

IMPACT OF FDI IN RETAIL SECTOR IN INDIA

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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 . 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.

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 industry 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.

Impact**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.

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 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.

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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