FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR - ASPECTS OF INDIAN ECONOMY

Ritu*

*Assistant Professor,
S. A. Jain College,
Ambala, India.

ABSTRACT

FDI is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries. The spectacular growth of FDI in global economic landscape has made it an integral part of the development strategy of both developed and developing nations. It plays an important role in the long term development of a country not only as a source of capital but also for enhancing competitiveness of domestic economy through transfer and up gradation technology, managerial skills and capabilities in various sectors, strengthening infrastructure, raising productivity and generating new employment opportunities. Rise in purchasing power, growing consumerism and brand proliferation in india. India was being looked up by many foreign nations as the scope of investment is seen to be high in our country for availability of huge resources. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in retail sector can expand markets by reducing transactions and transformation costs of business through adoption of advanced supply chain. Allowing FDI proves good as improvements in supply chain technologies and informational externalities to local players and competitive dynamic that could benefit consumers and suppliers. Competition is best for consumers as it gives them variety, better quality. Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers from the market and distortion of urban cultural development.

KEYWORDS: Foreign direct investment, Indian retail sector, Organized retailing, Unorganized retailing, FDI Policy, GDP.
INTRODUCTION

FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding investment in stock. It brings private funds from the overseas into products or services. FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their return on investment depends on the performance of the project financed by the investors. In fact, FDI provides a win-win situation to both host and the home countries. The home countries want to take advantages of the vast markets opened by industrial growth. The host countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. According to A.T.Kearney’s Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at 5th rank on the basis of retail investment attractiveness. According to Investment commission of India, retail sector is expected to grow almost three times its current levels to $660 billion by 2015.

MEANING OF RETAIL

Retail is the sale of goods and services from individuals or businesses to the end user. The general meaning of term retail is transformation. It is the interaction between the producer of the product and ultimate consumer who purchase goods for personal consumption. Retailers are part of an integrated system called supply chain. A retailer purchase goods or products in large quantities form manufacturers directly or through wholesaler and then sells smaller quantities to the consumers for a profit. Retailing can be done in either fixed locations like stores or markets, door to door or by delivery. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

CLASSIFICATION OF RETAIL INDUSTRY

Retail industry is mainly divided into:

1. Organized retailing
2. Unorganized retailing

ORGANIZED RETAILING: it refers to trading activities undertaken by licensed retailers, those who are registered for sales tax, income tax etc. These include corporate backed hypermarkets and retail chains, privately owned large retail businesses e.g. maul, supermarkets, hypermarkets.

UNORGANIZED RETAILING: it refers to the traditional formats of low cost retailing like owner operated general stores, kirana shop, paan/ beedi shops, convenience stores, hand carts, street vendors etc.

The Indian retail sector is highly fragmented with 97% of its business run by unorganized retailers. The organized retail however is at a very nascent stage. The sector is largest source of
employment after agriculture, has deep penetration into rural India generating more than 10% of India’s GDP.

**FDI IN RETAIL IN INDIA**

The retail industry is the sector of economy which is consisted of individual stores, commercial complexes, agencies, companies and organizations etc. involved in the business of selling finished products to end-users directly and indirectly.

The retail sector of India is vast, has huge potential for growth and development as majority of its constituents are unorganized. Retail sector of India contributes about 15% of National GDP and employs a massive workforce, after agriculture sector. FDI in India’s retail business can be made through any of routes like joint ventures, franchising, cash and carry operations, non store formats.

In 2010, the Indian retail market was valued at $435 billion. The sector is expected to grow to $535 by 2013. In 2010, India attracted the largest number of new retailers. According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from $ 322 billion in 2006-2007 to $ 590 billion in 2011-2012 and further $ 1 trillion by 2016-2017.

![Size of Indian Retail (in US$ bn)](image)

**FDI IN SINGLE BRAND RETAIL**

It is concerned with a retail store selling a single brand with foreign investment. It implies that foreign companies would be allowed to sell goods internationally under a single brand viz Reebok, Adidas. For example: if Nike were to obtain permission to retail its products in India, retail stores could only sell product under Nike brand and not Reebok brand. Till 2011, FDI in single brand retail sector of India was limited to 51%, now as per the recent development of government of India(September 2012) this limit is finally extended up to 100% ownership by foreign retailers and investors.
FDI IN MULTIBRAND RETAIL

It implies that a retail store can sell multiple brands under one roof. By opening up FDI in multi brand retail will allow foreign giants like Wal-Mart, Tesco, Carrefour to offer a wide range of products of household items and grocery directly to consumers. The government of India in their recently declared policy has decided to allow FDI up to 51% in multi brand retail in India. The recommendations of FDI policy in multi brand retail are:

1. At least 50% of total FDI is to be invested in back-end infrastructure
2. At least 30% of their goods and products will be procured from local companies and industries
3. At least $100 million FDI in multi brand retail sector is required
4. Retail outlets can be set up in cities having a population of at least 1 million

OPPORTUNITIES OF FDI IN RETAIL IN INDIA

1. ENHANCED COMPETITION AND REDUCTION IN PRICES: Retail trade in India is fragmented, unorganized, un-networked, inefficient and individually small. Entry of the many other multinational corporations will obviously promise intensive competition between different companies offering their brands in a particular product market. To increase their market share, competition among them will result in availability of many varieties and reduced prices.

2. IMPROVEMENT IN SUPPLY CHAIN SYSTEMS: FDI in retail will provide solution to all issues regarding inefficient supply chain system in India. Improvement of supply chain / distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest the wastages. As much as 40% of India’s fruits and vegetables rot due to lack of processing facilities. The foreign retail houses like Wal-Mart and Carrefour can bring better managerial practices and IT-Friendly techniques to cut wastages and set up integrated supply chains to gradually replace present disorganized retail market.

3. IMPROVED TECHNOLOGY AND LOGISTICS: FDI will help to improve technology in the area of the processing, grading handling and packaging of material and further technical developments in the areas like electronic weighting. Further transportation facilities can get a boost in the form of precooling chambers and refrigerated vans which will help to reduce wastage.

4. IMPROVED STANDARD OF LIVING: Allowing FDI in Indian single brand retail will certainly bring in more luxurious goods and services to the country. Such goods backed with good promotional support will induce Indian buyers to buy and consume them and lead to improvement in their standard of living. People employed in multinational retail enterprises will be paid attractive salaries and wages which will lead to increase in affordability.
5. **EFFICIENT ENFORCEMENT OF LAWS:** The presence of international companies in Indian retail will facilitate effective and efficient enforcement of tax laws and will help to increase tax revenue. Tax evasion by the players of the organized sector will not be possible like those of unorganized sector.

6. **BENEFITS FOR THE FARMERS:** India is the second largest country in the world in the terms of production of fruits and vegetables. India has very limited storage facilities like cold chain storage plant. Due to this farmers are under heavy losses. The FDI can help in that area to improve whole system of storage. In addition to this with the giant retailers setting up shops and investing in farm gates to supermarket shelves, the middlemen in the chain will be cut out, resulting in higher profits for farmers.

7. **BETTER EMPLOYMENT OPPORTUNITIES:** The entry of foreign companies into Indian retailing will not only help to create employment opportunities but also ensure quality in them. This helps to find better quality jobs, improve their standard of living and life styles on par with developed nations.

8. **CHEAPER PRODUCTION FACILITIES:** FDI will ensure better operations in production cycle and distribution. Due to economies of operation production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price.

**THREATS OF FDI IN RETAIL SECTOR**

FDI imposes some threats to the domestic retailers, foreign players and for the economy. Critics of FDI feel that liberalization 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. The major threats are:

1. **CREATE UNEMPLOYMENT:** Retail in India has tremendous growth potential and is the second largest employer in India. Major foreign retailers who will be directly procuring from main supplier will lead to unemployment and also middlemen who have been working in this industry will be thrown out of their jobs.

2. **DISTORTION OF CULTURE:** FDI in Indian retail will directly or indirectly contribute to the enhancement of tourism. It may lead to change in the culture of people in India. The youth may easily imbibe negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to cultural environment.

3. **THREAT TO DOMESTIC RETAILERS:** FDI in single brand retail ill strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately suit in exit of domestic retailers.

4. **LEADS OF INCREASE IN REAL ESTATE PRICES:** Foreign companies which enter into India to open up their malls and stores will certainly look for places in cities. It will result into war for place and also increase in the cost of real estate in the cities.
5. **LOSS OF SELF COMPETITIVE STRENGTH:** The organized retail sector is still under developed and in a nascent stage, therefore companies may not be able to compete with the big global giants. If existing firms collaborate with these global giants they might have to give up by losing their self competitive strength.

6. **CREATION OF CARTEL BY GLOBAL PLAYERS:** Foreign players may create monopoly by making their products available at discounted rates to grab the market share and after this they may create a cartel to exploit consumers by inducing price hike.

**POLICY SUGGESTIONS**

Many foreign companies have already entered into Indian market through the available modes such as franchising and exporting. They are much eager to change their entry to FDI that would strengthen their operations in India. The Indian economy needs policy reforms so that it can maintain growth and development. Here are some suggestions which if followed will help to bring in more benefits than threats in the country:

- India needs to invest in infrastructure development because India is lacking only in this which will affect our retail industry majorly.

- FDI should be allowed in less sensitive sectors and also in the sectors wherein domestic companies are established strongly.

- The small retailers (unorganized sector) should bring some changes in their attitude and affairs. They can form consortium and make bulk purchases, this will help to lower down cost of purchase.

- A high level National commission should be set up to study the problems of retail sector. So that they can provide their valuable suggestions to the government.

- The government should improve basic infrastructure of the country so that it can attract foreign investors.

- The policy makers should make such policies in which foreign investment can be used for enhancing domestic production, savings and exports via technological advancement.

- The government should take initiatives to improve manufacturing sector. So that displaced employees of retail industry could be well accommodated there.

- India should make FDI policies little bit more liberal so that it can face competition with other emerging economies.

**CONCLUSION**

It can be concluded that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it. Same can be deduced from the examples of the countries like Thailand and China, where too the issue of allowing FDI in the retail sector
was first met with incessant protests, but later turned out to be one of the most promising political and economic decision of the government and let not only to rise in the level of employment but also led to the development of their country’s GDP. FDI in the buzzing India retail sector should not just be freely allowed but should be significantly encouraged. Allowing FDI in multi brand retail can bring about supply chain improvement, manpower and skill development, upgradation in agriculture, efficient small and medium scale industries and benefits to government through greater GDP, tax income and employment generation. It is also pertinent to note that it can be safely contended that with the possible advent of unrestricted FDI flows in retail market, the interests of retailers constituting the unorganized retail sector will not be gravely undermined, since nobody can force a consumer to visit a mega shopping complex or a small retailer. Consumers can shop in accordance with their utmost convenience, wherever they get the lowest price, maximum variety and a good consumer experience. But the change that the movement of retailing sector into FDI regime would bring about will require more involved and informed support from government.

REFERENCES


2. S.Pattu Meenakshi, Venkata Subrahmanyam C.V., Dr. K. Ravichandran, “Problems and Prospects of FDI in Indian Retail sector, International Journal of Humanities and Social Science Invention, vol.2, issue 7, July 2013


