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IMPLICATIONS OF FOREIGN DIRECT INVESTMENT ON GDP AND INDIAN RETAIL BUSINESS: OPPORTUNITIES FOR DOMESTIC ENTREPRENEURIAL VENTURES

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ABSTRACT

Foreign Direct Investment (FDI) is an investment in the form of investing and controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from foreign portfolio investment by a notion of direct control. The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nation. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). This paper therefore aims at identifying the impact of FDI on various stakeholders of the retail industry, the impact of FDI on GDP of the country over the last fifteen years (2001–2016) using Johansen's Co-integration and Granger's Causality Test, opportunities for growth of organized retail in India and analyze industry attractiveness by using Porter's Five Forces Model.

Keywords: Foreign Direct Investment, Stakeholders, GDP, Johansen's Co – integration Test, Granger's Causality Test, Porte's Five Forces Model

INTRODUCTION

Foreign Direct Investment (FDI) in India has been growing significantly over the last few years, particularly in the areas of retail, e–commerce, hospitality, travel, tourism, and healthcare. This growth has gradually attracted attention of leading international retailers and e–commerce players enhancing more and more sectors to open for foreign investments in India. As part of the expansion policy to develop India's economy, the Government of India announced liberalization of trade or entry of multi-brand multinational firms with 51% equity stake into the retail sector in the year 2012. Several state governments however refused to allow retail MNCs in their state, owing mainly to the oppositions from interest groups like wholesalers and unorganized retailers because of the fear that entry of foreign players will destroy small businesses and employment, making monopoly profits at the cost of consumers and suppliers.

Rising income and demand for quality products have boosted consumer expenditure to the extent that it is estimated to be US$ 3.6 trillion by 2020 vis-à-vis US$ 0.627 trillion in 2016. Consumers today are much more evolved, and they expect their shopping experience to be hassle free across all channels, irrespective of whether it is a brick or a motor store, a mobile app, an ecommerce website or a phone call with customer services. Moreover, the concept of Internet of Things (IoT) is already in the process of reshaping and revolutionizing the retail industry, leading to advances and new opportunities in customer services throughout the supply chain and brick and motor stores and other channels including new venues like home based connected platforms.

In India, the retail sector is emerging as one of the largest sectors in the economy. Earlier the total market was estimated to be around US$600 billion in the year 2015 registering a CAGR of 7.45% since 2000, which is expected to grow to US$ 1.3 trillion by 2020, registering a CAGR of 9.7% between 2000 and 2020. In order to motivate international retailers, the Government of India has allowed 100% FDI in online retail of goods and services through the automatic route, thereby providing clarity on the existing e–commerce businesses operating

in India (Retail FDI in India, 2016). In recent times, the Government has achieved a milestone in introducing the Goods and Services Tax (GST), the implementation of which is expected to enable easier movement of goods across the country, thereby improving retail operations for pan-India retailers which should benefit the ultimate consumers.

The entry of foreign retailers is expected to have different impact on different stakeholders. On the demand side it will influence consumers, small unorganized retailers and wholesalers. On the other hand, in the supply side it will affect employment, farmers, manufacturers, middlemen and government agents, the net effect being either an increase or decrease in the total surplus of the system. In terms of distribution, wholesalers and distribution agents could be among the losers while farmers, small and medium sized manufacturers, consumers and large-scale retailers could be the gainers. As for employment, effects should not be seen in terms of short term gains or losses but an increase in the number of supplier firms, real incomes and consequent increase in investment.

Advantages for India

The change in life style, demographics, education and disposable income has changed the consumption pattern of Indian consumers. The retail sector, being the backbone of any economy, determines its growth trajectory in a big way. India being Asia's largest retail market after China and Japan is one of the largest employers in the world (Agrawal & Khan, 2011a). This sector has evolved dramatically from traditional village fairs, cart vendors and street hawkers to magnificent malls and plush outlets. The retail sector in India includes a variety of product lines like food retailers, health, beauty products, clothing, footwear, home furniture, household goods, durable goods, leisure and personal goods, etc. The food & beverage and clothing segment occupy the largest share and are growing exponentially. E-commerce is creating the biggest revolution in the retail industry and is also expanding steadily in the country. Both organized as well as unorganized retail companies must work together to ensure better prospects for the overall retail industry, while generating new benefits for their customers.

Further, with India's growing per capita income and a rising middle class, the retail sector has the potential to be the real growth engine of the country's economy. While demand for a superior shopping experience is evident in the metropolitan cities, the Tier II and Tier III towns are also rapidly acclimatizing to the changing landscape of the Indian retail market. Growing consumerism, changes in consumers' tastes and preferences, and heightened brand consciousness has been fast replacing traditional mom and pop stores with organized retail malls that house lifestyle and luxury brands from national and international retailers.

Thus, some of the advantages of FDI that can be identified are:

Robust demand: Healthy economic growth, changing demographic profile, increasing disposable incomes, changing consumers' tastes and preferences are driving growth in the organized retail market in India. In fact, growth of demand for variety of products is characterized by rapid urbanization.

Innovation in financing: In January 2016, Bank of India announced a reduction in the rate of interest on retail loans offered by the bank. Such collective efforts by banks and financial houses have enabled customers to purchase goods of their choice, particularly durable products with easy credit.

Increasing investment: The total cumulative FDI inflow in the year March 2017 stood at US$ 968.56 million. In fact, 100 percent cash and carry operations are gaining a significant importance in India in recent times, with Metro and Walmart, opening their stores in different parts of the country.

Policy support: The Government of India has allowed about 51% FDI in multi-brand retail and up to 100% in Single brand retail in cash and carry (wholesale) trading and exports. Moreover, introduction of the Goods and Services Tax (GST) as a single unified tax system will also yield advantage for foreign investments. To provide a level playing ground for stakeholders, the Government is planning to synchronize policies of retail, FMCG and e-commerce with a single policy framework.

LITERATURE REVIEW

India is currently viewing concrete development prospects in composed retailing with outside retail players willing to take interest in the sub-continent, making FDI the most discussed issue. Retail being one of the world's biggest private industries, inviting FDI in the retail sector will cause a massive restructuring of the industry, particularly in India, as organized retail is still in its nascent state. The economic rationale for the industry could be drawn from information (Akerlof, 1970; Spence, 1976) and transaction cost economics

(Coase, 1937; Williamson, 1975), which indicate that if many small producers and consumers act autonomously, the unit information and transaction costs of exchange would be higher than if they could pool these costs and realize economies of scale. Even though the journey to development has not generally been a smooth pattern for India, the transformation has enhanced the (GDP) over the years. It has indicated sound growth especially in the recent years when the inflow of foreign capital has increased immensely (Sahni, 2012).

Johnson (2004) emphasized on the capability of FDI inflows to influence a nation's monetary development. The paper contended that FDI ought to positively affect the monetary development because of innovation overflows and physical capital inflows. This growth increases the size of the host country market and strengthens the incentives for market seeking foreign investment. This could result in a situation where FDI and economic growth are mutually supporting. In any case, it has been distinguished that development, for the simplicity of the greater part of the creating economies, is probably not going to happen in a market–looking for FDI because of low salary levels. Hence, causality is basically anticipated that would keep running from FDI inflows to monetary development for these economies.

Mukherjee & Patel, (2005) found that foreign retailers are working with small manufacturers for in-house labels and are providing them with technologies like packaging technologies and bar coding. Sourcing from India has increased with the advent of foreign retailers and they also bring in an efficient supply-chain management system. Joint endeavors with remote retailers are helping the Indian business to gain admittance to promote the worldwide prescribed procedures. Besides, retailing being a non-tradable service there is no possibility of improved efficiency through import competition and foreign investment in the way forward. The aspects of foreign direct investment i.e. political scenario and trends are analyzed by most of the studies.

Nandi & Sahu, (2007) in their work tried to study the Foreign Direct Investment in India with a special focus on Retail Trade. This paper stresses on the need of FDI in Indian retail sector and insists upon allowing FDI in multiple sectors. This study further suggests that FDI in retail sector must be allowed. Kumar, (1997) in a paper tried to review the alterations in sectoral trends in India due to FDI inflows since liberalization. This paper also examines the altered policy implications on sectoral growth and economic development of India as a whole.

Alfaro, Kalemli-Ozcan & Volosovych, (2007) has opined that FDI in retail can create around 4 million direct jobs and almost 5 to 6 million indirect jobs including contractual employment within a span of 10 years and suggested that FDI will have a growth effect in countries with sufficiently developed financial markets. A specific study conducted on the world's leading retail giant, Walmart, identified six set of choices that defined the Wal-Mart's business model which are, setting low prices, investing in technology, having specific human resource policies, establishing strategies for expansion, increasing product variety, and developing a Wal-Mart culture (Brea-Solis, Casadesus-Masanell & Grifell-Tatje, 2015).

Objectives:

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 into the scene. Many studies and surveys were conducted to analyze the impact of FDI in retail sector in various segments of the economy. But the recent debate centers on the issue of whether FDI in retail in India will be a “boon or a bane”. Considering the prevailing conditions, the objectives of this paper are:

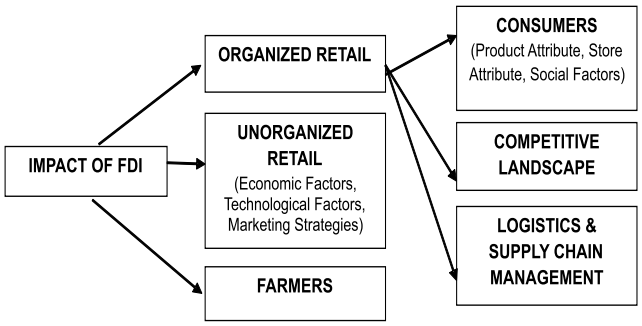
1. To identify the impact of FDI on stakeholders of various sectors in India.
2. To identify the relationship between FDI and GDP per capita in Indian Economy over the last fifteen years (2000 – 2016).
3. To identify the opportunities for growth of organized retail in India with respect to various segments.
4. To analyze Porter's Five Forces Framework with respect to the retail industry in the present-day context.

Objective 1: Impact of FDI on stakeholders-

The Confederation of Indian Industry (CII) conducted a survey on the impact of FDI on Small and Medium Enterprises (SMEs) based on a large sample size of 250 companies covering different categories of SMEs according to sales turnover. Most of the SME companies surveyed have supported the government's decision and the notification allowing 100% FDI in single brand retail and 51% FDI in multi-brand retail. On the question how, the SME industry consider entry of MNC retailers as a threat or opportunity. Majority of respondents (66.7%) see it as an opportunity for their

sector while around 21% of respondents perceive it as a threat. About 12.5 percent of respondents believe the decision would have little or no impact on their organization. Thus, this study has shown that the impact of FDI can be both direct as well as indirect (Bhattacharya, 2012).

Figure 1: Impact on Stakeholders: A Conceptual Model



1. Effect on Traditional Kirana Stores- Traditional retailing has been well known in India for many centuries, and is characterized by small, fragmented family-owned businesses. Because of this, such businesses usually have very low-margin, are owner-operated, and have mostly negligible real estate and labor costs. Such small shops develop strong networks with local neighborhoods. The informal system of credit adds to their attractiveness. Moreover, low labor costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. On contrary, players in the organized sector must cover big fixed costs, and yet must keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighborhood shops and towards large-scale retailers may be a major challenge.

2. Effect on Farmers- It is being claimed by the advocates of FDI in retail that the elimination of intermediaries and direct procurement by the MNCs would secure better prices for the farmers. The fact is that the giant retailers would have far greater buyer power vis-à-vis the farmers compared to the existing intermediaries. The entry of such big MNCs into agricultural procurement would make the problems worse for the farmers. As against the "mandis" that operate today, where several traders must compete to buy the farmers' produce, there will be a single buyer in the case of the MNCs. This in turn can make the farmers dependent on the MNCs and vulnerable to exploitation. In contrast, the advocates of FDI believe that foreign investment in agricultural retail will help in improving supply chain, infrastructure and ensure economic security for farmers through the elimination of middlemen in the country. For instance, PepsiCo India's potato farming programme reaches out to more than 12,000 farmer families across six states, providing farmers with superior seeds, timely agricultural inputs and supply of agricultural implements free of charge. They have an assured buy-back mechanism at a prefixed rate with farmers. This insulates them from market price fluctuations. Through their tie-up with State Bank of India, they enable agriculturists to get credit at a lower rate of premium. They have additionally masterminded climate protection for agriculturists through tie-ups with ICICI Lombard. Corporate Social Responsibility (CSR) activities in Bharti Walmart are gone for strengthening of the group consequently cultivating comprehensive development. They concentrated on improving open doors in the territories of instruction, abilities preparing and creating neighborhood business, ladies strengthening and group improvement too.

3. Effect on Existing Indian Organized Retail Firms- The existing Indian organized retail firms (such as Spencer's, Foodworld Supermarkets Ltd, Nilgiri's and ShopRite) sustain retail reforms and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion of capital and opportunity to gain expertise in supply chain management, competitive landscape and the consumers.

4. Effect on Consumers- With liberalization, economic growth and changes in Indian consumers' demographic and economic profile and their shopping behavior as well as the retail sector is undergoing changes. At present, foreign retailers operate in India through both store and non-store formats. In terms of the shopping behavior of Indian consumers across different retail outlets, traditional outlets are preferred over modern ones as consumers can bargain while the latter is preferred at times because they link entertainment with shopping. Those who purchase at modern outlets have reported better product quality, lower prices, one-stop shopping, choice of more brands and products, better shopping experiences with family and fresh stocks as some of the reasons for their choice of outlet. On the other hand, proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery, etc., are some of the benefits of traditional outlets (Joseph *et al.*, 2008). Consumers are the major beneficiaries of the retail boom as organized retailers are initiating measures such as tracking of consumer behavior and consumer loyalty programmers to retain their market share (Mukherjee &

Patel, 2005).

5. Effect on competitive landscape- With the implementation of retail good practices, the organized retail brands globally prove to keep costs lower as well as stay competitive in the consumer market. The extent of competition can be learnt from the recent growth story of the e-commerce market with both international and domestic companies actively innovating to gain market share. This development revealed the Indian market potential in certain sectors at unprecedented levels.

6. Effect on Logistics & Supply Chain Management- Global best practices in supply chain infrastructure and logistics (cold storage, warehousing, transport infrastructure-rail, road, logistics companies, etc.) are expected to be implemented in India which will eventually have effect on time-to-time market and pricing of the products offered to consumers. There are more than 6,000 cold storage facilities spread out across the length and breadth of India. Less than 10% of these facilities belong to the organized sector. Of the fragmented establishments, most them are set up to support the agriculture sector for storage of harvest. These establishments are recent developments and seem to have been set up over the last 5-7 years. The international companies will be seen setting up their own infrastructure around logistics rather than depending on the existing available infrastructure as there is bound to be vast differences in the maturity stages of each of the logistics models. The models used by domestic companies may vary from the ones followed by large global companies.

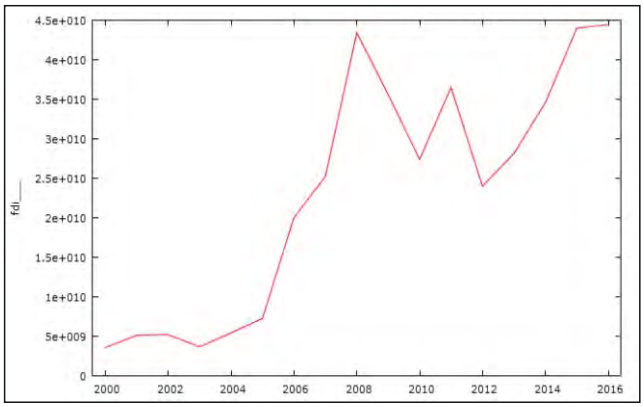
Objective 2: Relationship between FDI and GDP

Gross Domestic Product (GDP) is the market value of all the goods and services produced within the geographical boundary of a country. It aids in determining the total product produced within the country. It also reflects on the standard of living of the people within the domestic territory (Pattayat, 2016). Nominal GDP seeks to evaluate the market values of the product at the current prices. On the other hand, GDP per capita helps in evaluating the economic growth of the country (Malhotra, 2014). Since the implementation of economic liberalization policies in the early 1990s, India has recorded one of the most rapid growth economies in the world. During the period 2000-2010, the influx of Foreign Direct Investment (FDI) to India has increased rapidly, leading to several studies being conducted on the relationship between inflows of FDI and economic growth of the country. Despite increasing flows of FDI especially in recent years, the FDI-growth nexus in India has not yet been intensively investigated. However, Pradhan, (2002); Chakraborty & Basu, (2002); Sahoo & Mathiyazhagan, (2003); Agrawal, (2005); Chakraborty & Nunnenkamp, (2008); Agrawal & Khan, (2011b) and Dash & Parida, (2013) have tried to study the relationship between FDI and economic growth of India.

This paper aimed to find out the relationship between FDI and GDP of the country across a span of fifteen years - 2000 to 2016. Data on the country's GDP is collected from Reserve Bank of India and values of FDI are measured as the inward FDI flows (measured in million U.S. dollars) and are taken from the Secretariat for Industrial Assistance (SIA) Newsletter (various issues), published periodically by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India.

The existence of a unit root is determined using an augmented Dickey-Fuller (ADF) test. The Schwarz Information Criterion (SIC) is used to determine the appropriate lag-length truncation in each variable that includes either a constant or a linear time trend. The results show that with and without a time trend, the null hypothesis of a unit root cannot be rejected for all level series at least at the 5% significance level. For the first differences, on the other hand, the unit root hypothesis can be rejected for all the series in both models because the test statistics are below the 5% critical value. From these findings, it has been concluded that both the variables are non-stationary and integrated of order one, or I (1); hence, co-integration analysis can be pursued on them. Hence at the very onset it is important to test whether the data is stationary and to do that Unit Root Test at Level, I (0) to check whether various indicators are stationary, was carried out with the following hypothesis:

Figure 2: FDI Trend Graph (2000 – 2016)



H_{01}: The FDI have Unit Root (Non-Stationary).
H_{A1}: The FDI does not have Unit Root (Stationary).
H_{01}: $y_t = y_t\text{-}1 + u_t$
H_{A1}: $y_t = \phi y_t\text{-}1 + u_t, \phi < 1$

Table 1: UNIT ROOT TEST_ FDI (LEVEL)

Null Hypothesis: FDI_$_ has a unit root				
Exogenous: Constant, Linear Trend				
Lag Length: 0 (Automatic - based on SIC, maxlag=3)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-0.946894	0.7452
Test critical values:	1% level		-3.920350	
	5% level		-3.065585	
	10% level		-2.673459	
*MacKinnon (1996) one-sided *p*-values.				
Warning: Probabilities and critical values calculated for 20 observations and may not be accurate for a sample size of 16				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(FDI_$_)				
Method: Least Squares				
Date: 05/04/18 Time: 18:57				
Sample (adjusted): 2001 2016				
Included observations: 16 after adjustments				
Variable	Coefficient	Std. Error	*t*-Statistic	Prob.
FDI_$_ (-1)	-0.130827	0.138164	-0.946894	0.3598
C	5.41E+09	3.61E+09	1.497835	0.1564
R-squared	0.060189	Mean dependent var		2.55E+09
Adjusted R-squared	-0.006941	S.D. dependent var		7.93E+09
S.E. of regression	7.95E+09	Akaike info criterion		48.54790
Sum squared resid	8.85E+20	Schwarz criterion		48.64448
Log likelihood	-386.3832	Hannan-Quinn criter.		48.55285
F-statistic	0.896609	Durbin-Watson stat		2.154649
Prob(F-statistic)	0.359751			

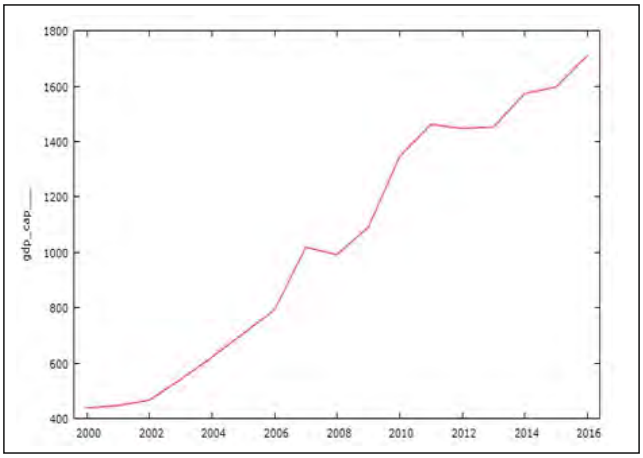
With the help of Augmented Dickey-Fuller Test (ADF), it was found that FDI is not stationary at its original level. So, there is a need to apply first order difference.

Table 2: UNIT ROOT TEST_ FDI (LEVEL)

Null Hypothesis: D(FDI_$_) has a unit root				
Exogenous: Constant, Linear Trend				
Lag Length: 1 (Automatic - based on SIC, maxlag =3)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-4.219762	0.0062
Test critical values:	1% level		-3.959148	
	5% level		-3.081002	
	10% level		-2.681330	
*MacKinnon (1996) one-sided *p*-values.				
Warning: Probabilities and critical values calculated for 20 observations and may not be accurate for a sample size of 15				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(FDI_$_,2)				
Method: Least Squares				
Date: 05/04/18 Time: 18:59				
Sample (adjusted): 2002 2016				
Included observations: 15 after adjustments				
D (FDI_$_ (-1))	-1.157957	0.274413	-4.219762	0.0010
C	3.05E+09	2.29E+09	1.329770	0.2065
R-squared	0.578010	Mean dependent var		-72986456
Adjusted R-squared	0.545549	S.D. dependent var		1.25E+10
S.E. of regression	8.40E+09	Akaike info criterion		48.66486
Sum squared resid	9.18E+20	Schwarz criterion		48.75927
Log likelihood	-362.9864	Hannan-Quinn criter.		48.66385
F-statistic	17.80640	Durbin-Watson stat		2.000094
Prob(F-statistic)	0.001002			

With the help of Augmented Dickey-Fuller Test (ADF), it was found that FDI is stationary at 1st order difference level and is significant at I (1) because the p-value is less than 0.05. So, the alternative hypothesis is accepted which means the FDI is stationary at first order. Thereafter, the second variable, i.e. whether the GDP is stationary, needs to be tested:

Figure 3: GDP Trend Graph (2000 - 2016)



H_{02}: The GDP/CAPITA has Unit Root (Non-Stationary).

H_{A2}:The GDP/CAPTA does not have Unit Root (Stationary).

Table 3: UNIT ROOT TEST_GDP (LEVEL)

Null Hypothesis: GDP_CAP_$_ has a unit root				
Exogenous: Constant, Linear Trend				
Lag Length: 0 (Automatic - based on SIC, maxlag=3)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-0.019159	0.9432
Test critical values:	1% level		-3.920350	
	5% level		-3.065585	
	10% level		-2.673459	
*MacKinnon (1996) one-sided *p*-values.				
Warning: Probabilities and critical values calculated for 20 observations and may not be accurate for a sample size of 16				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(GDP_CAP_$_)				
Method: Least Squares				
Date: 05/04/18 Time: 19:00				
Sample (adjusted): 2001 2016				
Included observations: 16 after adjustments				
Variable	Coefficient	Std. Error	*t*-Statistic	Prob.
GDP_CAP_$_ (-1)	-0.000938	0.048975	-0.019159	0.9850
C	80.35819	53.08455	1.513777	0.1523
R-squared	0.000026	Mean dependent var		79.42050
Adjusted R-squared	-0.071400	S.D. dependent var		79.43302
S.E. of regression	82.21991	Akaike info criterion		11.77314
Sum squared resid	94641.60	Schwarz criterion		11.86971
Log likelihood	-92.18513	Hannan-Quinn criter.		11.77809
F-statistic	0.000367	Durbin-Watson stat		2.061762
Prob(F-statistic)	0.984985			

With the help of Augmented Dickey-Fuller Test (ADF), it was found that GDP is not stationary at its original level. So, there is a need to apply first order difference.

Table 4: UNIT ROOT TEST_GDP (FIRST ORDER)

Null Hypothesis: D(GDP_CAP_$_) has a unit root				
Exogenous: Constant, Linear Trend				
Lag Length: 1 (Automatic - based on SIC, maxlag=3)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-3.851087	0.0132
Test critical values:	1% level		-4.004425	
	5% level		-3.098896	
	10% level		-2.690439	
*MacKinnon (1996) one-sided p-values.				
Warning: Probabilities and critical values calculated for 20 observations and may not be accurate for a sample size of 14				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(GDP_CAP_$_,2)				
Method: Least Squares				
Date: 05/04/18 Time: 19:01				
Sample (adjusted): 2003 2016				
Included observations: 14 after adjustments				
Variable	Coefficient	Std. Error	*t*-Statistic	Prob.
D (GDP_CAP_$_ (-1))	-1.504536	0.390678	-3.851087	0.0027
D (GDP_CAP_$_ (-1),2)	0.365022	0.268341	1.360293	0.2010
C	129.8417	38.45819	3.376179	0.0062
R-squared	0.633084	Mean dependent var		6.709700
Adjusted R-squared	0.566371	S.D. dependent var		122.3323
S.E. of regression	80.55642	Akaike info criterion		11.80320
Sum squared resid	71382.71	Schwarz criterion		11.94014
Log likelihood	-79.62241	Hannan-Quinn criter.		11.79053
F-statistic	9.489787	Durbin-Watson stat		2.009986
Prob(F-statistic)	0.004028			

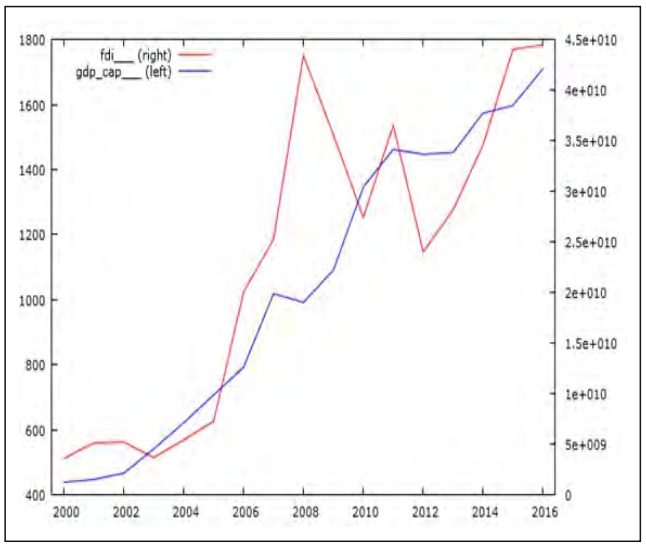
With the help of Augmented Dickey-Fuller Test (ADF), it was found that GDP is stationary at 1st order difference level and is significant at I (1) because the p-value is less than 0.05. So, the alternative hypothesis is accepted which means that the GDP is stationary at first order.

The next step is to determine the number of co-integrating vectors among the two variables using the Johansen co-integration method:

Johansen's Co-integration Test:

The hypothesis (H0) is that the number of distinct co-integrating vector(s) is less than or equal to the number of co-integration relations (*r*).

Figure 4: FDI and GDP Trends (2000 – 2016)



Johansen's Co integration Test has been applied to check whether a long run equilibrium relationship exists between the two variables under consideration. The trace tests the null hypothesis of *r* cointegrating vectors against the alternative hypothesis of *n* cointegrating vectors. The maximum eigenvalue test, on the other hand, tests the null hypothesis of r cointegrating vectors against the alternative hypothesis of *r*+1 cointegrating vectors (Hjalmarsson & Österholm, 2007). Doornik & Hendry, (1994) showed that the trace test provides a consistent test procedure, but the maximum eigen value test does not. Hence, table 5 contains the results from using the Johansen test based on the trace statistics. The results showed that the trace tests can reject the hypothesis of non-cointegrating vectors (*r*=0) but cannot reject the null of one cointegrating vector (*r*=1) at the 5% significance level, indicating that there is one cointegrating relationship in the system. In other words, it suggests that there is a stable, long-run equilibrium relationship among the two concerned variables.

The trace test statistic can be specified as: λtrace (r) = -TΣlog (1 - λ i) where λi is the ith largest eigen value of matrix Π, and T is the number of observations. In the trace test, the null maximum eigen value test examines the null hypothesis of exactly 'r' co-integrating relations against the alternative of 'r + 1' co integrating relations with the test statistic:

λ_{max} = -T log (1- λr+1) where λr+1 is the (r +1)th largest squared eigen value. In the trace test, the null hypothesis of *r*=0 is tested against the alternative of '*r*+1'co-integrating vectors.

Table 5: Unrestricted Co-integration Rank Test

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigen value	Statistic	Critical Value	Prob.**
None	0.551794	15.35168	20.26184	0.2069
At most 1	0.198238	3.314147	9.164546	0.5237
Trace test indicates no cointegration at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) *p*-values				
Unrestricted Cointegration Rank Test (Maximum Eigen value)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigen value	Statistic	Critical Value	Prob.**
None	0.551794	12.03753	15.89210	0.1838
At most 1	0.198238	3.314147	9.164546	0.5237
Max-eigenvalue test indicates no cointegration at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) *p*-values				

The above table indicates that there is no stable relationship and co-movement in the long run between FDI and GDP. With no cointegration among the variables there is a need to understand the causal relation for which Granger Causality Test of VAR model of time series has been used.

The Granger Causality test depicts the causality between two variables when both influence each other. If X causes Y, then changes in X should precede changes in Y. Here, two conditions should be met. First, X should help to predict Y. That is, in a regression Y against past values of Y, the addition of past values of X as independent variables should contribute significantly to the explanatory power of the regression. Second, Y should not help to predict X. The reason is that if X helps to predict Y and Y helps to predict X, it is likely that one or more other variables are in fact causing both X and Y. The test is based on the following regression equations:

$$Y_t = C_{1t} + \sum_{i=1}^{p} \alpha_i Y_{t-i} + \sum_{i=1}^{p} \beta_i X_{t-i} + u_{1t} \qquad (1)$$

$$X_t = C_{2t} + \sum_{i=1}^{p} \phi_i Y_{t-i} + \sum_{i=1}^{p} \varphi_i X_{t-i} + u_{2t} \qquad (2)$$

Where p is the number of the optimum lag length and u_{1t} and u_{2t} are residuals in the regression estimation. It is assumed that disturbances u_{1t} *and* u_{2t} are not correlated with each other. It is well known that the Granger Causality test is sensitive to the choice of lag length. To avoid this problem, the Schwarz Information Criterion (SIC) has been applied to choose the optimum lag length.

To evaluate whether each of these two conditions hold, the null hypothesis should be that one variable does not help to predict the other. For this, the two sets of regression equations and their corresponding null hypotheses are as follows:

1. Here the null hypothesis is that X does not cause Y. For this Y is regressed against lagged values of Y and lagged values of X, and then regress Y only against lagged values of Y;
2. Here the null hypothesis is that Y does not cause X. For this X is regressed against lagged values of X and lagged values of Y and then regress X only against lagged values of X.

Table 6: Pair wise Granger Causality Test

Pairwise Granger Causality Tests			
Date: 05/04/18 Time: 19:08			
Sample: 2000 2016			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
FDI_$_ does not Granger Cause GDP_CAP_$_	15	1.19334	0.3429
GDP_CAP_$_ does not Granger Cause FDI_$_		3.37553	0.0758

From the Granger Causality test, it has been found that FDI and GDP do not have any relation with each other because the *p*-value (0.3429, 0.0758) is more than 0.05. So, the alternative hypothesis is rejected.

Objective 3: Opportunities for growth of organized retail

The retail sector is the backbone of any economy, determining its growth trajectory in a big way. India is Asia's largest retail market after China and Japan and retail is one of the largest employers in India. The sector has evolved dramatically from traditional village fairs, street hawkers to resplendent malls and plush outlets, growing from strength to strength. Retailing is the largest private industry in India and second largest employer in the Indian economy (Subba, 2013) The Indian retail industry is the fifth largest in the world (Bagaria & Santra, 2014). Retailing is one of the most important sectors of India economy and the main reason for allowing FDI in retail sector is that, it complements and supplements domestic investment. Domestic companies are benefited through FDI, by way of enhanced access to supplementary capital and state of the art technologies; exposure to global managerial practices and opportunities of integration into global markets (Kaushik & Bansal, 2012). The change in life style, education, travel and disposable income has changed the consumption pattern of Indian consumer.

Pandey & Chandra, (2012) stated that, Competition from unorganized sector, tax structure (as retail sector must pay huge taxes), supply chain, adequate infrastructure facilities, lack of trained work force and low skill level for retailing management, the intrinsic complexity of retailing- rapid price changes, threat of product obsolescence, low margins, high cost of real estate and dissimilarity in consumer groups are the other challenges that the retail sector in India is facing. Besides all the challenges, there are ample opportunities for the growth of organized retail in India, which are as follows (Retail FDI in India, 2016):

55% Rural Market - Some prominent global food and beverage companies have found a fair amount of success in operating within this market over the past couple of decades. Although it had its unique characteristics, these companies developed strategies to deal with the underlying challenges over the period to be successful in this market. The lessons learned by these companies could be studied by the new entrants in the retail space and adopt the best practices established by the existing players in the market.

Cost conscious Consumers - The market in India is divided as Urban-Rural. With changing socio-economic conditions, consumers in India are willing to pay more for quality service and efficiency. In a Deloitte study named The Future of Mobility- The changing nature of mobility, India ranks the highest among the major economies of the world in consumer preference for products which have efficiency, ease of purchase, and high use of technology.

Regulations in the existing market - With the ease of regulations for Retail FDI, there will still be some restrictions on various aspects of investment controlled by the government. For example, the single brand retailers need to source at least 30% of the material required for products from local suppliers (preferably from MSMEs, village and cottage industries, artisans and craftsmen in all sectors) as part of a three-year grace period to comply with regulations. However, such local sourcing condition has been relaxed for products having 'state-of-art' and 'cutting edge' technology and where local sourcing is not possible. This would directly impact technology products retailers who may need to change their operating models in terms of sourcing components needed for their products.

Thus, India has several advantages for organized retailers to start operations in the country. They are:

1. Organized Retail Penetration (ORP) in India is much lower as compared to other countries, such as Europe or USA, indicating a strong growth potential for organized retail.
2. The Indian retail market is dotted with innumerable unorganized players accounting for 92% of the market during 2015. It has been estimated that there are over 15 million mom-and-pop stores.
3. Organized retail is expected to account for 24% of the overall retail market by 2020.

Objective 4: Porter's Five Forces Framework

A study on the growth potential of the retail industry in India shows that the Retail industry is expected to grow to US$ 1.3 trillion by 2020. In the FDI Confidence Index, as calculated by AT Kearney in 2017, India ranks 8th (after U.S., Germany, China, UK, Canada, Japan and France). According to the 2016 Global Retail Development Index, (2016), India's net retail sales are quite significant among emerging and developed nations where the country is ranked second after China, among the Asian countries. Given its high growth potential, India compares favorably with global peers among foreign investors (Zalviwan, Sartono & Zulfahmi, 2017).

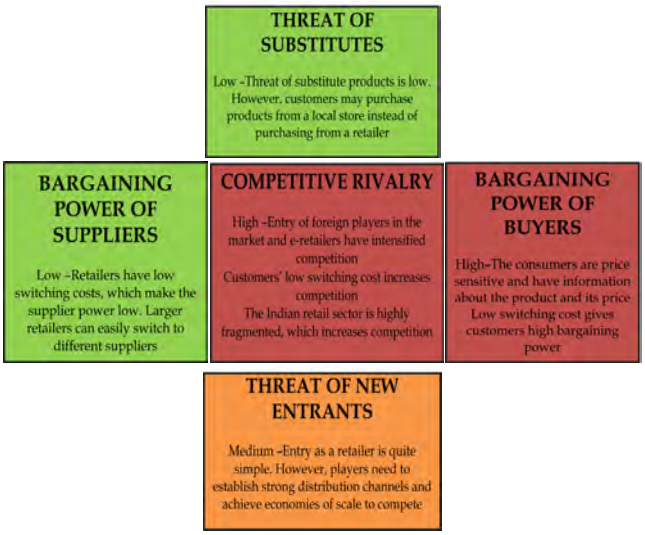
Previous literature on impact of FDI has indicated that foreign investment helps in building the stock of physical capital in whichever sector in which investment might take place. Particularly, in developing countries where the stock of physical capital is low and there is a shortage of domestic funds to finance investment, FDI can go a long way in increasing the physical capital stock and productivity. Moreover, since retailing is dependent primarily on supply chain logistics, investment on efficient logistics system would largely be based upon well-developed networks of transportation, communication and storage infrastructure. This in turn will provide timely and uninterrupted market access to the producers and ensure that quality products at lower prices are offered to consumers.

In India, primarily due to the unorganized and fragmented nature of the retail sector, there is a severe shortage of funds for investment in the basic infrastructure required mainly for back-end retail logistics. The retailers are too small to make such large investments. Although government has stepped in, the infrastructure built by the government has not been adequate. Allowing FDI in retailing is expected to go a long way in alleviating this situation because the large retailers would build the necessary infrastructure to

create an integrated back-end supply chain for maintaining efficiency.

This paper has therefore tried to analyze the retail industry attractiveness for foreign investors, by using Porter's Five Forces Model, which may be represented as follows:

Figure 5: Porter's Five Forces Framework Analysis



The above analysis shows that there are both positive as well as negative impacts for FDI in India. According to this model therefore, Threat of Substitutes and Bargaining power of Suppliers will be positive, as the impact will be low, while Competitive Rivalry and Bargaining power of Buyers shall be negative, having a high impact. The fifth component, i.e. Threat from New entrants shall have a medium impact, as both organized as well as unorganized players are expected to operate simultaneously in India, with more and more consumers shifting towards the organized format owing to convenience in purchase and opportunity to choose from a wide variety of brands and products. A market with more choice and consequently, more competition would improve upon the consumers' wellbeing besides making the manufacturers strive towards more quality. In addition, larger space for product display, hygienic environment in the shopping area, availability of many products under one roof, and better customer care will increase customer satisfaction.

CONCLUSION

Debates, discussions and conflicting views exist among policy makers, economists and social thinkers on the issue of estimating the costs and benefits of allowing FDI in both single and multi-brand retail in India. The UK Competition Commission found in a 2000 study of major retail chains including Marks & Spencer, Sainsbury and Tesco that "the burden of cost increases in the supply chain, has fallen disproportionately heavily on small suppliers such as farmers." Apart from prices, the report states that marginal farmers came under severe pressure from supermarkets due to the latter's requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk. Observed supermarket practices too may work against the interests of incumbent retailers, even organized ones. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops. The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises (DIPP Report, 2010). With a restriction of this sort, the opening of the retail sector to FDI could therefore provide a boost to small and medium enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. On the other hand, it will cause cut throat competition specially in the organized retail sector promoting cartels, creation of monopolies, increase real estate prices etc. Increased competition however will be beneficial as everyone will try to make its product better from others to increase their profits which will ultimately result in quality products at reasonable prices.

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