines and a great deal of risk in this business model

2) **Franchises:**

Purchasing a franchise is buying the right to use a name, product, concept and business plan. The franchisee will receive a proven business model from an established business.

All of the business operation processes have been established. The franchisee receives help from a network and customers are already familiar with name. Same marketing strategies are opted which are used by other franchises. Most all of the risk associated with starting a retail business has been reduced.

Franchisees pay a fee, or royalty, based on sales each year. Franchisee have huge amount to spend to get a franchisee and there is no flexibility and freedom allowed in this form.

3) **Dealership:**

Retailers may find the business model of a licensed dealership as a mix of franchise and independent retailer. The licensee has the right (sometimes this is exclusive) to sell a brand of products. Unlike a franchise, the dealer can sell a variety of brands and there generally no fees to the licensor. Dealerships may or may not be identified as an authorized seller or by the company's trademark.

There may be some branding or product name recognition by the customer. The dealership relation is much more flexible than that of a franchise. This may be a good business model for part-time retailers or those just starting in retail.

Dealer have to spend huge amount to get a dealership

4) **Corporate Chain:**

A retail chain consists of multiple retail outlets owned and operated by a single entity all performing similar retail activities. While the number of retail outlets required to be classified as a chain has never been specified, we will assume that anyone owning more than five retail locations would be considered a chain.

4.3.2 Efficient Ownership Type

If you are based in India and have sufficient money to invest in a new business, then you must surely consider a good franchise business option. There are different types of franchise business in India that are hugely successful and looking for expansion.

Franchising is one of the popular models of business looked as a win-win model by both the franchisor and the franchisee. In fact, this business concept is a great way of expanding a proven business model by leveraging the resources and the enterprise of potential franchisees. In fact, buying a franchise business in India is a better option as compared to starting your own business from scratch. Today, there are different platforms where you can look for a franchise business. You can check out details in local newspapers or browse the Internet to look for information about companies or brands interested in expansion of their business. In fact, websites are the best ones to find information on find about best franchise business in India based on different categories. For example, if you are a person who is interested in “Play School” business then you need to first find out all the available franchisors who would be allowing you to join under them as a franchisee. Contact them and if they find your proposal interesting, then you can become a part of their brand.

It is the dream of every company to increase their brand visibility and franchising is the best way to do so. There are so many companies in India who have high faith in franchising concept and have utilized this concept to promote their brands. Apart from Indian companies, there are many International brands that have spread their business in different parts of India through franchising.

The franchising industry in India has thus become an important tool for all brands to woo the customers and expand their business territories.

Advantages for Franchisee:

1- Product Acceptance

The Franchisee usually enters into a business that has an accepted name, product or service. That credibility already exists based on the years the Franchise has existed. An entrepreneur who tries to start a shop would be unknown to the potential customers and would require significant effort and resources to build credibility and a reputation in the market.

2- Management Expertise

Another important advantage to the Franchisee is managerial assistance provided by the franchisor. Each new franchisee is often required to take a training programme on all aspects of operating the franchise. This training could include classes in accounting, personnel management marketing and production. The training and education offered is actually an important criterion. That the entrepreneur should consider in evaluating any Franchise opportunity. If the assistance in starting up the business is not good, the entrepreneur should probably look elsewhere for opportunities unless he or she already has extensive experience in the field.

3- Capital Requirements

Starting a new venture is usually costly in terms of both time and money. The franchise offers an opportunity to start a new venture with up front support that could save the entrepreneur significant time and possibly capital. Some franchisors conduct location analysis and market research of the area that might include an assessment of traffic, demographics, business conditions, and competition. In some cases, the franchisor will also finance the initial investment to start the franchise operation. The initial capital required to purchase a franchise generally reflects a fee for the franchise, construction costs, and the purchase of equipment.

4- Knowledge of the Market

Any established franchise business offers the entrepreneur years of experience in the business and knowledge of the market. This knowledge is usually reflected in a plan offered to the franchisee that details the profile of the target customer and the strategies that should be implemented once the operation has begun.

Advantages to franchisor:

1- Additional Revenue

Whenever a franchisor grants a new franchise location, he enters into a franchise agreement in which the franchisee agrees to pay fees or royalties. The franchisor can use these additional sources of revenue to reduce operating expenses such as advertising and distribution costs. The revenue can also be used to increase the franchisor's cash flow.

2- Reduced Risk of Expansion

Franchises allow the franchisor to expand her business by using the capital and resources from the franchisee. Although the franchisor often assists the franchisee in finding sources of capital to get started, the franchisee is still the one responsible for obtaining the financing and is on the hook to pay back any loan or other debt obligations.

3- Ease of Quality Control

A franchise agreement requires the franchisee to follow corporate guidelines when operating his business. For example, a McDonald's franchisee is required to make hamburgers a specific way and may not deviate. For the franchisor, this means fewer concerns about the quality of the product that is sold, and he doesn't have to worry about a "rogue" franchisee who wants to do things his own way.

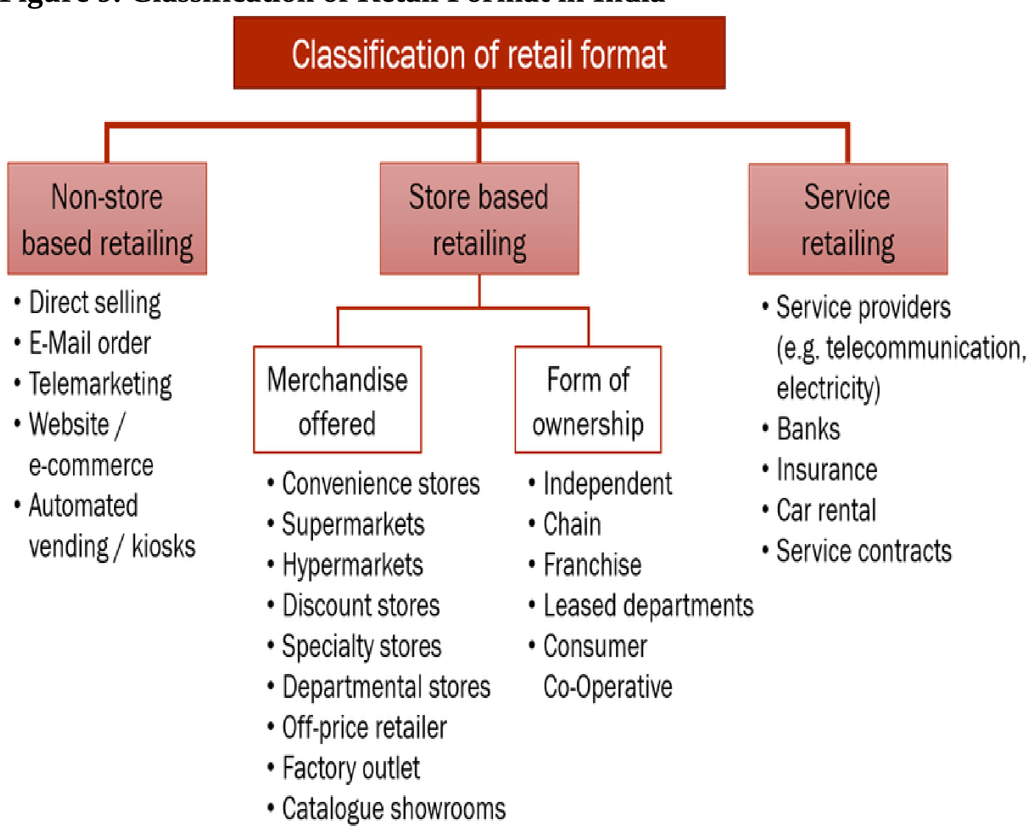
4- Ease of Expansion

A franchisor can easily expand her business by granting new franchises to franchisees in untapped markets. She may be able to locate potential franchisees who are more familiar with the nuances of a particular market than she is, which increases the chances for success. The franchisor will reap the benefits of additional royalties and increased brand recognition.

5- Increased Royalties

A franchisee may be more motivated than an employee, such as a branch manager of a satellite operation. Since the franchisee has a personal financial stake in the success of the business, he may be more likely to work harder. For the franchisor, the result is more revenue through increased royalties. Due to its advantages to both franchisee and franchisor it consider efficient form of ownership.

Figure 9. Classification of Retail Format in India



4.4 Organized and Unorganized Retailing

Organized retailing

Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. While the Indian retail market has largely been unorganized, the organized retail market increased by 50% between 2012 and 2020, according to the government-backed investment facilitation agency, Invest India. As of 2020, India's organized retail market was valued at 12% of the total retail market.

Unorganized retailing

Unorganized retailing means, small retail businesses functioning on a lesser scale with little or no standardization and selling items in divided amounts to local clients within a small geographical area make up unorganized retail, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana shops*, owned-operated general stores, *paan/beedi* shops, hand cart and pavement vendors, etc.

As per a report by Statista, in late 2019, the unorganized sector dominated the Indian retail industry, accounting for 88 percent of the total. Although the organized and e-commerce industries have grown significantly in recent years, the impact has not yet been noticeable. However, by 2024, this percentage is expected to drop to 75%, owing to a higher share of organized retail and a rise in online retail. The unorganized retail sector is growing at about 10% per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion in 2011-12 to US$ in 697.71 billion in 2018.

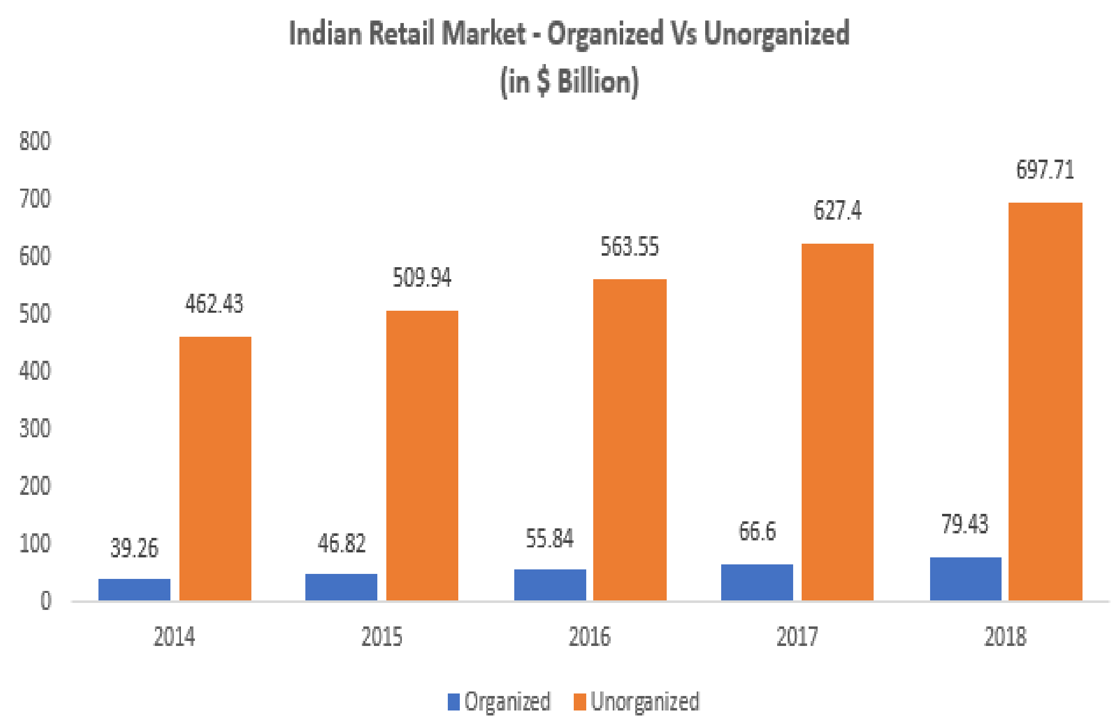
Organized retailing was absent in the most rural and small towns of India in 2010. Supermarkets and similar organized retail accounted for just 4% of the market. Until 2010, intermediaries and middlemen in India have dominated the value chain. Due to a number of intermediaries involved in the traditional Indian retail chain, norms are flouted and pricing lacks transparency. Small Indian farmers realize only $1/3^{rd}$ of the total priced paid by the final Indian consumer, as against $2/3^{rd}$ by farmers in nations with a higher share of organized retail. (FDI In Multi-Brand Retail Trading, KPMG). The 60%+

margins for middlemen and traditional retail shops have limited growth and prevented innovation in Indian retail industry.

Unorganized retailers are now going online by collaborating with software firms in order to provide their existing consumers with the same degree of ease that online aggregators provide. To respond to the changing expectations of the Indian customer, many of these merchants will embrace innovative and cost-effective technology in the coming decade. They have a lot more interesting years ahead of them because of their large market coverage, ease of providing products, and good relationships with customers.

Figure 10. Indian retail market overview.

Resource: (https://arpitsrivastava.com/indian-retail-market-size-organised-unorganised/)



4.5 Leading Retailers in Indian Retail Industry

Retail companies in India is focusing on the semi-urban and rural sectors heavily as there is increasing levels of disposable incomes in these regions coupled with growing awareness about the latest fast-moving consumer goods (FMCG).

The top retail companies in the world have already entered the retail market in India and launched many departmental stores in India. Indian retail industry analysis reveals that e-commerce and online retail is also likely to emerge as one of the fastest growing segments in the Indian retail industry and open new channels of growth for the top retail companies in India. The top retail companies in India generate almost 60% of their sales from the rural FMCG customer base in India and are increasing their investments on widening their distribution networks for these markets.

Organized retail is a new phenomenon in India and despite the downturns during the pandemic, the market is growing exponentially, as economic growth brings more of Indian’s people into the consuming classes and organized retail lures more and more existing shoppers into its open doors. The Indian retail landscape is evolving from the brick-and motor model to adopt technology for connecting with consumers aiming to achieve a complete seamless customer experience.

4.5.1 Top Indian Retailers

1. Reliance Retail

Reliance Retail is on the top of the list of retail companies in India and one of the best retail companies in India. This top 10 retail companies in India was established in 2005 at Mumbai, India by Mukesh Ambani and has more than 45 subsidiaries that are the top retail companies in India. Some of the notable brands of Reliance Retail are Reliance Fresh, Reliance Digital, Reliance LYF & Jio, Reliance Trends, and AJIO. This top retail companies in the world have more than 10,415 departmental stores in India covering more than 22 million square feet of retail space at the mid of 2022. The annual revenue of Reliance Retail was estimated to be more than $8 billion and has more than 100,000 employees across 750 cities.

2. Future Group

Future Group is another of the top retail companies in India according to the most reliable Indian retail industry analysis by a leading market research company Technavio. Future Group was incorporated at Mumbai, India by Kishore Biyani in 1987 by the name of Manz Wear. It is on the best list of retail companies in India and has many upcoming retail brands in India such as Future Retail, E Zone, Big Bazaar, Food Bazaar, Nilgiris 1905, Hyper City, Central, and Brand Factory. This top retail companies in India have 1511 retail stores, an annual revenue of around $3.9 billion and employs over 45,949 professionals in more than 400 cities in every state of the country through digital platforms and stores that cover over 16 million square feet of retail space.

3. Trent

Trent is a top retail company in India and this best retail company in India is a part of the Tata Group. Trent was founded in 1998 at Mumbai, India. It has more than 264 departmental stores in India. Some of the best retail brands in India owned by Trent are Westside, Star Bazaar, and Landmark besides JV with top retail companies in the world like Tesco, Zara, and Lakeland. Trent was estimated to have an annual revenue of worth around $3.5 billion and has more than 25,000 employees working for this best retail company in India.

4. Aditya Birla Retail

Aditya Birla Retail is one of the best retail companies in India on the list of retail companies in India. This Indian retail company was established in 2007 by Kumar Mangalam Birla at Mumbai, India. This top retail companies in the world is a part of the Aditya Birla Group which has a $60 billion turnover. The upcoming retail brands owned by Aditya Birla Retail are Pantaloons, More, Madura Garments, Idea Cellular and Planet Fashion. This retail companie in India has an annual revenue of more than $3.9 billion and employs over 23,000 professionals across 2714 departmental stores in India

5. Titan Company

Titan Company, one of the top retail companies in India was incorporated as a joint venture between the Tata Group and Tamil Nadu Industrial Development Corporation (TIDCO) in 1984 at Bangalore, India. The major retail brands owned by Titan Company are Titan Time, Fastrack, Skinn, Tanishq, Titan Eyeplus, and Sonata. Extensive Indian retail analysis reveals that this top retail company in India has an annual turnover of almost $2.5 billion with a net income of $160 million. Also, has more than 1200 departmental stores in India and more than 9,500 employees are working for this group of Indian retail company.

6. Shoppers Stop

Shoppers Stop is a top apparel retail company in the list of retail companies in India. Shoppers Stop was established in 1991 by the K Raheja Group at Mumbai, India. Currently, has expanded to a network of 210 departmental stores in India covering 39 cities in the country. Shoppers Stop has an annual revenue of more $3.5 million and employs more than 15,000 retail professionals across the country. The upcoming retail brands in India owned by Shoppers Stop are Home Stop, Mother care, Crossword, and Life.

7. The Raymond Group

The comprehensive list of retail companies in India has always featured The Raymond Group as one of the oldest and top retail companies in India. This best retail company in India was founded in 1944 by VIjaypat Singhania and is part of the JK Group of companies. This retail company in India own upcoming retail brands in India such as Parx, Park Avenue, Raymond, Kama Sutra, Manzoni, and Color Plus. This top retail companies in the world have over 700 departmental stores in India spread across 200 cities. The Raymond Group has an annual turnover of around $3.5 billion and employs more than 8,000 persons.

8. Avenue Supermarts Ltd

Avenue Supermarts Ltd is a top retail company in India on the list of retail companies in India. It was formed in 2002 at Mumbai, India by Radhakishan Damani. The top retail brands in India owned by Avenue Supermarts Ltd are D Mart, D Mart Minimax, D Mart Premia, D Homes, and Dutch Harbour. As per various Indian retail industry analysis, that it is one of the fastest growing Indian retail company with over 176 departmental stores in India, 7713 employees and an annual revenue of close to $2.67 billion in 2021.

9. Godrej Consumer Products Limited

Godrej is another top Indian retail companies with over 150 departmental stores in India. This top of the list of retail companies in India was established in 2001 by Adi Godrej at Mumbai. The leading and upcoming brands owned by Godrej are Nature’s Basket, Good Knight, BBlunt, Godrej Aer, and Cinthol. This retail company has an annual turnover of almost $48 billion with more than 1,600 employees. Also, Godrej owns an online grocery portal that is gaining high traction for the past few years.

10. Provogue

Provogue is another top retail companies in India on the list of retail companies in India with around 60 departmental stores in India and employing around 600 professionals across the country. This retail company was founded in 1997 at Mumbai, India. It owns many retail brands in India for apparel, eyewear, accessories, and watches. Provogue also has an online shopping portal and a presence on various B2C shopping portals like Flipkart and Amazon India.

4.5.2 Top International Retailers in India

1. Wal-Mart Stores

Walmart is an American multinational retail corporation that operates a chain of hypermarkets, discount department stores and grocery stores. Headquartered in Bentonville, Arkansas, the company was founded by Sam Walton in 1962 and incorporated on October 31, 1969.

Walmart Stores Inc runs cash-and-carry stores in the country through its arm, Walmart India. It entered into India in 2007. Wal-Mart reached $1.027 billion retail sales and 5,882 stores in 2021 (Info Source: NRF)

2. Amazon.com

Amazon is an American electronic commerce and cloud computing company with headquarters in Seattle, Washington. It is the largest Internet-based retailer in the United States and world by total sales and market capitalization.

Amazon entered the Indian online shopping with its price aggregator and selection website Junglee.com in February 2012. It entered the Indian e-commerce space with its online marketplace Amazon.in in June 2013. Amazon.com retail rales are $2.02 billion in 2021 *(Info Source: NRF)*

3.McDonald's

McDonald's is the world's largest chain of hamburger fast food restaurants, serving around 68 million customers daily in 119 countries across 36,538 outlets. Founded in the United States in 1940, the company began as a barbecue restaurant operated by Richard and Maurice McDonald.

McDonald’s entered India in 1996 and it has $123,250,000 **retail sales** with Over 305 stores in 2021 (Info Source: NRF)

4.6 Main Factors Affecting Growth of Indian’s Organized Retailing

1. Increase of middle-class consumers

They expect quality products at decent prices. Modern retailers offer a wide range of products and value-added services to the customers. Hence this has resulted into growth of organized retailing in India.

Growing consumerism would be a key driver for organized retail in India. Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence (meeting) of consumer tastes.

2. Growth in the number of working women

Today the urban women are literate and qualified. They have to maintain a balance between home and work. The purchasing habit of the working women is different from the home maker.

They do not have sufficient time for leisure and they expect everything under one roof. They prefer one-stop shopping Modern retail outlets therefore offers one store retailing.

3. Value for money

Organized retail deals in high volume and are able to enjoy economies of large-scale production and distribution. They eliminate intermediaries in distribution channel.

Organized retailers offer quality products at reasonable prices. Example: Big Bazaar and Subhiksha. Opportunity for profit attracts more and more new business groups for entering in to this sector.

4. Emerging rural market

Today the rural market in India is facing stiff competition in retail sector also. The rural market in India is fast emerging as the rural consumers are becoming quality conscious.

Thus, due to huge potential in rural retailing organized retailers are developing new products and strategies to satisfy and serve rural customers. In India, Retail industry is proving the country's largest source of employment after agriculture, which has the deepest penetration into rural India.

5. Entry of corporate sector

Large business tycoons such as Tata's, Birla's, and Reliance etc. have entered the retail sector. They are in a position to provide quality products and entertainment.

As the corporate – the Piramals, the Tatas, the Rahejas, ITC, S.Kumar's, RPG Enterprises, and mega retailers- Crosswords, Shopper's Stop, and Pantaloons race to revolutionize the retailing sector.

6. Entry of foreign retailers

Indian retail sector is catching the interest of foreign retailers. Due to liberalisation multinationals have entered out country through joint ventures and franchising. This further is responsible for boosting organised retailing.

7. Technological impact

Technology is one of the dynamic factors responsible for the growth of organized retailing. Introduction of computerization, electronic media and marketing information system have changed the face of retailing. Organized retailing in India has a huge scope because of the vast market and the growing consciousness of the consumer about product quality and services.

One of the major technological innovations in organized retailing has been the introduction of Bar Codes. With the increasing use of technology and innovation retailers are selling their products online with the help of Internet.

8. Rise in income

Increase in the literacy level has resulted into growth of income among the population. Such growth has taken place not only in the cities but also in towns and remote areas.

As a result, the increase in income has led to increase in demand for better quality consumer goods. Rising income levels and education have contributed to the evolution of new retail structure. Today, people are willing to try new things and look different, which has increased spending habits among consumer.

9. Media explosion

There has been an explosion in media due to satellite television and internet. Indian consumers are exposed to the lifestyle of countries. Their expectations for quality products have risen and they are demanding more choice and money value services and conveniences.

10. Rise of consumerism

With the emergence of consumerism, the retailer faces a more knowledgeable and demanding consumer. As the business exist to satisfy consumer needs, the growing consumer expectation has forced the retail organizations to change their format of retail trade. Consumer demand, convenience, comfort, time, location etc. are the important factors for the growth of organised retailing in India.

4.7 Modern Retail in India

The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in revolution in shopping in India. Modern retail has entered India as seen in sprawling shopping centers, multistoried malls and huge complexes offer shopping, entertainment and food all under one roof. The Indian retailing sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory.

4.7.1 Trends in Retailing in India

1. New retail formats and combinations are emerging and have opened a new world of opportunities for Indian youth. Due to huge amounts of new investments and decreasing charm for ‘kirana’ stores, the retail sector is expected to grow. Bank branches, bill counters, saloons, internet cafe have opened in the malls. The ‘cash and carry’ activities are expected to grab majority of attention.

2. Internet age, increased computer awareness and shrinking usage charges have made people enabled buy things online resulting in growth of non-store retailing. Retailers are informing about new arrivals/fresh stock through e-mails, television, SMS and telephones to which anyone can respond to through toll-free 16 digit numbers.

3. Specialty stores like ‘Reliance Digital’, ‘Music World’ ‘Metal Junctions’, ‘Nokia World’ and ‘Pantaloons’ have their presence in most of the malls in the country. Departmental stores have given way to malls, having a mixture of large and small retailers offering varied brands for each and every section of the society.

4. Sales promotion channels are increasingly becoming professional and targeting differently to different lifestyle groups. Newer and newer promotional techniques are emerging. Event managers are hired and visual merchandising professionals are consulted. Today retailers are not sticking to traditional methods of promoting a sale but personal selling door-to-door selling, free home delivery and payment through plastic money have emerged and is being widely used. Use of advanced technology is not the matter of affordability but is the reason for survival. Retailers are using computers, electronic devices, check out scanning systems, tag guns, vending machines, money counters and digital signage to enhance store’s productivity. CCTVs, cameras, sensors and theft alarms are being used to prevent store theft.

5. Today retail organizations are not only targeting big cities but are considering tier II and tier III cities like Jaipur, Pune, Shimla, Karnal, Panipat, Coimbatore, Baroda, Chandigarh etc also. The South Indian states are one step ahead when it comes to shopping in the supermarkets for day-to-day needs and also have been influencing other states where supermarkets are being established.

However, the main center of organized retailing is undeniably Chennai, which once was considered as a ‘conservative’, ‘traditional’ and cost-sensitive’ market. The success of Chennai as retail hub has surprised all but list of factors contributed to its success. Reasonable real estate prices, double household income, increased presence of MNCs and industrial boom has led to the emergence of new residential societies resulting in increased purchasing power and demands for day- to-day goods under one roof.

6. Use of credit and debit cards for buying merchandise is relatively a new phenomenon but is gaining popularity immensely. Credit and debit cards are commonly known as *'plastic money'*. Today, especially in metros, retail spending is mainly done by plastic cards, accounting for over 45 percent and is likely to touch 65 percent over the next five years.

7. Increased public transportation, better roads, highways and an overall improvement in the transportation infrastructure that has enabled customers to visit from one place to another smoothly than ever before. Now for want of quality goods, a customer can travel several kilometers to reach a particular store.

8. Partnerships and tie-ups among retailers, real estate developers, brands, franchisees, and financers have become the fashion of the day to spread risk related to huge investments and uncertainty.

9. The government infrastructure support, relaxation on foreign direct investments further has accelerated the growth of Indian organized retail sector. Consequently, the shopping malls are coming up throughout the country in a big way.

10. Due to Internet revolution, customers are becoming conversant about the products they are interested in buying. For example, over thirty percent of Indian consumers collect information from the Internet about prices, features, guarantee/warranty options before visiting any store for the actual purchase.

This is particularly true in case of automobiles, cell phones, consumer electronics, hotel bookings, travel packages etc. This suggested the retailers that they need to respond to varying consumer needs and growing assortment.

11. The gap between organized and unorganized (traditional 'kirana' shopping) retailing is coming close due to mall revolution and increasing Indian middle class in terms of size and income. The traditional 'kirana' stores by introducing modern retailing concepts such as self service, free home delivery system, credit facility and other value added services have been trying to reshape themselves.

12. Undoubtedly, retailing in India is still in nascent stage. The success of organized retailing is yet to be proved. The success will be felt once an equitable stage is achieved. This requires enough store size, traffic flow, and revenue earned, but besides these factors, retailers have started concentrating on recruiting qualified and trained retail staff.

4.7.2 Indian Retail Industry Updating and Forecasting

Indian retail industry is one of the fastest growing in the world. As per Kearney Research, India's retail industry is projected to grow at a slower pace of 9% over 2019-2030, from US$ 779 billion in 2019 to US$ 1,407 billion by 2026 and more than US$ 1.8 trillion by 2030. India ranked 63 in the World Bank's Doing Business 2020 publication. India ranked 73 in the United Nations Conference on Trade and Development's Business-to-Consumer (B2C) E-commerce Index 2019. India's direct selling industry would be valued at US$ 2.34 billion by the end of 2022. Consumer spending in India increased to US$ 245.16 billion in the third quarter of 2020 from US$ 192.94 billion in the second quarter of 2020.

India is the fifth-largest and preferred retail destination globally. The country is among the highest in the world in terms of per capita retail store availability. India's retail sector is experiencing exponential growth with retail development taking place not just in major cities and metros, but also in tier II and III cities. Healthy economic growth, changing demographic profile, increasing disposable income, urbanisation, changing consumer tastes and preferences are some of the factors driving growth in the organised retail market in India.

Indian online grocery market is estimated to exceed sales of about US$ 4.25 billion in 2022. According to India Ratings and Research (Ind-Ra), domestic organised food and grocery retailers are expected to increase by 10% YoY in FY23, with organised retailers and e-commerce likely to benefit from the ongoing demand for essentials.

India's population is taking to online retail big way. By 2024, India's e-commerce industry is expected to increase by 84% to US$ 111 billion, driven by mobile shopping, which is projected to grow at 21% annually over the next four years. In 2020, the most common payment methods online were digital wallets (40%), followed by credit cards (15%) and debit cards (15%). Online penetration of retail is expected to reach 10.7% by 2024 versus 4.7% in 2019.

In FY21, digital transactions in the total non-cash retail payments volume increased to 98.5% versus 97.0% in FY20.

According to data released by the Ministry of Statistics & Programme Implementation (MoSPI), India’s Consumer Price Index (CPI) based retail inflation increased to 5.6% YoY in December 2021. RBI sees the retail inflation to be around 4.5% in FY23.

E-Retail has been a boon during the pandemic and according to a report by Bain & Company in association with Flipkart ‘How India Shops Online 2021’ the e-retail market is expected to grow to US$ 120-140 billion by FY26, increasing at approximately 25-30% p.a. over the next 5 years.

In November 2021, Department for Promotion of Industry and Internal Trade announced that it is working on a regulatory compliance portal to minimise burdensome compliance processes between industries and the government.

In October 2021, retailers in India increased by 14% compared with previous year.

In July 2021, the Andhra Pradesh government announced retail parks policy 2021-26, anticipating targeted retail investment of Rs. 5,000 crore (US$ 674.89 million) in the next five years.

In October 2021, Reliance announced plan to launch 7-Eleven Inc.’s convenience stores in India.

In October 2021, Realme launched 100 new exclusive stores across India to expand and strengthen its footprint in the country.

In October 2021, Reliance Retail introduced Freshpik, a new experiential gourmet food store in India, to expand its grocery segment in the ultra-premium category.

In October 2021, Plum, the direct-to-consumer beauty & personal care brand, announced plan to launch >50 offline stores across India (by 2023) to expand its customer base.

After an unprecedented decline of 19% in the January-March 2020 quarter, the FMCG industry displayed signs of recovery in the July-September 2020 quarter with a y-o-y growth of 1.6%. The growth witnessed in the fast-moving consumer goods (FMCG) sector was also a reflection of positivity recorded in the overall macroeconomic scenario amid opening of the economy and easing of lockdown restrictions.

India is expected to become the world's third-largest consumer economy, reaching Rs. 27.95 lakh crore (US$ 400 billion) in consumption by 2025. ^Increasing participation from foreign and private players has given a boost to Indian retail industry. India's price competitiveness attracts 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 in India.

The Government of India has introduced reforms to attract Foreign Direct Investment (FDI) in retail industry. The Government has approved 51% FDI in multi-brand retail and 100% FDI in single-brand retail under the automatic route, which is expected to give a boost to Ease of Doing Business and Make in India schemes, with plans to allow 100% FDI in E-commerce. Cumulative FDI inflows stood at US$ 572.8 billion between April 2000-December 2021. According to a report by PGA Labs and Knowledge Capital, investors had put in US$ 1.4 billion into D2C companies between 2014 and 2020. The sector recorded an investment of ~US$ 417 million in 2020.

In October 2021, the RBI announced plans for a new framework for retail digital payments in offline mode to accelerate digital payment adoption in the country.

India will become a favourable market for fashion retailers on the back of a large young adult consumer base, increasing disposable income and relaxed FDI norms.

The Ayurveda Company (TAC), a direct-to-consumer (D2C) beauty and wellness brand, has raised US$ 3 million from Wipro Consumer Care Ventures, to expand its production capabilities and enter the retail sector. 91 Squarefeet, a retail store development business, has worked with over two dozen companies, including Tata, Aditya Birla Group, and Reliance Retail, illustrating the quick pace with which brick-and-mortar stores are being opened.

In March 2022, Reliance Brands has bought the India franchisee rights and the current Sunglass Hut retail network from DLF Brands.

DLF would invest about Rs. 2,000 crore (US$ 262.2 million) in Gurugram and Goa to build two new retail complexes.

Many fintech companies are competing for their presence in local stores. In May 2020, Paytm announced a US$ 1 billion loyalty programme and launched online ledger services for kirana stores in India. Other fintech companies such as PayNearby, Phonepe, BharatPe and Mswipe introduced different services for small shop owners, enabling better digital payments and delivery options at these stores. For example, Amazon partnered with local stores to provide a platform for many small shops and merchants on its Amazon marketplace. While, Walmart has its own network of 28 ‘best-priced’ stores serving local stores across the country.

Flipkart Wholesale, a digital B2B marketplace, announced strengthening of its commitment towards growth and prosperity of kiranas and MSMEs by boosting supply chain infrastructure and enhancing employment opportunities. During the online festive sale in October 2020, the Indian e-commerce firms—Flipkart, Amazon, Myntra and Snapdeal—together sold goods worth US$ 3.1 billion. Online retail market in India is projected to reach US$ 350 billion by 2030 from an estimated US$ 55 billion in 2021, due to rising online shoppers in the country.

Resources India Brand Equity Foundation (IBEF)

CHAPTER V

India's FDI Consolidated Policies and Regulations

5.1 Policies and Regulations of FDI in India

5.1.1 Intent and Objective

Foreign Direct Investment is considered as a major source of non-debt financial resource for the economic development. FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. (Hemant Batra, Retailing Sector in India Pros Cons (Nov 30, 2010). FDI flows into India have grown consistently since liberalization and are an important component of foreign capital since FDI infuses long term sustainable capital in the economy and contributes towards technology transfer, development of strategic sectors, greater innovation, competition and employment creation amongst other benefits. Therefore, it is the intent and objective of the Government of India to attract and promote FDI in order to supplement domestic capital, technology and skills for accelerated economic growth and development. FDI, as distinguished from Foreign Portfolio Investment, has the connotation of establishing a 'lasting interest' in an enterprise that is resident in an economy other than that of the investor.

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification, (Notification No. FEMA 20/2000-RB dated May 3, 2000) which contains the Foreign Regulations, 2000. This notification has been amended from time to time.

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/sectoral equity cap. The FDI policy notified through Press Noted by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required. These notifications take effect from the date of issue of Press Notes/ Press Releases, unless specified otherwise therein. In case of any conflict, the relevant Notification under Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 will prevail. The payment of inward remittance and reporting requirements are stipulated under the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019 issued by the Reserve Bank of India (RBI).

5.1.2 Regulatory Regime

With a view to attracting Foreign Direct Investment (FDI), Government of India has put in place a liberal policy under which FDI up to 100% is permitted under the automatic route in most sectors/activities. Significant changes have been made in the FDI policy regime in recent times to ensure that India remains an increasingly attractive investment destination.

The Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry, is the nodal department for the formulation of the Government's policy on Foreign Direct Investment (FDI). It is also responsible for the maintenance and management of data on inward FDI into India, based on the remittance reported by the Reserve Bank of India.

DPIIT has been undertaking various initiatives and reforms such as the launching of Make in India, supporting champion sectors and subsectors, setting up of an E-GOS and Project Development Cells, creating a GIS based Industrial Information System and National Investment Clearance Cell amongst others. These activities are being supported under the Scheme for Investment Promotion (SIP) launched in 2008. The Government has approved the continuation of SIP, for a further duration of five years (FY 2021- 22 to 2025-26) with a financial outlay of Rs. 9.70 billion, vide Notification dated 29 November 2021.

The Empowered Group of Secretaries (EGS), constituted by the Investment Promotion Section of DPIIT, provides support and facilitation to investors for investing in India and to boost growth in key sectors of the economy.

Project Development Cells have been set up in 29 departments to fast-track investment by facilitating coordination between the central and state governments. The Cells enhance the pipeline of investible projects in India and in turn increase domestic investment and foreign direct investment (FDI) inflows.

The FDI Policy framework is embodied in the Consolidated FDI Policy Circular, as amended from time to time**.** ***The currently effective Consolidated FDI Policy Circular was issued by DPIIT on October 15, 2020.***

The objective of the FDI Policy is to attract and promote foreign direct investment to supplement domestic capital, technology, and skills, for accelerated economic growth.

Although all the recent improvements in regulations of FDI, and as FDI is subject to compliance with all relevant sectoral laws, regulations, rules, security conditions, and state/local laws/regulations. The regulatory regime for the existing homegrown retailers is quite exhaustive with as many as 40 licenses and permissions required to be obtained by the retailer from diverse authorities, depending on the nature of activity. For example, a multi-brand retailer selling food and perishable items has to have a prevention of food adulteration license under the Prevention of Food Adulteration Act, a weights & measures license under Weights & Measures Act for regulating the weights and measures and labels on the food products sold, along with an agricultural produce marketing committee license under the Agricultural Produce Marketing Committee Act for selling fruits and vegetables. If a retailer decides to launch a store in more than one state then the number of licenses will multiply accordingly. Therefore, an entity establishing retail stores across India will have to face enormous licensing obligations in each state of operation.

This too acts as a deterrent. As the government has opens up the sector to FDI, in addition to the regular operating licenses, chances are the foreign multi-brand retailers will have to seek investment approvals as well from the central regulator which, as present, is the Foreign Investment Promotion Board. Which the passage of time, the expectation would be that the multitude licenses across different states would be reduced and (possibly) homogenized.

5.1.3 Entry Options for Foreign Players prior to FDI Policy

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. There are few ways how to apply FDI in Indian Retail sector. Some of entrance route used by them have been discussed in sum as below:

1. Franchise Agreements

It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

13) **Cash And Carry Wholesale Trading**

100% FDI is allowed in wholesale trading which involved building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

14) **Strategic Licensing Agreements**

Some foreign brands give exclusive licenses and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodland Pvt. Ltd

15) **Manufacturing and Wholly Owned Subsidiaries**

The foreign brand such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorized to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. for instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

5.1.4 What is a 'brand'?

Brands could be classified as products and multiple products, or could be manufacturer brands and own-label brands. Assume that a company owns two leading international brands in the footwear industry – say 'A' and 'R'. if the corporate were to obtain permission to retail its brand in India with a local partner, it would need to specify which of the brands it would sell. A reading of the government release indicates that A and R would need separate approvals, separate legal entities, and may be even separate stores in which to operate in India. However, it should be noted that the retailers would be able to sell multiple products under the same brand, e.g., a product range under brand 'A' Further, it appears that the same joint venture partners could operate various brands, but under separate legal entities. (Mohan Guruswamy, Implications of FDI in Retail, (DEC 16 2010).

Now, taking an example of a large departmental grocery chain, prima facie it appears that it would not be able to enter India. These chains would, typically, source products and, thereafter, brand it under their private labels. Since the regulations require the products to be branded at the manufacturing stage, this model may not work. The regulations appear to discourage own-label products and appear to be tilted heavily towards the foreign manufacture brand (Ibid).

5.1.5 FDI in Single Brand Retail

Single Brand Retail Trading means where the goods are sold under a single brand goods are sold to individual customers and not to other businesses.

All the goods sold by a business or entity, or franchisee should be under the same brand. A person residing outside India can undertake single-brand retail trading for a specific brand in India.

Foreign Direct Investment (FDI) Policy of India permits foreign investment in India either under 'automatic route' or 'approval route'. Under the 'approval route' prior approval of the Government of India is required for any foreign investment in an Indian company carrying on retailing business.

FDI Policy on retail trading classified retail trade as either Single Brand Retail Trading ('SBRT') e.g., companies like Marks & Spencer's, Ikea, Uniqlo, Nike or Apple or Multi Brand Retail Trading (‘MBRT’) for retailers like Walmart, Carrefour or Tesco. Traditionally, there were restrictions in foreign investment in both SBRT and MBRT activities under FDI Policy.

Prior to January 2018 FDI Policy of India allowed 49% FDI in SBRT activities under automatic route and government approval was required for FDI beyond 49% which could go up to 100%. With a view of liberalizing FDI Policy, the Government decided to allow 100% FDI in SBRT activities under automatic route without requiring any government approval effective from January 2018.

The FDI policy for SBRT has laid down the following requirements:

- Products to be sold should be of a ‘Single Brand’, which are branded during manufacturing.
- Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
- ‘Single Brand’ product-retail trading would cover only products, a non-resident entity, whether owner of the brand or otherwise, for the specific brand, either directly by the brand owner or through a legally tenable agreement executed between the Indian entity undertaking SBRT and the brand owner.
- In respect of proposals involving foreign investment beyond 51%, sourcing of 30 percent of the value of goods purchased, will be done from India.
- Such an Indian entity is also allowed to sell through e-commerce platform.

Although government allowed foreign investment in single brand retail a few years ago, but most of the foreign brands still operate in India through local franchises and distributors. For example, Genesis Luxury Fashion Pvt. Ltd., a marketing and distribution company of Reliance Group, has brought several global iconic brands such as Bottega Veneta, Giorgio Armani, Hugo Boss, Emporia Armani, Jimmy Choo, Paul Smith, Tumi, Burberry, etc. in India.

Due to restrictions and various conditions for retail trading under FDI policy, foreign companies were finding it more convenient to enter India through franchise route. Under a franchise or distribution agreement, a global retailer partners with an Indian company. Indian company pays a fee to the brand owner and invests in marketing and launching the brand in India. It was not uncommon that the brand owner would invest in the Indian retailer to expand its brand footprint into Indian retail sector rather than expecting to receive brand fees or royalty. In the recent past Gap Inc., Aeropostale Inc. and Ipanema, are some of the companies who have entered India through franchise agreements.

Post January 2018, Indian entities of global retailers having FDI of more than 51% have been exempted from the requirement of local sourcing, for up to three years from commencement of the business if it is undertaking SBRT of products having ‘state-of-art’ and ‘cutting-edge’ technology, and where local sourcing is not possible, such as Apple. This requirement of local sourcing was challenging for entities trading in hi-tech products. There are brands which engage in manufacturing and trading of products which are produced from goods not sourced in India due to various factors and constraints. Whether a product will qualify as having ‘state-of-art’ and ‘cutting-edge’ technology, will be examined by a committee formed by the government in this regard.

Further, there is no explanation of what constitutes ‘state-of-art’ and ‘cutting edge’, which creates ambiguity. The relaxation given is only for a period of 3 years, after which the SBRT entity would be required to meet the 30% sourcing norm. All these factors pose challenges for the foreign investor engaged in trading of such products.

Apart from franchise model, a way around the requirement of mandatory sourcing norm is to keep FDI up to 51% and find a local partner to hold the balance 49%. Under this structure the requirement of local sourcing is not applicable to the Indian entity in which FDI is being made by the foreign brand owner.

5.1.6 FDI in Multi Brand Retail

MBRT means sale of different products of different brands through one platform The announcement by the Indian government with Foreign Direct Investment (FDI) in retail in September 2012, especially allowing 51% in multi-brand FDI has generated a heated debate in the public as well as in Indian Parliament.

FDI in multi brand retail trading, in all products, will be permitted, subject to the following conditions:

(i) Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry,fishery and meat products, may be unbranded.

(ii) Minimum amount to be brought in, as FDI, by the foreign investor, would be USD 100 million.

(iii) At least 50% of total FDI brought in the first tranche of USD 100 million, shall be invested in 'back-end infrastructure' within three years, where ‘back-end infrastructure’ will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house and agriculture market produce infrastructure. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure. Subsequent investment in backend infrastructure would be made by the MBRT retailer as needed, depending upon its business requirements.

(iv) At least 30% of the value of procurement of manufactured/processed products purchased shall be sourced from Indian micro, small and medium industries, which have a total investment in plant & machinery not exceeding USD 2.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. The ‘small industry’ status would be reckoned only at the time of first engagement with the retailer, and such industry shall continue to qualify as a ‘small industry’ for this purpose, even if it outgrows the said investment of USD 2.00 million during the course of its relationship with the said retailer. Sourcing from agricultural co-operatives and farmers’ co-operatives would also be considered in this category. The procurement requirement would have to be met, in the first instance, as an average of five years’ total value of the manufactured/processed products purchased, beginning 1st April of the year during which the first tranche of FDI is received. Thereafter, it would have to be met on an annual basis.

(v) Self-certification by the company, to ensure compliance of the conditions at serial nos. (ii), (iii) and (iv) above, which could be cross-checked, as and when required. Accordingly, the investors shall maintain accounts, duly certified by statutory auditors.

(vi) Retail sales outlets may be set up only in cities with a population of more than 10 lakh as per 2011 Census or any other cities as per the decision of the respective State Governments, and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities; retail locations will be restricted to conforming areas as per the Master/Zonal Plans of the concerned cities and provision will be made for requisite facilities such as transport connectivity and parking.

(vii) Government will have the first right to procurement of agricultural products.

(viii) The above policy is an enabling policy only and the State Governments/Union Territories would be free to take their own decisions in regard to implementation of the policy. Therefore, retail sales outlets may be set up in those States/Union Territories which have agreed, or agree in future, to allow FDI in MBRT under this policy. The list of States/Union Territories which have conveyed their agreement is at (2) below. Such agreement, in future, to permit establishment of retail outlets under this policy, would be conveyed to the Government of India through the Department of Industrial Policy & Promotion and additions would be made to the list at (2) below accordingly. The establishment of the retail sales outlets will be in compliance of applicable State/Union Territory laws/ regulations, such as the Shops and Establishments Act etc.

(ix) Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of multi-brand retail trading.

This information was given by the Minister of Commerce and Industry, Piyush Goyal, in a written reply in the Lok Sabha today.

As far as multi brand retail trading is concerned, FDI is limited to 51%, with prior government approval. No automatic route of FDI is available in case of MBRT. Moreover, retail trading in any form by means of e-commerce would not be permissible for companies with FDI engaged in the activity of multi-brand retail trading. In the past Indian Government has frowned upon creative joint venture models to circumvent majority foreign ownership in MBRT.

There is another significant issue relating to retail trading which needs clarification – whether ‘sub-brands’ constitute a single brand. For example, Marks & Spencer (‘M&S’)

sell goods under sub-brands such as M&S Women, Autograph etc. under the M&S Parent brand. So, it becomes important form the perspective of restrictions under FDI Policy whether these sub-brands can be treated as a single brand or will fall under MBRT.

5.1 Post Corona 19 Conditions and Current Limitations of FDI in Retail Sector in India

5.2.1 Post Corona 19 Conditions

The Covid-19 pandemic has been unprecedented on many counts pertaining to public health, national security and the global economy. It has had a colossal effect on various countries and India is no exception. Under phase 1 of reopening, that is post-Unlock 1.0, the Government of India has taken several measures to revive India's economy. The government has announced a special economic package of INR20tn (approx US$267bn) for an *Atma Nirbhar Bharat*, that is, a 'self-reliant India'. Under this package, with an intent to foster and protect home-grown businesses and make India the world's leading manufacturing and supply hub, the government has further liberalised foreign investment policy across various sectors.

There are two ways to carry out foreign direct investments (FDI) in India: automatically or with authorisation. In contrast to the approval route, which only allows FDI with prior government approval, the automatic route allows FDI without the need for approval from the government or the Reserve Bank of India (the country's exchange control authority).

In order to increase foreign investments in India, the government has liberalized its investment policies in a number of sectors as part of the Self-Reliant India Movement.

1 - Updated FDI Cap in The Defense Industry

The Foreign Investment Policy had a sectoral cap of 100% for foreign investment in an Indian entity working in the defense industry until recently, and investments above 49% required government approval if they were likely to give the entity access to cutting-edge technology or for other reasons that needed to be recorded. To attract more foreign investment, the government is proposing to increase the automatic route foreign investment restrictions in an Indian defense sector organization from 49 to 74 percent under the economic stimulus package.

2- Product-Related Incentive Program for The Pharmaceutical Industry

The government has also announced a production-linked incentive program to support local manufacture of key drug intermediates and bulk medications and provide the pharmaceutical industry with the necessary boost. Investors will be able to submit plans for the creation of greenfield facilities for any of the 53 important drug intermediates and bulk medications that aren't currently produced in India on a substantial scale. This is all part of the production linked incentive system. This list comprises components used in the production of frequently prescribed drugs including aspirin, metformin, and paracetamol, among others. Similar to this, the government has launched a program to support "bulk drug parks," which were established to promote drug security and lessen reliance on imports for active medicinal components (APIs), *and there will be simple access to infrastructure facilities, value addition, and standard testing.*

According to the Foreign Investment Policy, up to 100% of foreign investment is allowed in an Indian entity that is setting up brand-new pharmaceutical manufacturing facilities, and up to 74% of foreign investment in an Indian entity that already has facilities for producing pharmaceutical products is allowed under the automatic route and over 74% requires approval.

3- Civil Aviation Reforms

In order to create a self-sufficient India, the government has promised reforms in civil aviation as part of the economic stimulus package. These changes will loosen limitations on using Indian airspace, improving the effectiveness of civil aviation. Only 60% of India's airspace is now free for usage by civil aircraft without restrictions. Creating more airspace is intended to reduce travel times, save fuel, and provide the civil aviation sector with yearly benefits worth INR10 billion (about US$133 million). According to the Foreign Investment Policy, foreign investment is permitted up to 49% through the automatic route and up to a further more 49% through the approval route in an Indian entity providing scheduled air transport services, domestic scheduled passenger airlines, and regional air transport services. Additionally, twelve airports have been chosen for modernization under a Public Private Partnership, which currently permits 100% foreign investment through an automated method.

The government also has its sights set on making India a center for MRO (maintenance, repair, and overhaul) of aircraft and wants to significantly expand the amount of repairs and maintenance performed on aviation components. In order to facilitate the establishment of the world's major engine manufacturers' engine repair facilities in India, 100% FDI through the automatic route is already permitted in an Indian entity engaged in aircraft maintenance and repair. In addition, the tax regime for the MRO ecosystem has also been rationalized.

4- Reforms in The Mining and Coal Industries

The government has emphasized the need to improve self-reliance in coal production and to decrease imports of coal that can be substituted. On June 18, 2020, the government announced the opening of a commercial coal mining auction with liberalized terms and entrance requirements. New businesses may enter the bidding process, and Indian organizations involved in mining coal and other minerals in India—but not atomic minerals—may accept 100% FDI through the automated method. The government also intends to encourage the expansion of the mineral industry by putting 500 mining blocks up for sale in a fair and open procedure.

5- Reforms in The Insurance industry

According to the Foreign Investment Policy, Indian enterprises who serve as insurance industry intermediates are now qualified to acquire 100% FDI under the automatic method. Any previous authorisation from the Reserve Bank or the government is eliminated by this modification. An FDI in Indian entities operating in the insurance sector was formerly limited to 49% under the automatic method. With this, the doors have been fully opened for additional foreign investment in insurance intermediaries, likely at the perfect time given the impact of Covid-19 on India's economy, particularly on the business and healthcare sectors, and the critical need for a boost to foreign investment activity.

According to the revised Foreign Investment Policy, for up to three years following the start of the business (i.e., the opening of the first shop/store or the beginning of online retail, whichever comes first by the Indian entity), the sourcing norms of 30% will not apply to Indian companies engaged in single-brand retail trading of products with "state-of-the-art" and "cutting-edge" technology. The above-mentioned three-year term would have started when the first business or store opened prior to the modification.

6- Checks and balances: no entry without approval

Over the past several years, India has considerably loosened its restrictions on foreign investment. Contrary to its customary course, the government declared on April 22, 2020[11] that it would be strengthening its current Foreign Investment Policy in an effort to stop opportunistic takeovers and acquisitions of Indian firms.

As per the new amendment, an entity of a country sharing a land border with India, (namely, China, Nepal, Myanmar, Bhutan, Afghanistan, Bangladesh and Pakistan) or the beneficial owner of an investor into India who is situated in or is a citizen of any such country, can only invest in an entity in India with prior government approval.

Any subsequent change in beneficial ownership that results in the beneficial ownership of a business in India coming under the aforementioned restriction as a result of any current or future foreign Direct investment, requires prior government clearance.

There is no question about the government's urgency to put checks and balances in place right away given that a number of sectors and businesses are available to 100% FDI under the present Foreign Investment Policy, without the requirement for any regulatory permission.

5.2.2 Current Limitations of The Setup

1. Infrastructure

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 303 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-along cold storages, having a total capacity of 35,9 million MT., 80% of this is used only potatoes.

The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

2. Intermediaries dominate the value chain

Intermediaries often flout *mandi* norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only $1/3^{rd}$ of the total price paid by the final consumer, as against $2/3^{rd}$ by farmers in nations with a higher share of organized retail.

3. Improper Public Distribution System ("PDS")

There is a big question mark on the efficacy of the public procurement and PDS set-up and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food-based inflation has been a matter of great concern. The absence of a 'farm-to-fork' retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.

4. No Global Reach

The Micro Small & Medium Enterprises ("MSME") sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganized sector in overall manufacturing has declined from 34.5% in 1999-2000 to 30.3% in 2007-2008 and then to 28.5% in 2021 (National Accounts Statistics, 2009). This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

5.3 Analysis of the impact of foreign direct investment in the retail sector

5.3.1. Economic evaluation of FDI's impact on retail

There are mainly two schools of thinking on how FDI in retail will affect the typical Indian, and in both of them, deregulation is the main worry. The argument in favor of FDI in retail is that by giving the affluent concessions, the economy would flourish and attract investment, benefiting others who are less fortunate. The opponents think that if the market is deregulated then human expenses will shoot up due to lack of an order. However, it is still possible that when the marginal farmers are displaced, they can find jobs in the major establishments in other capacities.

Market liberalization, a growing middle-class, and increasingly assertive consumers are sowing the seeds for a retail transformation that will bring more Indian and multinational players on the scene. The big Indian retail players looking to expand their operations include Shopper's Stop, Pantaloon, Reliance, Lifestyle, Food World, Vivek's, Nilgiris, Ebony, Crosswords, Globus, Barista, Café Coffee Day, Wills Lifestyle, Raymond, Titan, Bata and Westside. Well-established business houses such as Wadia, Godrej, Tata, Hero, Etc., are drawing up plans to enter the fast-growing organized retail market in India. The international player currently in India include McDonald's, Pizza Hut, Dominos, Levis, Lee, Nike, Adidas, TGIF, Benetton, Swarovski, Sony, Sharp, Kodak, and the Medicine Shoppe. Global players are entering India indirectly, via the licensee/franchisee route, since Foreign Direct Investment (FDI) is not allowed in the sector.

Despite all these developments, the organized retail business still comprises a small proportion of the total size of the $690 billion retail sector in 2019. Retail business is growing at 5-6 percent per annum. The size of organized retailing was estimated around $82 billion in 2019, about twelve percent of the total. However, it is now set to grow at 15-25 percent per annum. In developed countries, organized retailing makes for over 70 percent of the total business.

The opening up of the sector to FDI will lead new economic opportunities and there will be more employment generation. According to a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP), FDI in retail must result in backward linkage of production and manufacturing and spur domestic retailing as well as exports.

The opening up of retail to FDI should be designed in a such as way that many sectors – including agriculture, food processing, manufacturing, packaging and logistics – reap benefits. It is understood that the multinational that invest in retail business in India would also source Indian goods for their international outlets in a big way and thus provide a boost to Indian exports. Indian retail chains would get integrated with global supply chains since FDI will bring in technology, quality standards and marketing.

According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. Experience everywhere has shown that organized retailing tends to have a major controlling effect on inflation because large organized retailers are able to buy directly from producers at most competitive prices. The scale of operation and technology help organized retailers score over the unorganized players, giving the consumers both cost and service advantages.

Government has opened up the real estate sector by allowing 100 percent FDI in the construction projects. The move is expected to attract foreign funds, new technology into the market and to tremendously boost the organized retail sector by enabling it to create better and modern infrastructure. Also, the extension of concessional duty scheme for import of capital goods by retailers with minimum area of 1,000 square meters and implementation of VAT will significantly help organized retailing.

5.3.2 Advantages of FDI in India's retail sector and Potentially Positive Impact

When it comes to privately held industries, the retailing sector is among the largest in the world. Due to the FDI structure becoming more permissive than before, the sector has undergone some significant transformation. According to analysts, the advantages of FDI in retail outweigh the drawbacks connected to cost. With FDI in retail, operations in distribution and production cycles are expected to become better. Owing to factors such as economic operation, the cost of production facilities will come down as well. This will mean a greater choice of products at lesser and justifiable prices for the customers.

As a result of FDI, companies will be able to bring in technology and skills from other countries and this will help in infrastructural development of India. This will also help in creating more value for money for the buyers.

After FDI in retail, it will be possible to set up a properly organized chain of retail stores as the capital to do so will be there readily. The investment can be regarded as a long term one as the physical capital put into a domestic company is not liquidated easily. This is its main difference from equity capital.

a) Advantages of FDI in Retail

1. Growth in Economy

Due to coming of foreign companies; new infrastructure will be build, thus real estate sector will grow consequently banking sector, as money need to be required to build infrastructure would be provided by banks.

2. Opportunities Galore

While it is important not to lose sight of the local “Mom and Pop” shops, there is a distinct opportunity for FDI in multi-brand retail. At the present moment, Indian companies are exporting different types of products to numerous retailers across the globe. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market.

In view of the availability of higher disposable incomes for Indians, there is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products.

If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged. In the eventual analysis, the consumers will benefit in the form of potential lower prices due to enhanced and, possibly, tough competition in the market.

3. Job opportunities

Estimates shows that this will create about 1,200,000 jobs. These career opportunities will be created mostly in retail, real estate. But it will create positive impact on other sectors as well.

4. Benefits to farmers

In most cases, in the retailing business, the intermediaries have dominated the interface between the manufacturers or producers and the consumers. Hence the farmers and manufacturers lose their actual share of profit margin as the lion's share is eaten up by the middle men. This issue can be resolved by FDI, as farmers might get contract farming where they will supply to a retailer based upon demand and will get good cash for that, they need not to search for buyers.

Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can benefit with the "farm-to fork" ventures with retailers which helps:

(i) To cut down intermediaries;

(ii) Give better prices to farmers, and

(iii) Provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

16) **Benefits to consumers**

Consumer will get variety of products at low prices compared to market rates, and will have more choice to get international brands at one place.

17) **Improved Technology and Logistics**

Lack of infrastructure in the retailing chain has been one of the common issues in India for years which have led the process to an incompetent market mechanism. Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. Could be a direct consequence of foreign companies opening retail shop in India. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

18) **Impact on Real-Estate Development**

Retail is closely dependent on real estate as any retailer will require substantial spaces for setting up business. Real estate in India has gone through a revamp due to the demand of high-end retail malls and people's changing perception towards an enjoyable shopping experience. Thus, real estate can get a further facelift in India and receive more investment with the opening up of FDI in multi-brand retail.

b) Benefits of FDI in multi-brand retail

Soaring inflation is one of the driving motives behind this move towards multi-brand retail. Allowing international retailers such as Wal-Mart and Carrefour, which have already set up wholesale operations in the country, to set up multi-brand retails stores will assist in keeping food and commodity prices under control. Moreover, industry experts feel allowing FDI will cut waste, as big players will build backend infrastructure. FDI in multi-brand retail would also help narrow the current account deficit. Additional benefits include moving away from an industry focus on intermediaries and job creation.

- Moving away from intermediary-only

- Job creation
- No threat to kiranas (mom-and pop stores)

c) Long-term Benefits of FDI

- Higher competition would lead to higher quality in products and services.
- Better lifestyle as better products would be introduced.
- Exports would increase due to greater sourcing of major players.
- Investment in whole supply chain would increase.
- Technology would be upgraded in terms of logistics, production, and distribution channels.
- The markets of the sector would flourish and develop.
- Employment would increase and skills & manpower will develop.
- A strong retailing sector would promote tourism.
- Economies of scale would help lower consumer prices and increase the purchasing power of the consumer.
- In the long term it will be beneficial in the up-gradation of agriculture and small scale & medium scale industries.

5.3.3 Potential Negative Impact of FDI Inflows and Disadvantages

When weighing the advantages and disadvantages of FDI in retail, experts claim that neither the government nor the opposition made reference to the report from the Parliamentary Committee where its effects had been extensively analyzed. The committee had taken into cognizance many witnesses, NGOs, individuals, and trade associations to come up with the said report.

The Committee visited various corners of India and also went through reports and gathered knowledge about the experience of similar decisions in other countries. It also enquired several government departments regarding the matter.

The committee had surmised in its report that the number of people getting jobs will be lesser than the amount of people losing the same as a substantial amount of marginal and small farmers will be wiped out as a result. Some other problems expected out of this were aggressive pricing and prevalence of monopoly.

As per the Committee's report almost 8 percent of India's workforce is employed by the organized retail sector. This comes up to roughly 45 million people. It has been stated that FDI in retail will generate 2 million jobs. However, the Committee had stated that it is not a proper indication as it does not take into account the number of people who already work in retail sector, also because other estimates that peg the total workforce in India at between 450-500 million, of which about 63 million do not receive a regular payment, while around 110 million are employed for periods below 6 months and approximately 26 million are engaged in part-time jobs. There is also a shift in the nature of employment with a sharp decrease in agricultural employment with a corresponding spike in non-agricultural employment. Around 88 million people or approximately 20% of the labour workforce are engaged as small traders, hawkers, street vendors and as daily wage earners. Self-employed entrepreneurs constitute around 14% of the workforce meaning that as many as 215 million workers may be considered self-employed.

ICRIER had executed a second study on the effects of FDI in retail during 2019 and in that one it had stated FDI will bring about a fantastic shopping experience for the consumers. It had actually interviewed 300 people from the middle- and high-income groups. Thus, in effect, the efforts of the Parliament Committee were overlooked for a private organization.

Experts have questioned the logic of ICRIER to question 300 people in a country with a 1.38 billion population and more than 40% who can be termed as poor. In a recent Right to Information (RTI) query regarding whether the Center did any study on the matter of FDI in retail, the Commerce Ministry had stated in the negative.

The Parliamentary Committee report on FDI was never discussed at the parliament itself, and this as per experts, is not a good sign as far as the democratic system in India is concerned.

Leading economic experts from outside India have also posed the same question. They have also pointed at the labor practices of organizations such as Wal-Mart. Most of these are not exactly healthy for workers as per them. This has also led them to ask if such processes were really required in India.

It is being said that the lobby favoring FDI in retail in India has invested at least INR 800 crore ($110.6 Million) and experts opine this could have had a major say in the way things panned out.

Disadvantages of FDI in Retail

Opponents of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailer leading to loss of livelihood.

1. According to the non-government cult, FDI will drain out the country’s share of revenue to foreign countries which may cause negative impact on India’s overall economy.
2. Many of the small business owners and workers from other functional areas may lose their jobs, as lots of people are into unorganized retail business such as small shops. The entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs.
3. The global retailers would collude and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.
4. The domestic organized retail sector might not be competitive enough to tackle international players and might lose its market share.
5. I would lead to lopsided growth in cities, causing discontent and social tension elsewhere.

   However, these arguments can be overruled in the light of the ICRIER study conducted in India in 2008, which showed that although unorganized retail suffered initially with the opening up of organized retail in their vicinity, this effect significantly weakened over time. The rate of closure of unorganized retail shops in gross terms was found to be 4.2% per annum, which was much lower than the international rate of closure of small businesses. Similarly, the rate of closure on account of competition from organized retail was found to still lower, at 1.7 percent per annum. This was achieved through competitive response from traditional retailers, and through improved business practices and technology up gradation. However, the development of organized retail has the potential of generating employment for both the skilled and unskilled sections of the population.

5.4 Indian Retail Sector's Attractions to FDI

India has been drawing significant amounts of foreign investment from across the world, and these investors are keen to engage in the many sectors of the nation. By making changes to the FDI rules and the business climate, the Indian government has made every effort to make the nation the best choice for international investors. The largest economies of the world are investing there because they perceive the nation's enormous potential. The cheap salaries, highly skilled workforce, and welcoming foreign direct investment rules are the main factors enticing international investors to invest in India.

The financial markets of India, which is regarded as having the fastest economic growth, are also flourishing. Foreign investments continue to flow into India despite the pandemic's negative effects on the global economy.

- India is a rapidly developing mega-economy with a trained labor force and abundant natural resources.
- According to the United Nations Population Fund, India reportedly has the biggest young population in the world from 2020.
- International direct investment has reached 100% in several Indian industries, indicating that the government is willing to welcome foreign investors to participate in the bulk of the industries.
- In order to protect Indian enterprises and promote India as the finest and top destination for international investors, significant changes are being made to the

FDI policy. Due of its large volume and high purchasing capability, the Indian consumer market draws in overseas investors that wish to access it. According to reports, the private consumption portion of the Indian consumer market would grow by a factor of four by 2025.

- The nation's startup scene and tech startup ecosystem are flourishing, and they also get the most foreign direct investments.
- India has the world's 18th-largest export economy. Diamonds, refined petroleum, rice, aluminum, and raw sugar are India's top 5 exports of industrial goods.
- The services sector, which accounted for more than 58% of India's GDP in 2015, is where the country's strongest exports are concentrated, notably in industries like IT, pharmaceuticals, and engineering items.
- India is being seen as a potential goldmine for retail investors from over the world and latest research has rated India as the top destination for retailers for an attractive emerging retail market.
- India's vast middle class and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets.
- The organized retail sector is expected to grow stronger then GDP growth in the next five years driven by changing lifestyles, burgeoning income and favorable demographic outline.

Retail industry in India is at the crossroads but the future of the consumer markets is promising as the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations in India. And this upsurge in the retail industry has made India a promising destination for retail investors and at the same time has impelled investments in the real estate sector. As foreign investors cautiously test the Indian markets for investments in the retail sector, local companies and joint ventures are expected to be more advantageously positioned than the purely foreign ones in the evolving India's organized retailing industry.

5.5 The Value of FDI in the Retail Sector for Real Estate Development

5.5.1 Retail and Real Estate Sector Interdependence

Retail and real estate are the two booming sectors of India in the present times. Dependent and if industry experts are to be believed, the prospects of both the sectors are mutually on each other.

Retailers in India looking to aggressively expand their businesses in Asia are exploring suitable Real Estate options, and thus creating a huge demand for high quality Real Estate. The most preferred mean of expansion is to increase the number of their outlets in a city, and also expand to other regions.

As the contemporary retail sector in India is reflected in sprawling shopping centers, multiplex-malls and huge complexes offer shopping, entertainment and food all under one roof, the concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. This has also contributed to large scale investments in the real estate sector with major national and global players investing in developing the infrastructure and construction of the retailing business.

The trends that are driving the growth of the retail sector in India are:

- Low share of organized retailing
- Falling real estate prices
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury items

In India, the real estate sector is the second-highest employment generator, after the agriculture sector. It is also expected that this sector will incur more non-resident Indian (NRI) investment, both in the short term and the long term. Bengaluru is expected to be the most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

Indian real estate sector has witnessed high growth in the recent times with rise in demand for office as well as residential spaces. According to Colliers India, a property consultant, institutional investments in the Indian real estate sector are expected to increase by 4% to reach Rs. 36,500 crore (US$ 5 billion) in 2021, driven by rising interest of investors towards capturing attractive valuations amid the pandemic. According to a recent report by Colliers India, private equity investments in Indian real estate reached US$ 2.9 billion in the first half of 2021, which was a >2x increase from the first half in 2020.

Exports from SEZs reached Rs. 7.96 lakh crore (US$ 113.0 billion) in FY20 and grew ~13.6% from Rs. 7.1 lakh crore (US$ 100.3 billion) in FY19.

In July 2021, the Securities and Exchange Board of India lowered the minimum application value for Real Estate Investment Trusts from Rs. 50,000 (US$ 685.28) to Rs. 10,000-15,000 (US$ 137.06 - US$ 205.59) to make the market more accessible to small and retail investors.

In the first-half of 2021, India registered investments worth US$ 2.4 billion into the first-half of 2021, India registered investments worth US$ 2.4 billion into real estate a n the first-half of 2021, India registered investments worth US$ 2.4 billion into real estate assets, a growth of 52% YoY.

Construction is the third-largest sector in terms of FDI inflow. FDI in the sector (including construction development & activities) stood at US$ 54.17 billion from April 2000 to March 2022.

5.5.2 FDI Investment in Indian Real Estate

Over the past ten years, India's real estate industry has been plagued by widespread developer defaults, project delays as a result, and a severe liquidity shortage. However, since the FDI policy was relaxed in 2005, the industry has also benefited from a massive $ 25 billion in FDI. In the last five years, there has been a surge in high-quality investment into expensive projects, and this development reflects long-term investor confidence. In 2020, apart from traditional investors such as USA, UAE and Singapore, Japanese and South Korean investors are expected to make a foray in the property sector of India.

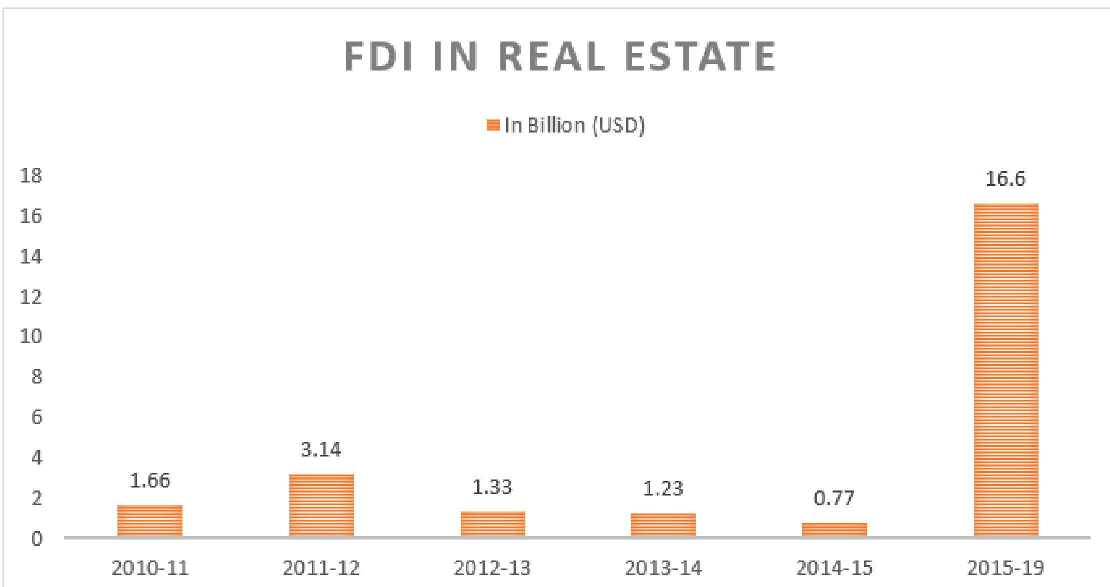
FDI in real estate was permitted up until 2015, but under strict conditions. At this point, 100 percent FDI was permitted in development and construction projects with requirements such a minimum area (at least 20,000 sq ft) and a $ 5 million obligatory injection. The investors were also required to withdraw their money from the project only when it was finished and only with government consent.

The FDI, however, did not meet expectations since the restrictions proved to be a deterrent for investors. The majority of the restrictions were abolished by the government in 2015, including requirements for exiting the project and a minimum density for development.

Any finished real estate project is now eligible for 100 percent FDI through an automated channel for operations and management activities.

Figure 11. FDI In Real Estate in India

Sources (Indian property portal)



The graph shows that FDI inflow has been increasing consistently over the past few years. Foreign investors have primarily picked expensive, income-producing commercial and retail locations since 2015. With Singapore, the United Arab Emirates (UAE), the United States, and some European investors leading the pack, there has been a slight shift in the investor countries. After 2015, Canadian pension funds entered the real estate investing market, either alone or in partnership.

Singapore, however, stands ahead above all other nations in terms of FDI in Indian real estate. Several Singaporean companies, including GIC, Ascendas-Singbridge, and Xander, are investing a staggering amount of money in Indian real estate. In fact, Singapore accounted for more than one-third of the $14 billion in private equity (PE) investments made in Indian real estate between 2015 and 2018. It's interesting to see that Singaporean investors continue to flourish in South Indian cities.

According to several research studies, category A investments will continue to be popular in 2020, and there will also be a chance to make investments in the last-mile residential property market. In reality, the investment environment will stay positive even with the Indian Government considering more changes and loosening the FDI policy, although there may be some short-term snags owing to the Coronavirus crisis.

5.5.3 Proposed FDI policy adjustments

FDI must be permitted in finished flats with a valid occupancy certificate, according to a long-standing demand of the Indian real estate sector. In light of the coronavirus crisis, the Ministry of Commerce and Industry is actively contemplating 100% FDI in projects registered with the Real Estate Regulatory Authority that have more than 100 units. The FDI policy will really undergo a complete revamp.

Vijay Verma, CEO of Sunworld Group, comments on the planned changes to the FDI policy: "The Government is considering relaxing the FDI policy, including 100% FDI in finished RERA registered projects with over 100 flats. This idea was put out before the COVID-19 issue, but it is now being examined for execution because of the severe liquidity problem that has hit the real estate market since the lockdown. If the easing is implemented, it will attract more foreign investment and aid in the recovery of the real estate market. To ensure that smaller developments also benefit, the cap of over 100 units may be revisited. This long-overdue demand will boost the real estate sector's perception in general favorably.

5.6 FDI and E-Commerce in India

5.6.1 Online Retail Trends in India

India is one of the top nations when it comes to FDI and e-commerce, with the country's e-commerce sector growing at a YoY rate of 5% and expected to generate $59.8 billion in sales by 2022. The number of internet users in India is enormous and still growing, and rural market penetration rates are also rising. Due in large part to the "Digital India" campaign, there were 782.86 million internet connections in India as of April 2021. 61% of all internet connections were in metropolitan areas, and 97% of those connections were wireless.

The most popular categories among the fastest expanding domestic segments were travel and lodging arrangements, airline and train tickets, and goods associated with a positive way of life and entertainment. According to estimates, the Indian online grocery industry would grow at a CAGR of 57% from $1.9 billion in 2019 to US$ 18.2 billion in 2024.

In the last quarter of 2020, India's e-commerce orders volume climbed by 36%, with the PCB&W (personal care, beauty, and wellness) market benefiting most. India's consumer digital economy is predicted to increase from US$ 537.5 billion in 2020 to US$ 800 billion by 2030, thanks in large part to the rapid use of online services like E-commerce and EdTech in the nation. India's online retail sales are anticipated to increase by 31% to reach US$ 32.70 billion in 2018, led by Flipkart, Amazon India, and Paytm Mall. (India E-Commerce Industry Report)

5.6.2 FDI on E-commerce Policies

Since its initial initiatives in the year 2000, the Indian government has worked to effectively regulate the E-commerce retail business. It's crucial to think about and link a number of fundamental issues to how the Indian government is approaching e-commerce retail. The Consolidated FDI policy circular, commonly known as DIPP or the department of individual policy and promotion, was published and it contains the FDI regulations for E-commerce activities in India. The Consolidated Foreign Direct Investment Policy of the Government of India dated October 15, 2020 ("FDI Policy") contains Paragraph 5.2.15.2, which details the foreign direct investment ("FDI") laws relating to e-commerce.

5.6.3 FDI activities on E-commerce

For marketplace models of e-commerce operations, the FDI Policy in India permits 100 percent FDI through the automatic route. However, it was also mentioned that FDI is not available for E-commerce businesses that use an inventory-based approach. The marketplace for E-commerce, which is based primarily on E-commerce models, assures that an information technology platform is provided by a business or startup engaged in E-commerce on a digital and electronic network. Additionally, this serves as a mediator between the buyer and the seller. E-commerce activities where the inventory of the products and services is controlled by the E-commerce startup, or businesses, and is sold to the customer through indirect ways are referred to as inventory-based E-commerce models.

- **Important Issues that Are Related to FDI on E-Commerce Activities**

The arm's length principle and non-discrimination must be included into the services offered to merchants on the e-commerce platform. In the E-commerce Marketplace, when the E-commerce marketplace firm has direct or indirect equity involvement, it is crucial to access fairness.

Any individual receiving special care under these particular conditions is not allowed. It may be deemed unfair and discriminatory to provide services to any suppliers on certain terms that are not extended to other vendors in comparable situations. Any E-commerce marketplace organization should refrain from requiring a seller to solely participate in any products or services on its platform, as per the FDI for E-commerce activities or business.

On the basis of business-to-business relationships, E-commerce firms are permitted to undertake transactions with sellers who have registered on the platform under the marketplace models. The E-commerce organizations that provide a marketplace model, however, are not permitted to have ownership or influence over the investor. The E-commerce firm becomes an inventory-based model when there is this kind of ownership and control over the investor.

Any company that has equity involvement from online marketplace entities or the companies in their group, or that has inventory control from online marketplace entities or the companies in their group, is also not permitted to sell its goods on a platform operated by an online marketplace entity.

For services and products that are offered in the market and are primarily based on the model for the sale electronically on their website, it is a clear requirement under the FDI policy that vendors must provide the seller's name, seller address, contact information, and other helpful information in a clear form. As soon as the products and services are sold, it is the seller's duty to ensure the customer's level of satisfaction and offer delivery of the items to the customer's doorstep. In the marketplace model, it is the duty of the sellers to offer the client a warranty and guarantee together with the goods and services.

A statutory auditor's report on the finances of the previous years must be maintained and obtained by the 30th of September every year for E-commerce marketplace businesses with FDI.

CHAPTER VI

Result and Discussion

6.1 Major finding

In India, FDI in the retail sector has long been a difficult topic. India's retail industry has been gradually opened up to foreign direct investment by the government. The key change was the 2012 authorization of 100% FDI in single-brand retail and 51% in multi-brand retail.

An economy can use foreign direct investment (FDI) to bring in outside capital. FDI promotes global trade and the exchange of knowledge, expertise, and technology. In India, foreign investment made up a modest percentage of gross fixed capital creation in 1993 but increased to 4% in 1997. The Tenth Plan strategy assumes an 8 percent GDP growth rate from 2012 to 2019. This suggests that FDI will rise from $6.7 billion in 2012 to 2019 to at least $13 billion per year in 2022 to 2026.

According to estimates, the Indian retail market is approximately USD 790 billion. According to economic worth, it is among the top four retail marketplaces worldwide. With a soaring population of more than 1.35 billion people, it is also one of the marketplaces that is expanding the quickest. The retail market is anticipated to expand significantly. By 2025, it is anticipated that overall consumer spending would amount to around USD 3.9 trillion. By 2025, the retail industry is anticipated to have grown to USD 1.3 trillion. Additionally, it is predicted that online retail sales would increase by more than 30%.

The retail industry in India contributes around 10% of the country's GDP, making it one of the economy's cornerstones (GDP). The unorganized sector predominates in this industry, which has a meager 12% organized sector. A maximum of 500 square feet is the size of retail space that the majority of businesses occupy. Another 8% of Indian workers are employed in the organized retail industry.

FDI in the retail sector has a few advantages, including greater employment, organized retail outlets, the availability of high-quality goods at better and lower prices, faster market expansion, and more.

6.2 Indian Scenario of FDI Policy

Foreign Direct Investment is permitted in different sectors of the economy in varying proportions under the Government route or Automatic Route under the Industrial Policy of 1991 and subsequent Foreign Trade Policies. Currently, 100% FDI is permitted in cash-and-carry (wholesale) formats under the Automatic route in the retail industry, while only 51% FDI is permitted in single brand retail under the Government Approval route.

The following requirements must be met while using the Foreign Investment Promotion Board (FIPB) route:

- Products must be marketed under the same brand globally.
- It would only apply to goods that are labeled while being produced.
- The brand should be owned by the foreign investor.
- The government permitted 100% FDI in single-brand retail with the stipulation that foreign companies would be required to obtain 30% of their needs from Small and Medium-Sized Enterprises (SME).

6.3 FDI in the Indian Retail Industry: SWOT Analysis

One of the key components of strategic management is the SWOT analysis. It includes a review of its advantages, disadvantages, possibilities, and dangers. The FDI's strengths and shortcomings reflect the current.

1- Strengths of the FDI

- A rapidly expanding economy.
- A young and energetic labor force.
- World's highest store intensity.
- Both direct and indirect employment prospects have risen. As the value-added food chain improves, farmers receive higher prices for their produce.
- Growing disposable income, client expectations and spending on luxury goods are all significant drivers.
- Large-scale investments in the real estate industry have also benefited from FDI.

- A sizable domestic market with a developing middle class and potential buyers with spending power.
- Consumers receive a better product at a lower cost; therefore, they receive value for their money, according to item.
- High growth rates in the retail and wholesale industries.
- The existence of large industrial facilities that can absorb losses

2- Weaknesses of the FDI

- FDI serves high-end consumers located in metro areas and not in rural and small towns.
- Low capital investment in the retail industry.
- One of the flaws of Indian commerce is that 92% of the stores are less than 500 square feet in size.
- A poorly educated and trained work force.
- A lack of rivalry.
- Indian retail sales are likewise quite low in volume.

3 - Opportunities of the FDI

- India as a significant market. It ranks as the fourth most attractive retail market. In the coming six years, the organized retail sector is anticipated to develop faster than the GDP due to changing lifestyles, rising incomes, and a favorable demographic profile.
- The Indian market for rural commerce is yet underdeveloped. The financial situation of farmers will improve.
- Strengthen the opposition.
- Increasing foreign investment inflows.
- Improved technology, strong branding, bigger market and modern management abilities
- Cost-cutting, quality enhancement and Improving export capability

4- Threats of the FDI

- The threat to tiny businesses like *kirana and pop-up venders*.
- There will be job losses in the manufacturing industry.
- The roadside sales will increase.
- Indians will perform the labor, while foreigners will receive the profits.
- Supply chain management problems are one of the biggest obstacles to the expansion of contemporary retail models. The barriers for retail enterprises include governmental rules, a lack of proper infrastructure, and insufficient investment.

- It is challenging to reach out to every societal group.
- It takes a significant initial expenditure from local companies to compete with FDI businesses.
- Barrier to organized retailing is the absence of a standardized tax structure
- Due to its cheap investment requirements, the unorganized sector dominates the organized sector.

6.4 Conclusions

Foreign Direct Investment (FDI) in the retail sector has in fact proven to be a very important move made by the Indian government in redefining the retail landscape of the country along with pursuing the growth and development of the Indian economy, hence integrating with the global economy. Today, it is abundantly clear that the introduction of FDI in retail has resulted in a significant transformation of the retail sector from the traditional format to the modern format with exponential growth in developed metropolitan cities. As a result, in a developing country like India, the idea of FDI in the retail sector has largely proven to be beneficial for those working in the organized sectors. For the most part, FDI in retail has given the jobless youth in India work possibilities and significantly lowered production and intermediate costs, which has benefited both manufacturers and customers.

Additionally, it has aided in the growth of human resource development. Due to the increased urbanization over the last few decades, this sector, which is a crucial component of the service economy, has experienced remarkable expansion and is at its current growth peak. Given that FDI in the retail sector has a mix of both good and negative consequences however, it can be argued that the benefits of allowing unrestricted FDI in the retail sector clearly outweigh the disadvantages involved with it. This conclusion can be drawn from examples of successful experiments in countries like Thailand and China, where the issue of allowing FDI in the retail sector was also met with persistent protests at first but later proved to be one of their governments' most economically and politically promising decisions and did not result in any negative consequences.

Furthermore, it is important to note that after carefully examining all the arguments for and against FDI, it has been determined that the government's decision to permit FDI in the retail sector was an excellent choice because FDI in the sector is crucial to the nation's economic growth and development. It not only benefits the Indian economy specifically but also aids in its integration with the global economy. As a result, we may conclude that India's retail industry has a great deal of potential to draw in foreign direct investment.

After 2015, FDI regulations in India's retail sector saw a number of changes that contribute to the country's economic expansion. The majority of the retail industry is structured in industrialized nations like England, Canada, and others. The main cause of these nations' high levels of development is due to this. India does not appear on the list of developed nations since the majority of its retail sectors are unorganized. India is listed among the developing nations. It was 93% in the unorganized sectors in 2016–17, but by 2025, it is predicted to drop to 84%.

In a sense, we may say that India's organized sector is expanding daily. After permitting foreign direct investment in the retail industry, there are many more employment possibilities, the newest technology enters India, and the retail sector contributes close to 10% of the country's GDP. On the other hand, some foreign investors do not foster a competitive atmosphere in the market and do not totally transfer the technology to another nation, constantly maintaining primary control. The domestic market was impacted by foreign investment in the retail sector, but the government also instituted various restrictions in the single-brand retail and multi-brand retail sectors to safeguard the interests of the local market.

With consumption spending expected to rise to reach $ 4 trillion by 2025, India would become the third-largest consumer economy in the world. By 2023, there will be more internet users in India than there are people in the G7 nations combined (about 670 million). At a CAGR of 30%, the Indian e-commerce market is anticipated to reach $200 billion by 2026.

Given the foregoing, it can be concluded with confidence that permitting healthy FDI in the retail sector would not only significantly increase the nation's GDP and overall economic development, but would also, among other things, assist in integrating the

Indian retail market with the global retail market and provide not just employment, but better-paying employment, which the unorganized sector (kirana and other small-time retailing shops) has undoubtedly provided. Therefore, it is a truth that FDI in the booming Indian retail industry should not only be permitted but really strongly encouraged.

6.5 Recommendations

Several recommendations can be made regarding the areas that have been identified as problematic for FDI in retail based on the study that has been done.

- In order to overcome public resistance, the provincial administration must raise awareness among the populace by highlighting the advantages of FDI. The provincial government must determine which industries require significant investment, such as road building, bridge maintenance, airports, etc. Regarding FDI, there should be a clear policy that is operating in good faith.

- The situation of the Indian retail business would radically change in light of the approval of FDI in global retail. Under these conditions, it is likely to have a significant impact on both the domestic organized sector and the unorganized sector. FDI should be authorized progressively at first in somewhat less sensitive sectors like apparel, lifestyle goods, home goods, and entertainment.

- The expansion of the retail sector shouldn't be restricted by the amount of FDI's inflow.

❖ For the benefit of Kirana shops, farmers' employees, and retail industry stakeholders, the following recommendations are offered:

- Traditional Mom and Pop Kirana businesses ought to change their manner, perspective, and conduct. They ought to update their stores, stock more branded products, and provide home delivery services. These traditional Kirana shops ought to get together and buy things in bulk. This action will enable the purchase of the items for a lesser price.

- The state government and the nation's banks should develop a modernization financing program. Credit should be made available to tiny, disorganized kirana retailers under this program at a discounted cost and with first priority.

- The small farming community should undertake joint supply of fruits and vegetables directly to the small retailers and / or customers. This will benefit all of them.

- A state-level monitoring organization should be formed to keep an eye on the activities of foreign firms in the retail industry. This organization should ensure that foreign companies spend appropriately in cold storage, transportation, and logistics. Additionally, the necessary quota of goods from the SME sector should be guaranteed to the foreign player.

- The potential for building small-business malls should be investigated, and a group of local small-business owners should get together and launch such a mall.

- In order to teach applicants both the theoretical and practical facets of retail trade, educational institutions should have degree; certificate coerces in details management. Because they will buy the goods directly from the manufacturers, eliminating the need for wholesalers, the arrival of international players and organizational local players will have an impact on wholesalers. In order to conduct group purchases, the wholesalers need also enter the market jointly.

- In order to capture value added in the supply chain, it is also necessary to strengthen small farmer organizations, give them technical support to increase productivity in a cost-competitive market, assist in improving produce quality, and encourage them to take an active role in marketing their products.

BIBLIOGRAPHY

References

Dey, Dipankar (2007). ‘FDI in India’s Retail Trade; Some Additional Issues’. Aspects of India’s Economy. July. http://papers.ssrn.com

Fulzele, Vishnu, H. (2012, April), ‘Impact of FDI in Retailing in India’, The Horizon, A Biannual Research Journal.

Hari Govind (2008). ‘Organised Retail in India: A Case study of Bal-Wart’ IJM, January p 22-33

KPMG (2010). "FDI in Multi-Brand Retail Trading". http//www.in.kpmg.com

www.lawctopus.com/academike/impact-foreign-direct-investment-retail

KamaladeviBaskaran (2012)“The FDI permit for Multi Brand retail trading in India-Green signal or Red signal”, Intelligence Journal, January, P. 156-173.

SheetalMundra, (2013),“A review of the impact of Foreign Direct Investment on Indian retailing”, International Journal of Science, P.9-25.

NidhiBagaria and SwarupSantra (2014)“Foreign Direct investment in Retail market in India”, Research Jnuli’s Journal of Economics.

EconomicResearch http://research.stlouisfed.org/fred2/series/CHNCPIALLQINMEI#
“The Indian Retail the Next Growth Story”, KPMG, 2014.

Saranya.B, Abirami P.S.P (2018, August). Indian Retail Industry: The Spread Of Organised Retailing In India. Indian journal of research, Volume-7, Issue-8,

Singh H.S, Dr. Shukla A.K (2018). Retailing Strategies in Agrarian Economy of Bihar. International Journal of Engineering Development and Research, Volume 6, Issue 1
Fact sheet FDI. RBI April 2000 – March-2021

India's Retail Sector (Dec 21, 2010) http://www.eastasiaforum.org/2010/12/24/indias-fdi-policiesparadigm-shift/

Retailing in India Unshackling the chain stores". The Economist. 29 May 2008.

Indian retail: The supermarket's last frontier". The Economist. 3 December 2011.

Sarthak Sarin, (Nov 23, 2010) Foreign Direct Investment in Retail

FDI in Retail Sector http://www.legalindia.in/foreign-direct-investment-in-retailsector-others-surmounting-indianapping]

Patibanda M (2012" Foreign Direct Investment in India 's Retail sector some issues Bhattacharyya Rajib, 2012 "The Opportunities and Challenges of FDI in Retail in India", IOSR Journal of Humanities And Social Science (JHSS), Volume 5, Issue 5 (Nov. - Dec. 2012), pp. 100- 101.

Gersl Adam and Hlavacek Michael, 2013 "Foreign Direct Investment, Corporate Finance", Czech Journal of Economics and Finance, 57, 2013, pp. 9-10.

NSSO, Report No 531, Employment and Unemployment Situation in India, 2013-14.

Iyengar, Jayanthi, 2013 "China, India Confront the Wal-Marts", Online Asia Times, www.atimes.com, January, 31, 2013

Anil Sasi, 2004 "Indian Retail Most Fragmented" (Aug.18, 2004) The Hindu Business Line.

YES BANK Ltd. and ASSOCHAM, FDI in Retail-Advantage Farmers, Food & Agribusiness Strategic Advisory and Research (FASAR) Team - YES BANK,October2012

An Analysis On Foreign Direct Investment In Retail Trade https://blog.ipleaders.in/analysis-foreign-direct-investment-retail-trade/

The Impact Of Foreign Direct Investment In The Retail Sector https://www.lawctopus.com/academike/impact-foreign-direct-investment-retail-sector/
FDI in Retail Sector http://www.legalservicesindia.com/article/1473/FDI-in-Retail-Sector.html/

Newspapers and reports

- Deloitte Report, Winning in Indian's Retail Sector, (2021, may) indiaretailing.com
- Media Reports. (2022, JANUARY). Press Releases; Press Information Bureau, Press Trust of India, RBI, Department for Promotion of Industry and Internal Trade (DPIIT)
- http://www.cci.in/pdf/surveys_reports/indias_retail_sector.pdf
- The Economics times

- India brand equity foundation, Press information bureau government of India 2022
- The Hindu business Line
- The business Standers
- Report on India’s Retail Market & Opportunities, India Brand Equity Foundation (IBEF)

Websites

http://www.legallyindia.com
www.ibef.org
www.icra.in
www. Wikipedia
www.cpasind.com
www.icsi.edu
www.ibef.org
http://planningcommission.nic.in
www.Legalserviceindia.com
www.retailguru.com
https://www.investindia.gov.in
http://www.imf.org/ International Monetary Fund (IMF)
Data.wordbank.org (World Bank)
http://www.oecd.org/india Organization for Economic Co-operation and Development (OCED)
http://www.rbi.org/in/ Reserve Bank of India (RBI)
www.investindia.gov.in
http://www.legallyindia.com