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FDI in Retail Sector in India

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ABSTARCT: *Indian retail industry is the second largest in the world. The share of retail trade was between 8-10% in 2001 and 12% in 2010 and 22% by the end of 2012 with growing demand the industry is expected to grow at a pace of approximately 30%annually. According to the investment commission of India, retail sector is expected to grow almost three times its current level to 660 billion US dollar by 2015. The growing Indian market has attracted a number of foreign retailers and domestic company to invest in this sector. FDI in the retail can enlarge markets by reducing transaction and transformation costs of business through adoption of highly developed supply chain and benefit consumers and suppliers (farmers). This paper tries to study the present scenario of FDI in India with special reference to retail sector.*

KEY WORDS: FDI, Indian Retail Sector, Investment, Liberalization, Financial Market.

INTRODUCTION: Foreign Direct Investment (FDI) is investment in a foreign country through the acquisition of a local company or the establishment there, of an operation on a new site. In simple words, it is the capital inflows from abroad that is invested in or to enhance the production capacity of the economy. FDI in retail sector Retailing is the interface between the producer & individual consumer buying for personal consumption. Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. Widespread liberalization

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and deregulation of financial markets, cross-border mergers and acquisitions , increasing role of investors willing to invest abroad, rapid advances in modern telecommunication and computer network have all resulted in a tremendous upsurge of international capital flows in India, particularly private capital flows, as compared to official capital flows over the last two decades. Among the various forms of foreign investment, foreign direct investment flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depends on the performance of projects financed by the investors. In fact, FDI provides a win – win situation to both the host and the home countries. The home countries want to take the benefit of the vast markets opened by industrial growth. On the other hand the host countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange.

The modern population is whooping with 70%of the people living in villages and small towns. it is only ordinary that the agricultural sector is the biggest employer and contribution to GDP. India is largest industry after agriculture with around 40% of the economically active population engaged in it and generation 35%of India's GDP. Indian retail industry is one of the fastest growing industries in India especially over the last few years. Though the retail industry in India was mostly organised however with the change of tastes and preferences of the consumers, the industry is getting more promising emerging market for investment.

The retail landscape in India is changing rapidly and is being scrutinized by large scale investments by foreign and domestic players. Market liberalization and changing consumer behaviour have sown the seeds of a retail transformation. Indian retailing is growing fast and imparting the consumer preferences.

Until 2011, foreign direct investment (FDI) was not allowed in multi-brand retail forbidding foreign companies from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51 per cent ownership. In January 2012, India allowed 100 per cent FDI investment in single-brand stores, but imposed the requirement that the single brand retailer would have to source

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30 percent of its goods from India. On 7 December 2012, India allowed 51 per cent FDI in multi-brand retail. Manmohan Singh, the then prime minister of India, felt that this would be beneficial for both consumers and farmers. Agricultural marketing was also expected to be benefited with the introduction of new technologies.

Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90 per cent of trade is conducted through independent local stores. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, little use of IT systems, limitations of mass media and existence of counterfeit goods.

The retail industry is mainly divided into: 1) Organised 2) Unorganized Retailing

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

REVIEW OF LITERATURE:

Babu (2012) recognized technology, labour skills and infrastructure as determinants of foreign investment. He mentioned the rationale behind Allowing FDI in Retail Sector as: FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. The policy of single-brand retail was adopted to allow Indian consumers access to foreign brands. Since Indians spend a lot of money shopping abroad, this policy enables them to spend the same money on the same goods in India.

Chari & Raghavan (2012) suggested that allowing entry by large international retailers into the Indian market may help tackle inflation especially in food prices. Moreover, technical know-how from foreign firms, such as warehousing technologies and distribution systems, can improve supply chain efficiency in India, in particular for agricultural produce. Better linkages between demand and supply have the potential to improve the price signals that farmers receive and also serve to enhance agricultural and other exports.

Prasad & Singh (2012) The development of organized retail has the potential of generating employment, improvement in technology, development of real estate, etc. On the other hand, critics of the FDI feel that allowing FDI would jeopardize the unorganized retail sector and would not only adversely affect the small retailers and consumers but will give rise to monopolies of large corporate houses also, which can adversely affect the pricing and availability of goods. With allow of FDI in multi brand retails, local enterprises of India will potentially receive an up gradation with the import of advanced technological and logistics management expertise from the foreign entities to improve its infrastructure, access sophisticated technologies and generate employment for those keen to work in this sector.

Rajput & Kesharwani (2012) analysed the impact of present retail FDI policy on Indian consumers and economy using SWOT analysis. The first step towards allowing Foreign Direct Investment in Retail was taken in the year 2006. Subsequently the government of India has allowed 100% FDI in single brand retail to give consumers greater access to foreign brands, with the ongoing debate whether it should be allowed in multi-brand retail or not. With emergence of new ways like E-retailing, Indian retail sector is growing at a faster rate along with the employment potential. The retail landscape is showing a marked change, along with changes in the strategies of retailers towards the suppliers so as to get the best advantage. With the rapidly changing retail scene, India is soon going to be one of the fastest growing regions having great potential. The analysis reveals that it will have a positive impact on the growth of Indian economy as a whole. With big retail giants coming to India, it will surely improve our back-end storage and procurement process. The whole economy will be benefitted including government and people. It was concluded that if we try to balance the opportunities and prospects attached to the given economic reforms, it could be advantageous for Indian economy once executed.

Srivastava (2008) looked at the changing scene in the retail sector in view of many MNCs and large industries entering into this segment. The increase in the number of retail chains across the country is an indication that organized retailing is emerging as an industry and will boom in a big way in the near future. Retailing is the final stage in the distribution process. Retailers are responding to growing demands for "time starved customers."

Tayal & Sharma (2012) has conducted this study to understand and analyze the challenges and opportunities faced by FDI Inflow and the future outlook towards FDI in multi brand retail Sector. This paper tries to establish the need of the community to invite FDI in multi brand retailing. The final decision in this respect is yet to be taken by the government of India. The study has highlighted the current position of the FDI inflows in India. It discusses the relevant reforms to formulate, create and force regulatory and legal reforms in this sector and achieve its aim of economic growth and quality services through the investor's dynamic relationship to attract India as their FDI destination.

Shridhar & Prashad (2006) analysed the likely impact, in the context of the recent boom in organized retailing in India, of what is referred to as the process of Wal-Martization. It situates Indian retailing in the backdrop of the widening economic divide in Indian society. The growing inequalities in income and consumption are reflected in the manner in which retailing activity takes place in India. This "duality" is best epitomized by the small number of outlets catering to the rich, even as the overwhelming section of the population access their, needs from a large number of small outlets operating on wafer-thin margins.

Wakchaure (2011) founded FDI in retail to be favourable for Indian economy. According to him, FDI in retail sector would certainly enable to optimize youth employment India. For those fearing the effects of FDI in retail in India, the examples of Thailand and China should give comfort. Entry of foreign players in Thailand and China gave a big boost to retail and the exports in both countries got a shot in the arm. Notwithstanding the mounting pressure from leftwing parties, the present Indian government has decided to allow FDI in retail outlets meant exclusively for single brands which mean that multinationals can invest up to 51% in joint ventures for marketing their premier brands. However, the policy certainly needs a relook and should evaluate measures for further

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liberalization to invite FDI in this sector to optimize youth employment opportunities.

Kalan (2007) conducted a small sample survey of the impact of malls on small shops and hawkers in Mumbai points to a decline in sales of groceries, fruits and vegetables, processed foods, garments, shoes, electronic and electrical goods in these retail outlets, ultimately threatening 50 per cent of them with closure or a major decline in business.

FDI POLICY WITH REGARD TO RETAILING IN INDIA: It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of 'Single Brand' products, subject to Press Note 3 (2006 Series)

c) FDI is not permitted in Multi Brand Retailing in India.

LIMITATIONS OF THE PRESENT SETUP:

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 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT. , 80% of this is used only for 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 may 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.

INTERMEDIARIES DOMINATE THE VALUE CHAIN: Intermediaries often break 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 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail.

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.

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 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

CONCLUSION: FDI has positive and negative effects on Indian economy. So to keep pace with the forecast of Indian GDP, government should encourage foreign investment & to avoid its negative impact on local players, regulatory framework should be redesigned. Government should encourage FDI on gradual basis. Foreign players should not be allowed to trade in certain sensitive products like arms & certain ammunition, defense equipment etc. and the list of excluded product should be clearly stated in the FDI policy. Allowing healthy FDI in the retail sector would lead to a substantial rush in the country's GDP and overall economic development. The FDI would lead to a more comprehensive integration of India into the worldwide market. Therefore, it is concluded that the strategy of opening up should be backed by appropriate reform measures. India should develop its own strategies, laws and regulations that would be in the best interest of the country.

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