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Foreign Direct Investment in Indian Retail Sector: An Analysis

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ABSTRACT

Foreign Direct Investment (FDI) has always been a matter of controversy in India. Whether FDI in Retail sector in India will be beneficial or harmful in the long run is a matter of strong debate among the economists and political thinkers. It is uncertain to predict the actual long run effects of FDI in the retail sector as well as the whole economy of India.India is the second most important FDI destination in the world in 2010-2012 after China. The recent changes brought in the retail sector by the government have made the retail sector to have large number of retailers for India.

On 20th September, 2012 the Government of India has approved 51% FDI in Multiband retail and 100% (revised) in Single Brand retail sector through Government Route with some riders. Govt. of India is firm to implement the FDI in multi Brand Retail' Agitation and Bandhs have been called by some political parties. Retail is one of the largest sectors of Indian economy the unorganized retail sector in India occupies 97% of the retail business and the rest 3% is contributed by the organized sector. The unorganized retail sector contributes about 13% to the GDP and absorbs 6% of our labour force.

This paper presents an overview of retail trade in India in the wake of the country's new policy that will allow foreign capital in multi-brand retailing and single brand retailing. It discusses various advantages and disadvantages of foreign direct investment (FDI) in the retail sector.

Keywords: FDI, Retail Sector, Single-brand, Multi-brand.

INTRODUCTION

Foreign Direct Investment (FDI) is one of the most important sources of non-debt foreign investment flows in developing countries like India. After the announcement of new industrial policy, 1991 and the current policies of liberalization, India has been experiencing an accelerating growth in the flow of foreign investment into the country.

The traditional practice of selling goods to the consumer is unorganized retail like Kirana store, Mom and pop store. They have contact with local customer in relation seeming to be relatives. Usually they are mingled with their customer as neighbor. By the time and economy goes up, the consumer‟s purchasing power and preference is changing. Based on the taste & preference, now the unorganized sector is converting into organized sector that starts from the urbanized area. Compared to other industry, the retail industry is bigger booming potential industry. Each and every in need of product approach the retail shop. This is the point where the every consumer approaches for the product. Especially in India, the retail industries are mostly occupied by the unorganized industry as they are traditional player. The domestic organized players are very few in comparison of unorganized player. Compared with the international organized player, the domestic players who are in the lack of capital are not effective in healthy competition. So the industry is in need of capital infusion. For long time, the notification of FDI in retail in India was pending in the table of Ministry of Finance. As timely announcement, the ruling government proclaimed allowing 51% FDI in multi brand retail with some other opening in other sector. From this paper, what we analyze is what will be the impact of FDI in retail in India.

Though India is the tenth most industrialized country in the world, it is well known that it is mainly agro-based with around 70% population engaged in the farm sector. However, in the initial stage of liberalizationRetailing in India is one of the business firms. It contributes 14-15% to the GDP (Anand Dikshit 2011) and 7 percentage of labor force. India is one of the fastest growing retail markets in world. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reached a consensus (Agarwal ltd. 2011). In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores (Shrama 2012). 53FDI play multifarious role in the overall development of the host country.

Foreign direct investment (FDI) or foreign investment refers to the net inflows of investment to acquire a lasting management interest (10% or more) in an enterprise operating in an economy other than that of the investor. Foreign direct investment is the sum of equity capital, reinvestment of earnings and other long or short term capital as shown in the balance of payments. It usually involves participation in management, joint venture, transfer of technology and expertise. There are two types of FDI:

(a) Inward foreign direct investment and

(b) Outward foreign direct investment.

Foreign direct investment excludes investment through purchase of shares. Foreign direct investment can be used as one measure of growing economic globalization.

SINGLE BRAND

Single brand implies that foreign companies would be allowed to sell goods sold internationally under a ‘single brand’, viz., Reebok, Nokia and Adidas. FDI in ‘Single brand’ retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

MULTI BRAND

FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ’*kirana’* store.

PRESENT SHAPE OF FDI

The retail industry in India is the second largest employer with an estimated 35 million people engaged by the industry. There has been opening of Indian economy to foreign organization for foreign direct investment through organized retail. The union government has sanctioned 51%

foreign direct investment in multi-brand like Wal-Mart, Carrefour, Tesco and upto 100% in single brand retail like Gucci, Nokia and Reebok. This will make foreign goods and items of daily consumption available locally, at a lower price, to Indian consumers. The new policy will allow multi-brand foreign retailers to set up shop only in cities with a population of more than 10 lakhs as per the 2011 census. There are 53 such cities. This means that big retailers can move beyond the metropolises to smaller cities. The final decision will however lies with the state governments. Foreign retailers will be required to put up 50% of total FDI in back-end infra-structure excluding that on front-end expenditures. Expenditure on land cost and rentals will not be counted for the purpose of back-end infra-structure. Big retailers will need to source atleast 30% of manufactured or processed products from small retailers. The government will go for surprise checks and if found irregularities then the deed will be broken with a second of time. Home grown retailers have not muscles and the reach to go for the big game like Subiksha and Vishal Retail. They have expanded their retail chain but did not have the resources to manage the backend across several cities. If we look rationally at the FDI in retail sector then it will be a win-win situation for all.

According to the news-paper **Indo-Asian News Service**, **Washington**, (dated December 09, 2011) U.S. has said that they respect India for opening retail stores. The United States has said that foreign direct investment in retail trade would be beneficial to both India and the US. U.S. is happy for getting the opportunity of retail business in India, world's second largest market. **FDI will eat up small retailers: Discussion by business experts in Uttar Pradesh**.

The discussion was organized by Hindustan Times Conclave among industry, traders and experts. The industry was represented by TCS, PHDCCI and IIA. The business community (traders) was represented by Sandeep Bansal President of Uttar Pradesh Udyog Vyapar Mandal, Banwari Lal Kanchal President of Uttar Pradesh Udyog Vyapar Pratinidhi, Sanjay Gupta President of Uttar Pradesh Adharsh Vyapar Mandal, Kishan Chand Bhambwani President and Vinod Punjabi General Secretary of Hazratganj Traders Association. The expert was represented by handful of academicians. The summary of the discussion was that the industry people dread it, the business community (traders) are against it and the experts are favouring it.

REVIEW OF LITERATURE

Nagesh Kumar (April 2005) observed that most developing countries offer a welcoming attitude to FDI. After following a somewhat restrictive policy towards FDI, India has liberalized her policy regime considerable since 1991. This liberalization has been accompanied by increasing inflows and also by changes in the sectoral composition, sources and entry modes of FDI. The increasing recognition of India's location advantages in knowledge-based industries among MNEs has led to increasing investments in software development and global R & D centers set up in India to exploit these advantages. This paper has reviewed the Indian experience with FDI since 1991 in a comparative East Asian Experience.

Joshi, Sahana and Dadibhavi, R.V. (March 2008) observed that since 1991, the role of FDI in Indian economy is increasing due to a number of measures undertaken to liberalize FDI policy. Following economic reforms, governments at the state level are initiating measures to attract more financial resources into the states including FDI.

Mallampally, P. and Sauvant, K.P (March 1999) observed that the FDI has grown at an extraordinary rate since the 1980s and LDCs are becoming increasingly attractive investment destinations primarily because of the reason that they can offer investors a range of created assets.

Nagesh Kumar in his research article titled "Industrialization, Liberalization and the Two Way Flows of Foreign Direct Investment: Case of India" (Economic and Political Weekly, December 16, 1995, Vol-30) has divided the Indian government's attitude towards foreign investments. The author says that this attitude has evolved over the post independence period in four distinct phases. The period from independence up to the late 1960s was marked by a gradual liberalization of attitude. The period from the late 1960s through to the 1970s was characterized by a more selective stance.

OBJECTIVE OF THE STUDY

- To study about the Foreign Direct Investment in retail in India.
- To understand trends and patterns of flow of FDI.
- To find the advantages and disadvantages of FDI in retail in India.

RESEARCH METHODOLOGY

Sample Size: 100, Sampling Technique: Random Sampling, Population: Finite, Data Collection Instrument: Observation, Interview and Questionnaire, Demographic: 60% were males & 40% were females. Sample profile was all the sections of society. Geographic Location: Luck now, U.P. INDIA.

FDI IN RETAIL SECTOR IN INDIA

FDI is among the burning topics in India and is a politically sensitive issue. In November 2011, India's central government announced retail reforms for both multi brand stores and single brand stores. Policies related to retailing in India are as follows:

- FDI up to 100% for cash and carry wholesale trading and export trading allowed under automatic route.
- 51% FDI is allowed in 'single brand' retailing but after government approval that is from Foreign Investment Promotion Board (FIPB).
- 100% FDI allows investment in power trading, petroleum infrastructure, processing and warehousing of rubber and coffee, diamond and coal mining. And the rest of the sectors require prior approval from RBI or FIPB.
- Multi Brand Retailing is prohibited in India.

As of 2013, India's retailing industry was essentially owner manned small shops. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail; even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. The Indian government continues the hold on retail reforms for multi-brand stores. On September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under

Indian law. On December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite intense opposition. Some states will allow foreign supermarkets like Wal-Mart, Tesco and Carrefour to open while other states will not.

FDI IN SINGLE BRAND RETAIL

The term 'single brand' has not been defined by the government in any of its circulars or notifications. While the phrase has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a single brand, viz., Reebok, Nokia, Adidas etc. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, is not permitted. Neither any political parties nor local kiranawala shops raised any voice against it because these are high end luxury items for rich class people and does not hurt a large population. For e.g. Nike Company opens outlets in Delhi, Ahmadabad, Bangalore and Mumbai selling nothing but Nike shoes, Nike wrist watches and T-shirts only.

FDI MULTI BRAND RETAIL

FDI in Multi Brand means allowing a retail store with a foreign investment to sell multiple brands under one roof. For e.g. Big Bazaar opens malls in Mumbai, Kolkata New Delhi and Bangalore: selling t-shirts of multiple brands such Reebok, Nike, Adidas, Allen Solly, Peter England etc. as well as unbranded t-shirts (those with discount offers). So, this is multi brand retail when an outlet sells a product of more than one brand. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open up stores offering a range of household items and grocery directly to customers.

- **Wal-Mart:** WAL-MART is an American multi retail corporation that runs chains of large discount department stores and warehouse stores. The company is the world's third largest public corporation according to the FORTUNE GLOBAL 500 list in 2012. It is

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also the world's biggest private employer with over two million employees and is the largest retailer in the world.

Wall-mart In India

Bharti Enterprises is one of India's leading business groups with interests in telecom, agri-business, insurance and retail and Wal-Mart, world's leading retailer, renowned for its expertise and efficiency in logistics, supply chain management and sourcing formed a joint venture known as Bharti Wal-Mart Private Limited. Bharti and Wal-Mart hold 50:50 stakes in Bharti and Wal-Mart Private Limited.

- **Carrefour:** International hypermarket chain headquartered in Boulogne Billancourt, France in greater Paris. It is one of the largest hypermarket chains in the world (with 1,395 hypermarkets at the end of 2009, the second largest retail group in the world in terms of revenue and third largest in profit after Wal-Mart and Tesco).

Carrefour in India

The Carrefour Group announces the opening of its first cash and carry store in India in New Delhi under the name "Carrefour Wholesale Cash & carry." With a sales area of 5200 m2, this store located east of New Delhi in the Shahadra neighbourhood will offer food and non-food to professional businesses, institutions, restaurants and local retailers. This opening is in line with the Group's strategy to be present in major emerging markets that offer significant expansion and medium and long term growth opportunities.

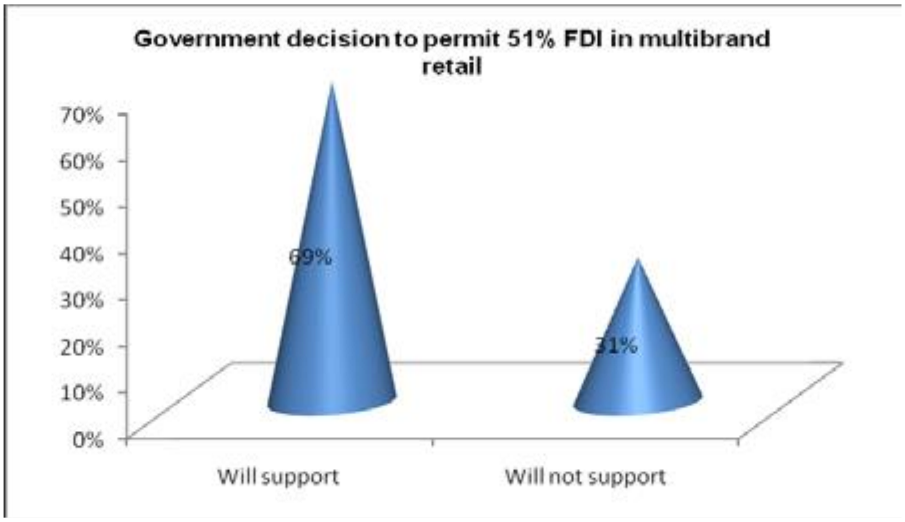
- **TESCO:** It is a British multi grocery and general merchandise retailer headquartered in Cheshunt UK. It is the third largest retailer in the world in terms of revenue and third largest in terms of profits earned. It has stores in 14 countries across Asia, Europe and North America and is the grocery market leader in UK, Malaysia, the republic of Ireland and Thailand.

TESCO in India

Tesco has had a limited presence in India with a service E-centre in Bangalore and outsourcing. In 2008 Tesco announced their intension to invest an initial $115 to open a wholesale cash and carry business based in Mumbai with the assistance of the Tata Group.

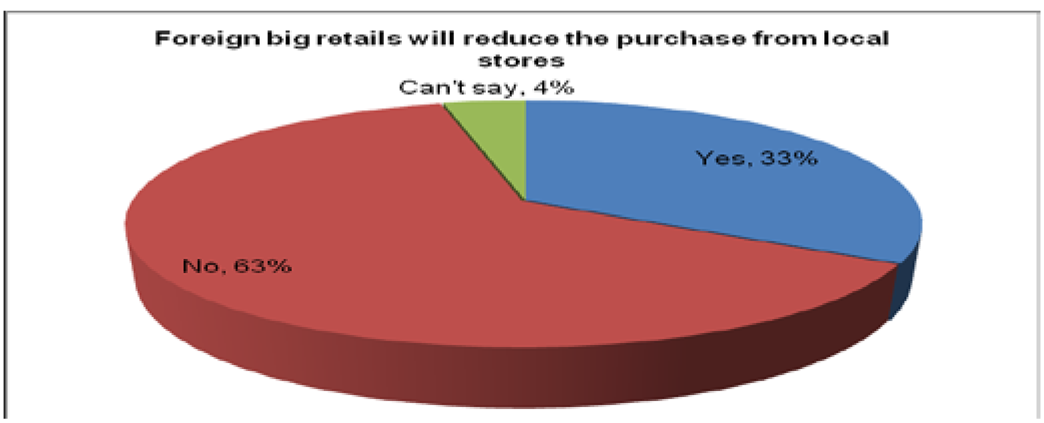
DATA ANALYSIS

Graph 1: Government decision to permit 51% FDI in multiband retail



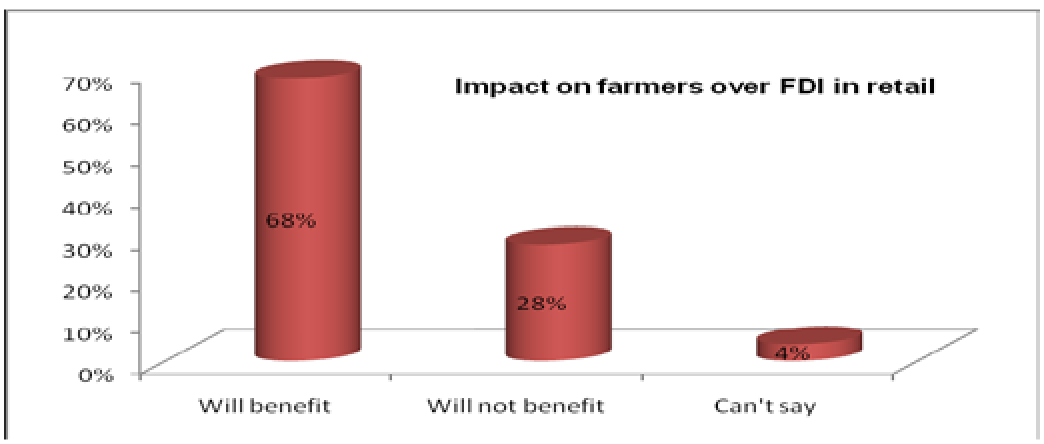
The above Graph 1 shows that the 69% of the people of Lucknow society supported the government decision to permit 51% FDI in multibrand. This means that they liked to have foreign brands in India. The rest 31% people of Lucknow society were not supporting the government decision to permit 51% FDI in multibrand. This means that they were having the fear of the foreign trade and were of the view that it can repeat the history where East India Company came to India in the past and captured India through the business.

Graph 2: Foreign big retails will reduce the purchase from local stores



The above Graph 2 shows that the 63% of the people of Lucknow society disagree that foreign big retail will reduce the purchase from local stores. This means that they are of the view that foreign big retail will have their own market while local stores will continue with their available market without much change in it. The rest 33% of the people of Lucknow society were of the view that foreign big retails will reduce the purchase from local stores because the market of local stores will make a switch over to foreign big retails. The left over 4% were not having the adequate information about the recent issue.

Graph 3: Impact on farmers over FDI in retail



The above Graph 3 shows that the 68% of the people of Lucknow society were of the view that the Indian farmers will be benefitted by the FDI in retail. This means that they are of the view that Indian farmers will get good payment for their produces, without the agent in between the two parties. There will be good storage techniques and transportation techniques. The rest 28% of the people of Lucknow society were of the view that the Indian farmers will not be benefitted by the FDI in retail because they were of the view that Indian farmers will not get the advantage

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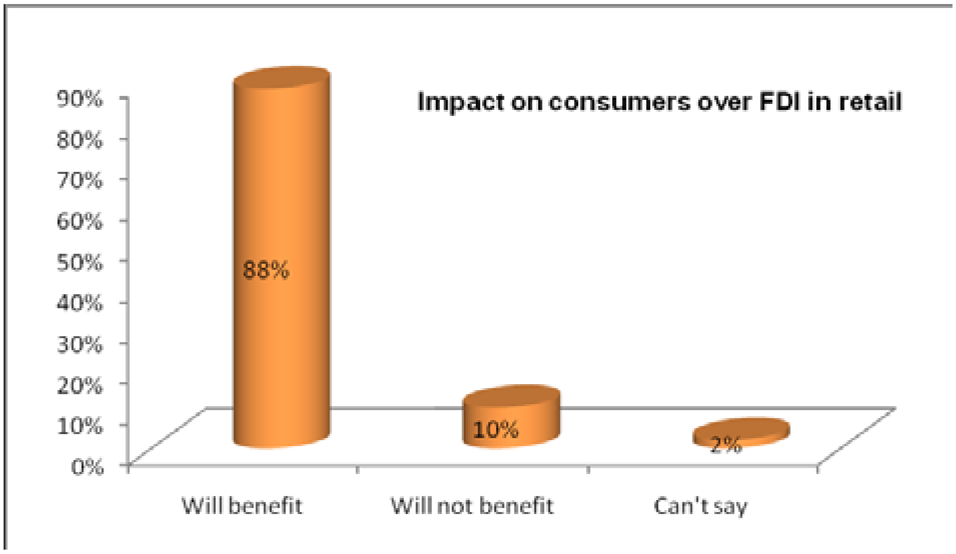
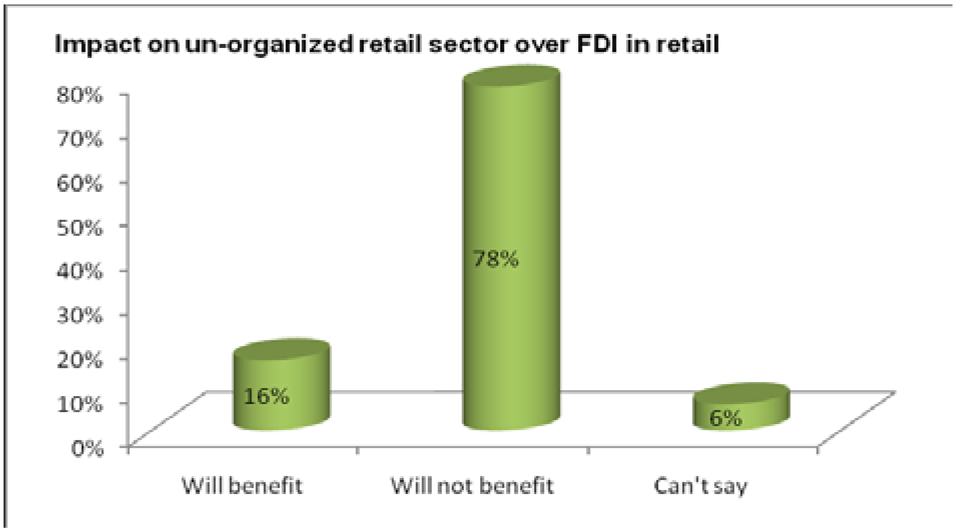
as it is a myth. There will be some irregularities. The left over 4% were not having the adequate information about the recent issue.

Graph 4: Impact on consumers over FDI in retail



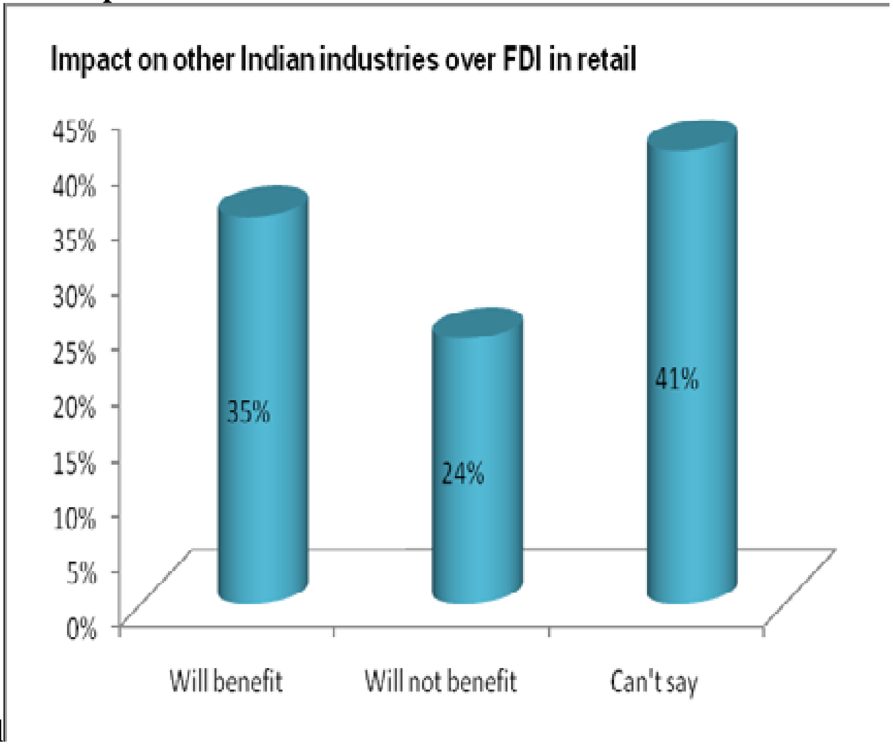
The above Graph 4 shows that the 88% of the people of Lucknow society were of the view that the Indian consumers will be benefitted. This means that majority were of the view that Indian consumers will get lot of opportunities in terms of purchasing the products. The rest 10% of the people of Lucknow city were not of the view that Indian consumers will be benefitted because they were highly satisfied with the swadesh products in terms of price and availability. The left over 2% were not having the adequate information about the recent issue.

Graph 5: Impact on un-organized retail sector over FDI in retail



The above Graph 5 shows that the 78% of the people of Lucknow society were of the view that the un-organized retail sector will not be benefitted by the FDI in retail. This means that majority of the people of Lucknow society were of the view that the organized retail sector will capture the un-organized retail sector. The rest 16% of the people of Lucknow city were of the view that there will be no major impact of organized retail sector over the un-organized retail sector in India. The left over 6% were not having the adequate information about the recent issue.

Graph 6: Impact on other Indian industries over FDI in retail



The above Graph 6 shows that the 35% of the people of Lucknow society were of the view that the other industries will be benefitted over FDI in retail. This means that they were of the view that other industries will get good business through partnership, supply of raw material, giving of land or building and other means which will lead them good profits. The rest 24% of the people of Lucknow city were of the view that the other industries will not be benefitted by this action. They were of the view that it is a false because the foreign big retail will try to depend on their people for business. The leftover was in majority with 41% saying it is a very difficult situation to say whether FDI in organized sector will benefit or not. One reason can be as usual that they are not having the adequate information about the recent issue. The other can be that consumers can give information better about purchasing than business because there can be job holders and house-wife.

SUMMARIZED RESULT

The above findings collected through the sample of the people of Lucknow society shows that majority of people are supporting the FDI in retail. There are some who for their own advantage are opposing the entry of foreign retailers into India. They are trying to mislead the people of India for their own profits. There is a point in the agreement between the government and the foreign retailer that any moment of time if the Indian government finds irregularities or any fear then Indian government can break the agreement and the foreign retailer has to leave India.

CONCLUSION

The future of foreign retail players is also uncertain like that of Indian retail players. The government which acts better than the one which does not. Apprehensions were raised on many such occasions in the past on virtually every measures of liberalization of Indian economy but most of the apprehensions proved wrong while many others come true. It is better to act and watch than not to act at all.

The concept of FDI is now a part of India's economic future but the term remains vague to many, despite the profound effects on the economy. FDI means Foreign Direct Investment in which foreign investors can make investment in India. FDI in India's retail sector has both advantages as well as disadvantages. It is advantageous to the government as the tax revenue collected can be used for infrastructure development, not only this it will be beneficial to the farmers and consumers also to a large extent. It will also provide job opportunity which is a crucial factor for developing countries. 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 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. Opponents of FDI in retail argue that it will bring major job losses but frankly it will cause only redistribution of jobs with some drying up (like middlemen) and new ones sprouting up. The argument that farmers will suffer due to creation of monopolies is weak. Stores like Wal-Mart and Tesco are very few, on the outskirts of cities (to keep real estate costs low) and can't intrude in the local territory of local kiranas.

FDI is advantageous and disadvantageous both but it depends only on the way we implement it in our country so that FDI does not have a bad impact on India's Business. Government must make some rules so that it is beneficial for Indian market, retailers and the customers get the required benefit from this. May be by this Indian economy may rise which is helpful in the employment field. The experience of successful ASEAN countries amply demonstrates how FDI can play a leading role in bringing about rapid, export-led growth. In the retail sector changes are very frequent therefore survival in retail will depend upon the ability to adapt to change. The Indian retailers need to develop proper systems and processes keeping the unique nature of the country in mind. FDI would lead to a more comprehensive integration of India into the worldwide market and as such, it is imperative for the government to promote this sector for the overall economic development and social welfare of the country. So FDI should be implemented in a limited way so that it releases a good impact on India market. If done in the right manner, it can prove to be a boon and not a curse.

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