IMPACT OF FDI WITH REFERENCE TO INDIAN RETAIL SECTOR

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ABSTRACT

Indian retail industry is one of the sunrise sectors with huge growth potential. According to the investment Commission of India, the retail sector is expected to grow three times its current levels, however, in spite of the recent developments in retailing and its immense contribution to the economy, retailing countries to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world . Indian retail sector today is valued at $450 billion, and is increasing day by day due to its increasing middle class population and their spending power. Indian retail sector has two parts: organized and unorganized sector. Organized sector which forms around 20 -30 % in other countries , here in India it forms only about 6% while rest is all unorganized consisting of small retailers called as 'kirana shops', paan / beedi wala, convenience stores, departmental stores, pavement vendors etc. Organized retail consists of supermarkets, hypermarkets and modern retail outlets, malls, exclusive brand outlets etc which are located in urban areas or metros. Undoubtedly, this dismal situation of the retail sector, despite the on- going wave of incessant liberalization and globalization stems from the absence of an FDI encouraging policy in the Indian retail sector. In this context , the present paper attempts to analyze the strategic issue concerning the influx of foreign direct investment in Indian retail industry .Moreover with the latest move of the government to allow FDI in the multi brand retailing sector , the paper analyses the effects of these changes on farmers and agri – food sectors along with all economic factors . The findings of the study point out that FDI in retail would undoubtedly enable India to integrate its economy with world economy.

Keyword:*FDI, retail, globalization and multi brand retail sector*

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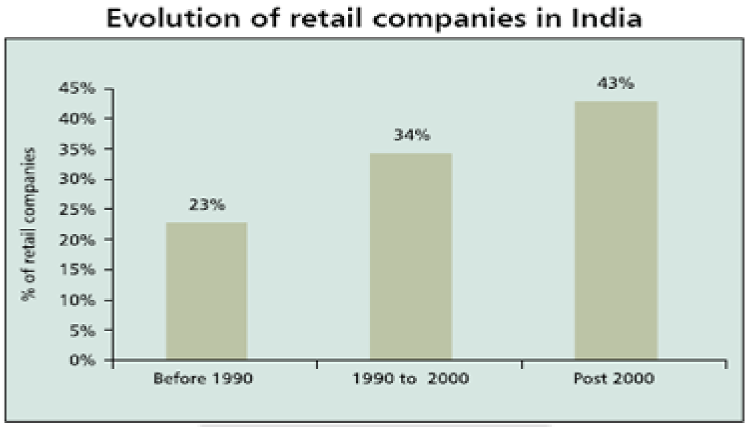
1. INTRODUCTION:

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.

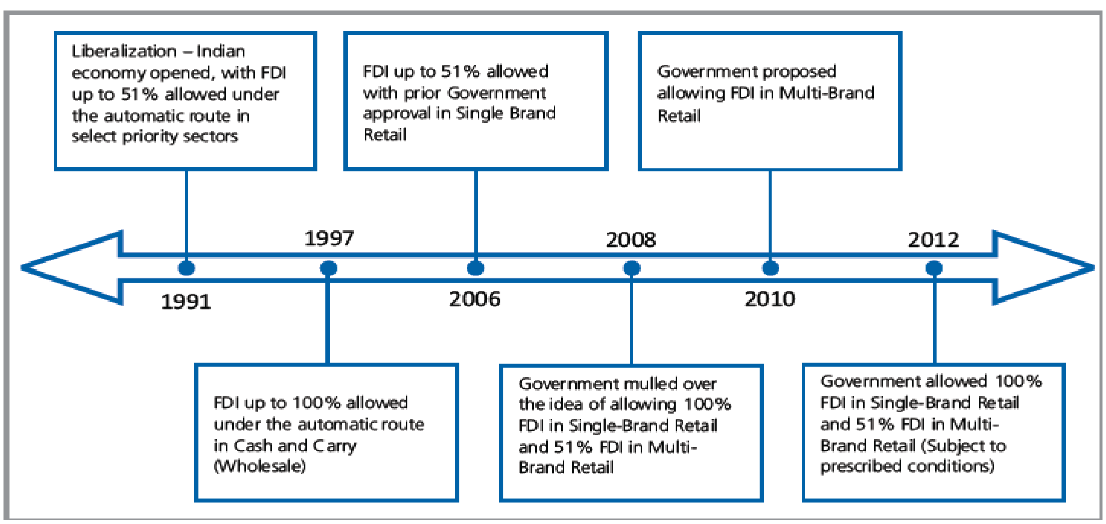


1.2 CHALLENGES OF FDI IN RETAIL:

FDI in retail sector is not allowed, it is only allowed up to 51 % in single brand and government is still considering the opinion of allowing FDI in multi brand segment.100% FDI is allowed in cash and carry wholesale and export trading, both wall mart and Carrefour have already entered in India in this segment. Many big giants like Wall mart, Carrefour are waiting to earn their fortune in continuously growing market.

FDI in retail sector will have both positive and negative effect if allowed. Both organized and unorganized sector will face adverse competition from global players. Wal-Mart has a turnover of $256 billion and growing at an average of 12 -13 % annually. Average size of its stores is 85000sq ft and average turnover is $51 million. Organized sector retail outlets in India like pantaloons, reliance cannot compare with the giant let alone the small retailers. Indian government still fears that if FDI is allowed in retail then unorganized sector will be affected very badly and it will result in a large lot of unemployed retailers and other youth which is employed in the supply chain, this unemployed lot can't be absorbed in manufacturing or service sector which can ultimately push a large chunk of population below poverty line.

In India unorganized retail is a 'forced employment sector', there are large number of retail outlets because when youth dose not find enough employment opportunities or is not educated enough then the easiest resort to earn decent money is to save money or get a loan to set up a shop. On an average a retailer earns Rs.186075 annually and only 4% of 12 million retail outlets have area more than 500 square ft. Now if FDI is allowed in such an unorganized sector than many changes can happen which can be positive or negative.



Talking about the organized sector, which consists of big Indian players who have entered in retail sector just to take advantage of diversification and expand their business, they will also be affected but from different prospects. Major challenges that lie ahead are:

Economies of scale: The global players have economies of scale and are perfect in cost cutting and providing the consumer the best at lowest price which still is a major challenge for Indian retail firms. The way they perform their process itself builds an entry barrier for other new firms.

Brand name: They bring with them world class products which have high quality and a highly valued brand name. The domestic brands don't have that charm and attracting power as of global brands.

Technology: Global players are highly advanced in technology. The tools, equipments, kind of warehouses they use, their way of performing processes are highly advanced and cannot be compared with those used by Indian retail firms, which in turn provides better services and better quality products even in categories like perishable food etc.

Attract skilled employees: The work culture of global players is quite different from those of Indian players. They believe in earning profits by cutting costs as much as possible and at the same time are conscious towards career of their employees. Their approach is more oriented towards achieving ends rather than means. Attractive salary and high incentives can also attract skilled employees towards global players which is also a threat for big Indian retail firms.

Better infrastructure: Better storage facilities, better transportation medium and high investment can pose another threat to Indian retail firms which can hardly match the capabilities of giants on their own.

Joint ventures: Global players may not prefer to enter into joint ventures with Indian firms and may also close down the existing ventures in wholesale and single brand which may adversely affect the Indian firms. This is possible when 100% FDI is allowed in multi-brand retail.

1.3 IMPACT OF FDI IN RETAIL SECTOR:

Forex Reserve: As the limit is increased to 51% in the multi brand retail, the direct investment from abroad called FDI would inflow to start the business. The inflow of capital would increase the capital reserve in the Balance of payment which shows the ability of the nation in terms of Forex.

Farmers: The one of the current problem of Indian economic is fiscal deficit which is mostly caused by subsidy give to the farmers which is considered as unproductive. The one way to cut such subsidy is to make the farmers independent by making the system securing them to be paid good price for the commodity. The organized retailers that are capital giant are able to purchase directly from the farmers paying good price. So the government should be ensuring that the farmers are getting paid the price of what they are eligible to.

SME: In the norms that are instructed to the foreign player, they should purchase 30% of the product they deal with from the Small and Medium Enterprise. This ensures the development of SME. The foreign player would like to provide the quality product. The SME would be encouraged to produce the commodity that is of high quality.

Infrastructure: The players are imposed with the restriction of investing 50% of their investment on the Back end infrastructure. The ruling party in India where the economic development is suffered by lack of infrastructure is very cautious about to invest in such area. It would become base for economic in many ways, say transportation.

Distribution: The distribution system is one of the factors determining the cost of the product. As they are invested in the infrastructure, they could follow JIT. Say Wal-Mart, they are not interested in expending in the stock maintenance.

Inflation: Inflation is the unruly one which is challenge to the country where the price sensitive people are. The scale of economy, capital and large turnover are the base by which the lower prices are offered to the consumer. The entries of multinational players lead to healthy competition that lowers the price then inflation consequently.

Food Wastage: With the poverty in one side, the wastage of food is on another side in the same country. It requires the effective distribution system to avoid food wastage. With the good back end infrastructure, they can able to serve the goods in an optimization way.

GDP: The decline in the GDP mainly due to the agriculture sector is making the economist worry more. The FDI in retail would improve the GDP by, economist say 0.5%. The booming industry that has potential capacity would contribute the GDP higher.

Employment: The more employment would be created in the country either directly or indirectly where youth pass out is increasing as much as creation of employment. It would be generated in the agriculture, manufacturing, service industry which consists of GDP. The more people get employed would rehabilitate the economic cycle.

Consumers: The ultimate beneficiary from the opening of FDI in multi brand retail is consumer. They are left to choose the retail that would give them goods at lesser price. The more middle income people living in India are preferred to have shopping more modern in lesser cost.

1.4 RETAIL INDUSTRY:

Allowing FDI in multi brand retail would infuse the new blood into the industry that has potential. Foreign players that are competitive oriented would implement new strategy. Another side of factors influenced by FDI are:

Impact Middle Man: The middle man in the supply chain including non-hoarders shall get affected. In the long run, they will be deprived of trade business that causes unemployment. So it could be matched with the need of employees by the organized sector by appropriate policy by the government.

Dependability: The country may depend on another country as FDI inflow is increasing where the country independency is decreasing. The economic growth may become more endangered one depending on another country economic. The capital giant may dominate the industry exceeding the domestic player. The revenue would outflow abroad affecting Forex reserve.

1.5 REASONS FOR PROMOTION OF FDI IN RETAIL

- The major benefit of FDI is that it is both supplementary and complimentary with regards to local investment. FDI lets a company gain better access to top class technology and supplementary funds. They are also exposed to management practices in vogue around the world and also get the chance to become a part of the global market system.

- The Indian government had commissioned Indian Council for Research on International Economic Relations (ICRIER) to perform a study on the effect of organized retailing practices on its unorganized counterpart.
- ICRIER submitted the report during 2008. The study hinted at the advantages that the growth of organized retail will have for various participants like the consumers, manufacturers, and farmers.
- The government decided on the basis of the results in other countries and the ICRIER study that this decision would result in a greater influx of FDI in both back and front end infrastructure. It was expected that the agricultural sector would become more efficient and be in a better position to use technology.
- It was also expected that this decision would result in more and better jobs being created and the best practices around the world will be introduced in India. Both farmers and consumers will see more convenient prices and higher quality in future and this will help both the class es.
- The government also put in an obligatory condition before foreign companies for procuring 30 percent supplies from local producers in order to provide a fillip to the manufacturing sector in India. Jobs are expected to be available in both rural and urban areas thanks to greater back and frontal operations resulting from more FDI.
- Domestic retail entities and traders are expected to pull up their socks and increase their efficiency ever since this decision. Consequently, the consumers are expected to receive better services and the producers who provide the source products also get better payment.

1.6 PROCESS OF FDI IN RETAIL:

There is no such procedure for short listing the companies. International companies who are willing to invest in either single or multi-brand retail can put in their applications with the Department of Industrial Policy and Promotion. Here the applications are reviewed in an effort to determine their suitability as per the stated guidelines. Subsequently, the Foreign Investment Promotion Board, Ministry of Finance will consider the applications before providing the final approval.

1.7 ADVANTAGES OF FDI IN RETAIL:

- India's retail industry is one of the biggest around the world when it comes to the privately owned ones. The industry has seen some major restructuring thanks to the FDI structure becoming more liberal than before. The benefits of FDI in retail, as per experts, carry greater weightage than the cost related implications.
- With FDI in retail, operations in distribution and production cycles are expected to become better. Owing to factors such as economic operations, the cost of production facilities will come down as well. This will mean a greater choice of products at lesser and justifiable prices for the customers.
- As a result of FDI, companies will be able to bring in technology and skills from other countries and this will help in infrastructural development of India. This will also help in creating more value for money for the buyers.
- After FDI in retail, it is possible to set up a properly organized chain of retail stores as the capital to do is readily available. The investment can be regarded as a long term one as the physical capital put into a domestic company is not liquidated easily. This is its main difference from equity capital.
- ICRIER had also predicted that if FDI in retail was introduced in India during 2011-12, the Indian economy could have grown by 13 percent, the unorganized sector could have seen a 10 per cent growth and the organized sector could have increased by 45 per cent.

1.8 DISADVANTAGES OF FDI IN RETAIL:

- Experts say that while analyzing the positives and drawbacks of FDI in retail, both the government and the opposition did not refer to the Parliament Committee report where its effects had been studied in great detail. The committee had taken into cognizance many witnesses, NGOs, individuals, and trade associations to come up with the said report.

- The Committee visited various corners of India and also went through reports and gathered knowledge about the experience of similar decisions in other countries. It also enquired from several government departments regarding the matter.
- The Committee had surmised in its report that the number of people getting jobs will be lesser than the amount of people losing the same as a substantial amount of marginal and small farmers will be wiped out. Some other problems expected out of this were aggressive pricing and prevalence of monopoly.
- As per the Committee's report almost 8 percent of India's workforce is employed in the unorganized retail sector. This comes up to roughly 40 million people. It has been stated that FDI in retail will generate 2 million jobs. However, the Committee had stated that it is not a proper indication as it does not take in to account the number of people who already work in the retail sector.
- ICRIER had executed a second study on the effects of FDI in retail during 2011 and in that it had stated that FDI will bring about a fantastic shopping experience for the consumers. It had actually interviewed 300 people from the middle and high income groups. Thus, in effect, the efforts of the Parliament Committee were overlooked for a private organization.
- Experts have questioned the logic of ICRIER to question 300 people in a country with a 1.2 billion population and more than 40 per cent who can be termed as poor.
- The Parliamentary Committee report on FDI was never discussed in Parliament itself, and as per experts, it is not a good sign as far as the democratic system in India is concerned.
- As per ICRIER, consumerism is positive for economic growth. In 2008 the first survey had dealt with 2020 small and unorganized retailers whereas the total count of such entities in India at that time was 6 million.
- Leading economic experts from outside India have also posed the same question. They have also pointed at the labour practices of organizations such as Wal-Mart. Most of these are not exactly healthy for workers. This has also led them to ask if such processes were really required in India.
- It is being said that the lobby favouring FDI in retail in India has invested at least Rs 52 crore and experts opine this could have had a major say in the way things turned out.

2. CONCLUSION:

On the unorganized sector, the traditional players are said to get affected on account of opening of FDI in multi brand retail. Whereas those same kinds of retailers are surviving in US, France, etc. These players who are having close relationship with the customers and know their demand need to enhance the modern trend in retail in order to survive. Practically speaking, most of the consumers are reluctant to shop in organized retail shop spending more time. Whatever may be the opening, the put forward is stifle healthy competition that would change the retail industry. As any industry getting modernized in the globalization, the FDI in retail is not to be eluded in the developing country where other developing countries like China are implemented this practice before a decade. The expectation behind the opening of FDI in multi brand retail is gigantic. The decision on FDI should let go where the future of economy can't be forecasted so preciously. But the government should take precautionary measure framing the rules to ensure that any industry would not get affected. On the periodical manner, it should be checked how much it contributes towards the growth of the economy and impact in other industry.

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