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Assessing the Impact of Foreign Direct Investment on India's Retail Sector

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Abstract

Like every other Economy, the retail sector is also one of the crucial and the most potential sector of the Indian economy. Retailing is the interface between the producer and the consumer purchasing for personal utilization. This prohibits immediate interface between the producers and consumers. A retailer is one who stocks the manufacturers' products and is involved in the selling of these products to the individual buyer, for earning a profit. As being what is indicated, retailing is the last connection that unites the individual consumer with the producers and distribution chain. FDI is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country by expanding operations of an existing business in that country. The Government has relaxed significantly the norms for FDI in several sectors including the critical Defence sector. Earlier the Government had planned opening the markets for the retail segment only vis-a-visthe foreign direct investment. According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17.

Introduction

Indian retail industry is one of the dawn divisions with gigantic development potential and is the grandest business in comparison to different businesses. It possessed 14% of India's Gross Development Product and close around the range of 8% of the employment. Consistent with the Investment Commission of India, the retail division is relied upon to develop just about three times its current levels to $660 billion by 2015. India's retail part has experienced a quick change over some previous years and this methodology is anticipated that will reinforce in coming years.

Retailing is a standout amongst the most dynamic and attractive segment of the decade. In the later past it has seen an expansive number of huge players like Reliance, Tata, Pantaloon, Birla and so forth jumping into it. . This has created an immediate necessity for a revolution in marketing strategies and innovations in retail sector India is without mistrusting a developing economy and numerous think as of it an attractive country to put resources into, especially in its quickly developing and changing retail sector.

FDI

FDI (Foreign Direct Investment) is the securing of assets in a country by outside countries with the end goal of control. FDI is ownership of at least 10% of a business.

According to the Ministry of Commerce & Industry, "FDI is freely allowed in all sectors including the services sector, except a few sectors where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the Automatic

Route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government approval.

WHY FDI

(a) Domestic capital is insufficient for economic development;

(b) Foreign capital is usually fundamental, at least for impermanent measure, throughout the period when the capital business sector is undergoing development;

(c) Foreign capital generally carries it with other rare beneficial elements like specialized know how, business mastery and information

AIM

The research aim is to analyze the issues prevailing in FDI and the future prospective in Indian retail industry.

OBJECTIVES

1. Evaluate the role of FDI in retail sector.
2. To give a few suggestions to secure and push the small retailers and agriculturists in the nation.

RESEARCH METHODOLOGY:

Research is defined as, "the manipulation of things, concepts or symbols for the purpose of generalizing to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art." (Slesinger and Stephenson) as cited in Kothari, 2010. The researcher has adopted analytical, descriptive and comparative methodology for this report; reliance has been placed on books, journals, newspapers and online databases and on the views of writers in the discipline of Competition law.The results are tabulated and analysed using appropriate statistical methods.

RECENT DEVELOPMENTS IN FDI IN RETAIL SECTOR - These developments has brought parcel of discussions up in political loops. As a feature of the investment liberalization procedure set up by the Industrial Policy of 1991, the Indian government has opened the retail part to FDI gradually through a series of steps:

1995: World Trade Organization's (WTO) General Agreement on Trade in Services, which incorporates both wholesale and retailing services, became effective;

1997: FDI in cash and wholesale with 100% rights permitted under the Government approval route;

2006 : FDI in cash and wholesale was carried under automatic approval route, Up to 51% financing in single brand retail outlet allowed, subject to Press Note 3 (2006 series) ;

2011: 100% FDI in Single Brand Retail permitted;

2012: Government approved the allowance of 51 percent foreign investment in multi-brand retail.

CHANGES IN SINGLE BRAND AND MULTI BRAND BUSINESS

While past FDI arrangement just allowed one non-resident entity with ownership of brand to put resources into Indian organizations occupied with the retail exchanging of that brand, strategy changes now permit different non-resident entities to put resources into Indian organizations occupied with single-brand retail exchanging of that brand.FDI in retail part can be studied in two parts as –

(1) SINGLE - BRAND RETAIL - Exclusive showrooms either possessed or franchised out by the manufacturer. A complete extent of all products manufactured by the said manufacturer under one brand name e.g. Exclusive showrooms/ franchise outlets of Gucci, Samsung, Apple, Nike etc. Here, the center is on the brand name.

(2) MULTI - BRAND RETAIL - In these sorts of stores, practically all brands are accessible for a single product. The consumer has a quite wide choice for the sort of product he is eager to buy e.g. Walmart, Croma etc. Here, the center is on the nature of product. Now the retail business can be either a single brand retail business or multi brand retail business. India's central Government announced retail changes in single brand and multi brand trading.

Single-brand retail trading routes have been altered as shown in the following table:

Before the proposal		**After the proposal**	
% of FDI	**Entry Route**	**% of FDI**	**Entry Route**
100%	Government	Up to 49%	Automatic
		Beyond 49% and up to 100%	Government

In appreciation to multi-brand retail exchanging, progressions made in 2012 allowed up to 51 percent FDI with prior government approval.

FOREIGN (FDI) ROUTES

(1)GOVERNMENT ROUTE: For investment in business sectors requiring prior approval from the Government which are considered by the Foreign Investment Promotion Board (FIPB).

(2)AUTOMATIC ROUTE: For investment in business sectors that do not require prior approval from the government.

UNDERLYING CONDITIONS

(1) The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.

(2) All retail stores can open up their operations in population having over1million.Out of approximately 7935 towns and cities in India, 55 suffice such criteria.

(3) Multi-brand retailers must bring minimum investment of US$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration ,transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.

(4) The opening of retail competition (policy) will be within parameters of state laws and regulations.

FDI Equity Inflows from 2000-2012

Financial Year (April – March)		**Amount of FDI Inflows**		**%age growth over previous year (in terms of US $)**
		In Rs, crores	In US$ million	
1	2000-01	10733	2463	-
2	2001-02	18654	4065	(+) 65 %
3	2002-03	12871	2705	(-) 33 %
4	2003-04	10064	2188	(-) 19 %
5	2004-05	14653	3219	(+) 47 %
6	2005-06	24584	5540	(+) 72 %
7	2006-07	56390	12492	(+)125 %
8	2007-08	98642	24575	(+) 97 %
9	2008-09 '*'	142829	31396	(+) 28 %
10	2009-10 #	123120	25834	(-) 18 %
11	2010-11 #	88520	19427	(-) 25 %
12	2011-12 # (April - January 2012)	122307	26192	-
CUMULATIVE TOTAL (from April 2000 to January 2012)		**723367**	**160096**	-

According to a report by EY India (formerly Ernst & Young), Private equity (PE) firms upped their investments in India Inc by a hefty 42 per cent to US$ 5.4 billion through 197 deals during the first half of 2013; major deal being the US$ 1.2 billion-Bharti Airtel deal. Recent statistics states that though organized retail in India constituted a meager 4 percent of total retail in 2006, but it is expanding at a much faster pace of 45-50 percent per annum and has quadrupled it share to 16 percent by2011-12. The unorganized retail sector is also growing at about 10 percent per annum with sales rising from US $ 309 billion in 2006-07 to US $ 496 billion in 2011-12 and further US $1 trillion by 2016-17.

Top 5 countries in inflow of FDI Since 2000-2010:

Country	Inflow in %	Inflows in absolute terms (US million dollars)
Mauritius	42%	50164
Singapore	9	11275
USA	7	8914
UK	5	6158
Netherlands	4	4968

Majority of the foreign direct investment comes through Mauritius as it enjoys several tax advantages, which works well for the international investors.

CRITICAL ANALYSIS OF FDI IN RETAIL SECTOR IN INDIA

POSITIVE IMPLICATIONS OF FDI IN RETAIL SECTOR

FDI in retail sector is good for India due to the following reasons

MORE EMPLOYEMENT OPPORTUNITIES

Huge investment in retail sector will make great employment opportunities. It will create numerous jobs in India where unemployment is large. If foreign companies invest in India, our economy will boost. This will lead to more investment. Job opportunity arises. Gradually people livelihood will improve. Thus, FDI in retail will provide a ground for the unemployed population by providing them jobs.

ELIMINATION OF MIDDLEMEN BETWEEN FARMERS AND RETAILERS

Intermediaries add no value to the products, adding hugely to final costs instead. Prices lack transparency, due share of farmer is not paid to him. Indian farmers at present realize only one-third of the final price paid by the consumer as against the two-third price realized by the farmers in the countries with a great share of organized retail. FDI will assist in reducing the dominance of value chain by intermediaries. Thus, agriculturists get good price for their produce as they will be able to sell their produce directly to the company thus eliminating the middlemen.

INCREASED GDP

With the help of FDI, we can enhance the GDP of our country i.e. boost Indian GDP by bringing in foreign currency. So development can be done in the country. FDI in retail contributes to about 14 % in GDP and approx. 8 % to the employment

BETTER INFRASTRUCTURAL FACILITIES
Infrastructure will be developed which reduces the wastage. As we know storage is a big problem for Indian farmers, it helps in generation of more good storage facilities which our country is deprived of and hence there is lot of wastage of the crops and grains. So with the help of FDI infrastructure will developed which reduces the wastage.

IMPROVED QUALITY PRODUCTS
By introduction of FDI in market, the competition will arises high for Indian retailer, thus people have the choices of buying the better quality product ensuring secure free from health problems. It will create market competition, providing immediate benefits to Indian customers by providing quality product .It will help getting better quality and different variety products to the consumer at low cost will be available.

IMPROVED AND ADVANCED TECHNOLOGY: FDI introduces new technologies that are implemented in other country also gives good quality of product in attractive prices and increases the economy of the country. This will help to transfer the technical, management, intellectual skills and capital formation by bringing fresh capital.

INCREASED FOREIGN EXCHANGE RESERVES
FDI brings a lot of foreign currency to our country, it strengthen our economy by reducing current account deficit of our country. Foreign direct investment is a connectivity of national currency and international currency which improves the foreign exchange position of the country.

IMPROVES CAD(CURRENT ACCOUNT DEFICIT): FDI helps in boosting up the economy by reducing the CAD of our country.

MORE REVENUE TO GOVERNMENT: FDI will help Government getting more revenue in the form of taxes from these stores also.

ALL BRANDS UNDER ONE ROOF: As most of us are quite familiar with the names of existing retail store i.e. Big bazaar, easy day etc., in which goods are available under one roof and time to time they announce some discount offers, or combo offers to attract customers. We get quality products from these stores. All this can be possible only with the help of FDI.

INCREASED EXPORTS: Exports will be more, bringing in more foreign reserves to India.

The value of rupees as compared to dollar will improve.

OTHER BENEFITS:
(1) In India millions of children are suffering from malnutrition. FDI helps to accommodate food for all of them.
(2) Will help in economic growth at the time of inadequate capital.
(3) It will help in curbing inflation by removing middlemen and taking care of consumers directly.
(4) Presence of big industry houses which can absorb losses.

(5) By removing Middlemen, it will help in decreasing black marketing (hoarding) of certain food items as we see in case of onion prices.

NEGATIVE IMPLICATIONS OF FDI IN RETAIL SECTOR

A lot of objections have been raised by the opposition parties and public at large. Those who criticizing these reforms took support of the following points:

POSING THREAT TO SMALL AND MEDIUM ENTERPISES: Foreign direct investment affects the domestic market and the retailers in India are also affected by FDI. With the entry of FDI in India, people stop buying Indian products only because domestic products are costly. Cheap imported goods may wipe out Indian products. Small scale industries and MSME enterprises would slowly disintegrate and move out of the market as they are not able to compete with the advanced strategies and implementation that the foreign companies will come over with and local market tends to lose their ownership. So, in that case retailer will affect adversely. It is not only the retailer and kirana shopkeepers were affected but whole chain gets affected, starting from manufacturer to retailer.

PROFIT OUTFLOW

The main aim of FDI will be more and more profit. It will increase the competition for domestic players as well as affect the economy by taking part of their profit to their own country. It will increase their GDP. FDI is not increasing the economy of India. Because whatever the FDI is investing in our company they take all the profits every year and they leave nothing. Just like in BPO industry, work will be done by Indians, profit will go to foreigners. It is not good that outsider earns money by selling our products to ourselves.

SITUATION LIKE EAST INDIA COMPANY

Some people think that with the entry of FDI, the country may become economically dependent upon other countries which might make us loose our independence as we did with the coming of the East India Company. It entered India as trader and then took over politically.

SHORTAGE OF TALENTED AND SKILLED PERSONNEL

FDI will give employment to only skilled people and right now India is facing a problem of unemployment. It will increase unemployment instead of decreasing. The retail trade business in India is mostly carried out by the family members. Such people are not professionally qualified.

NOT FOR THE COMMON MAN

Middle class cannot afford the products worth value higher than their needs; they will never go with those products they can't afford. The common man of India is not getting a single benefit of it as a large number of Indians belong to poor and middle class.

OTHER LIMITATIONS

1. Inflation may rise making life difficult for the common people.
2. FDI may make us dependent upon other countries for our technological sources.
3. Will not benefit farmers since large players squeeze them for lower charges to earn high profits.
4. The rural India will remain deprived of the services of foreign players.
5. Retail chains are yet to settled down with proper merchandise mix for the mall outlets.

6. Due to lack of transparency and proper regulation norms in the country, it would act as another source of increasing corruption and red tape in the country.

CONCLUSION

As we know that there is problem of economic slowdown in our country, many foreign investors are now pulling out their money from India because of which India is facing some serious economic issues. So FDI is a good option for India via which our economy can improve. But too much liberal FDI policy is also not good which may be clear through following points:-

1. Foreign direct investments are somewhat good as well as bad for retail sector. As every coin has two faces and hence foreign investment in retail has its advantages and disadvantages as well. Instead of liberally allowing FDI we shall bring same technology which foreign players are bringing and by using local labour force we should produce the same within the country. In return all the profit will be with us which increase our economic growth.
2. Another benefit of FDI is that it will bring technology and paved the path towards development of our country but FDI also exploit the domestic resources and make the small retailers as well as the kirana shops going to suffer to a great extent. It also helps creating popularity of foreign products, decreases the demand of ours products. Steps such as minimum sales of 30% have to come from small traders will help small traders. . So, it completely depends on the policies of the government how they would imply upon FDI in retail. Instead of introducing high FDI, our government should rather support the industries and retailers in the country itself with better policies and financial aids. Even if there is no other option than FDI, then also it should be not implemented like this at a war footing. At first, it should be implied on a small segment of retailers while taking care of the consequences properly analyzed.
3. The fact is that allowing FDI is not the only way to improve the CAD, because we are very strong on the export front is in fields of iron, cotton or agriculture products, so we should focus on this. By introducing FDI products it increases economy of foreign country not ours. Government should try to ease the export norms. This leads to large number of local uneducated people unemployed and has created a big difference in the lifestyle of rich and the poor people. The poor are not getting even the basic facilities. So, I think the government should focus on first providing the basic amenities to these poor people and then should allow these companies to invest in our country.
4. If FDI liberally comes in India then the situation in India will again become as it was before 250 years ago. The History will repeat itself. India will again become a slave of English country. As East India Company had taken control over India this time Wal-Mart will do the same thing.
5. I think FDI should be allowed in India but the Government must take decisions in interest of people not against the people. I think Government must keep some limitations to FDI investing in our country. As we should see only its ultimate results on Common man's daily life, because India has 70% population of lower and Middle class people, who cannot afford the products worth value higher than their needs, they will never go to with those products.

If a man buying his daily needed things in trolley also in cheap prices, then why he will buy the same product in higher cost.

6. So, to conclude, in all FDI can be beneficial when Government monitors pricing, employment and contracts of foreign retailers. For that we need to incorporate stringent rules, laws and regulations in the system of order in India. So first before implementing FDI in retail we need our system to be systematic, so that India can really benefit from it. So it all boils down to the manner in which government negotiates and sets the norms for allowing retails giants to set shops, so that it does not lead to complete monopoly, corruption, red tapism and exploitation of Indian people and resources.

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