THE PROBLEMS AND PROSPECTS OF FDI IN RETAIL SECTOR INDIA

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ABSTRACT
In the post-liberalization period, with increase in GDP, rising per capita income and proliferation of brands, there have been changes in the purchase behavior of Indian consumers. India is one of the fastest growing retail markets in the world. The large consumer base has attracted many global retailers and domestic corporate to invest in modern retail in India. The government has partially allowed FDI in single-brand retail to give consumers greater access to foreign brands. At present, there is a debate in India on whether FDI should be allowed in multi-brand retail. In this context, this paper analyses the impact of the retail FDI policy on Indian consumers and make policy recommendations for the Indian government. Based on a primary survey of Indian consumers, the paper examines their shopping behavior across different product (branded and non-branded) categories, knowledge of foreign brands and attitude towards further liberalizing FDI in retail. The factors determining the choice of modern retail outlets are also examined.

Keywords: FDI, Retail sector

INTRODUCTION
Retailing is the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other wholesale customers. A retailer is one who stocks the producer’s goods and is involved in the act of selling it to the ultimate consumer at a margin of profit. As such, retailing is the last link that connects the ultimate consumer with the manufacturing and distribution chain. The retail industry in India is of late often being hailed as one of the prominent growing sectors in the economy. India is the second most attractive retail destination among thirty globally emerged markets.

Foreign Direct Investment (FDI) plays an important role in India’s growth dynamics. There are several examples of benefits of FDI in India. FDI in retail sector in expand markets by reducing transaction and transformation cost of business through adoption of advanced supply chain and benefit to the consumers and suppliers. Retailing is one of the most active and attractive sectors of this decade. In the recent past it has witnessed a large number of big players like Reliance, Pantaloon, Tata, Birla etc, and Leaping in to it. The emergence of organized retail sector in India as more to do with increasing purchasing power of buyers. This has created an immediate necessity for a revolution in marketing strategies and innovations in retail sector.

FDI IN RETAILING
The government of India has already promoted a limited FDI in single-brand retailing in the year 2006. It has considered opening up further in faced system with the emphasis on joint ventures. 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 November 2011, the central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well as single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100 per cent ownership, but imposed the requirement that the single brand retailer source 30 per cent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. IKEA announced in January that it is putting on hold its plan to open stores in India because of the 30 per cent requirement, which believes that the 30 per cent requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

FDI in Multi-Brand retailing is prohibited in India. FDI in Single-Brand Retailing was, however, permitted in 2006, to the extent of 51per cent. Since then, a total of 94 proposals have been received till May, 2010. Of this, 57 proposals were approved. An FDI inflow of US $ 194.69 million (Rs. 901.64 Crore) was received between April, 2006 and March, 2010, comprising 0.21 per cent of the total FDI inflows during the period, under the category of single brand retailing. The proposals received and approved related to retail trading of sportswear, luxury goods, apparel, fashion clothing, jewellery, hand bags, lifestyle products etc., covering high-end items. Single brand retail outlets with FDI generally pertain to high-end products and cater to the needs of a brand conscious segment of the population, mainly attracting a brand loyal clientele, which often has a pre-set positive disposition towards the specific brand. This segment of customers is distinctly different from one that is catered by the small retailers and kirana shops. FDI in cash and carry wholesale trading was first permitted, to the extent of 100 per cent, under the Government approval route, in 1997. It was brought under the automatic route in 2006. Between April, 2000 to March, 2010, FDI inflows of US $ 1.779 billion (Rs.7, 799 Crore) were received in the sector. This comprised 1.54 per cent of the total FDI inflows received during the period.

REASONS FOR BOOMING RETAILING SECTOR IN INDIA

Indian retail sector has been influenced by various factors, among these factors the following three are main reasons for booming retail sector in India.

1. **Changing age profile:** India is witnessing a change in the age and income profiles of its over 1 billion population, which is likely to fuel accelerated consumption in the years to come. The country is believed to have an average age of 24 years for its population as against 36 years for the USA and 30 years for China. A younger population tends to have higher aspirations and spends more as it enters the earning phase.

2. **Disintegration of joint family:** Besides, the gradual disintegration of the traditional Indian joint family system has led to nuclearisation of families, which in turn has led to enhanced demand. Add to this an increasing population of working women and new job opportunities in emerging service sectors such as IT-enabled services, retail, food services, entertainment and financial services.

3. **Growing disposable income:** More Indian households are getting added to the consuming class with the growth in income levels. The number of households with income of over Rs 45,000 per annum is expected to grow from 58 million in 1999-2000 to 175 million by 2013.

GLOBAL SCENARIO

FDI is permitted in the retail sector in Brazil, Argentina, Singapore, Indonesia, China and Thailand without limits on equity participation, while Malaysia has equity caps on FDI in the retail sector. FDI
in retailing was permitted in China for the first time in 1992. Foreign retailers were initially permitted to trade only in six Provinces and Special Economic Zones. Foreign ownership was initially restricted to 49 per cent. Thailand permits 100 per cent foreign equity, with no limit on the number of outlets. Indonesia permits 100 per cent foreign equity in retail business, with no limit on the number of outlets. It also does not impose any capital requirements.

REASONS FOR NOT ALLOWING FDI IN MULTI BRAND RETAIL SECTOR

The UPA government is very much enthusiastic to welcome the 100 per cent FDI in multi brand retail sector. But all the opposition parties are rejecting it. The following are the main reasons for not allowing FDI in multi brand retail sector:

1. Fear of foreign companies taking monopoly of Indian retail market
2. Price rise due to the monopoly of foreign retailers
3. Loss of employment opportunities, most of the Indian youth are considering opening a retail outlet in their locality as the last resort for earning livelihood. It is also the second most employed sector after agriculture.
4. Organized Indian retail sector holds only 5.5% of the total retail sector and that allowing FDI at this nascent stage will be adverse to the domestic sector.

SUPPORTING FACTORS FOR ALLOWING FDI IN MULTI BRAND RETAIL SECTOR

There is a serious criticism for allowing 100 per cent FDI in multi brand retail sector. However it is a long term justification for strengthening economy. The following are some of the supporting arguments for allowing FDI in multi brand retail sector:

1. Those in favour of FDI argue that India has already provided ‘backdoor’ entry to international retailers. Current norms allow foreign retailers to set up shop in India via the franchisee route, as has been done by the likes of Marks & Spencer and Mango. Foreign retailers are allowed outlets if they manufacture products in India (Benetton) or source their goods domestically. FDI is also permitted in cash-and-carry outlets, where goods are sold only to those who intend using them for commercial purposes (Metro, Shoprite). Foreign retailers therefore, have access to the Indian retail market, while India loses out on the investment.
2. India is not an integrated homogeneous market; it is a hierarchy of markets catering to people of many different income levels and tastes. Hence small retailers can very well survive in our economy.
3. Entry of sophisticated branded products affects the unbranded mass market only marginally as income of vast population in India lies in low level income zone.
4. It is more convenient and cost-effective for customers to purchase many of their daily requirements from the neighbourhood stores, especially as these establishments stock goods that are in particular demand in the locality. Hence, the pop-and-mom street corner shops can very well survive.
5. The benefits from greater exports would be particularly high in the farm sector if FDI is allowed. Right now, there is a tremendous amount of wastage and value loss of agricultural products due to lack of storage, refrigeration, transportation and processing facilities. As a result, farmers’ price realisation remains low while the consumers in the cities end up paying a high price. Given the fiscal problems of the government, it is too much to expect it to build the required infrastructure.
6. To the extent the large retailers establish a direct linkage with the farmers by cutting out many layers of middlemen, develop the processing facilities and export the products to meet their
global requirements, farmers would get better prices and bigger markets while the consumers would benefit in terms of lower prices, better quality and greater variety.

RATIONALE FOR ALLOWING FDI IN MULTI BRAND RETAIL SECTOR

1. The Agriculture sector needs well-functioning markets to drive growth, employment and economic prosperity in rural areas of the country. Further, in order to provide dynamism and efficiency in the marketing system, large investments are required for the development of post-harvest and cold-chain infrastructure nearer to the farmers' field. FDI in front end retailing is imperative to fund this investment.

2. Allowing FDI in front end retail operations will enable organized retailers to generate sufficient cash to fund this investment. Investment in organized retail by domestic players will be ineffectively deployed if FDI is delayed. International retailers should be mandated to bring with them technology and management know-how which will ensure that investment in organized retail works to India's advantage. In order to provide dynamism and efficiency in the marketing system, large investments are required for organized retailing, linked with the back end of the value chain. FDI in front-end retailing is imperative to derive full advantage of the value chain for the producer and the consumer. International retailers will bring with them technology and management know-how that will finally impact our whole retail sector through the adoption of best practices.

a. There is a need to ensure that issues of cost and quality, relating to consumers, are adequately addressed. This could be achieved through stabilizing prices and reducing inflation, which, in turn, could be achieved through direct buying from farmers, improving supply chain inefficiencies to lower transit losses, improved storage capabilities to control supply demand imbalances, better quality and safety standards through farmer development and increased processing of produce. The benefits are not limited to farmers alone. Foreign retailers would be inclined to source from the Indian market to ensure that goods reach customers on time.

3. FDI in retailing can boost exports of our country, this can happen because the foreign company will have close contact with farmers and they will have through knowledge of different markets, which will help in export. Unless they are allowed to enter our market they will not have good knowledge about our potential which will adversely affect our exports. It can bring about the various benefits to the country like Supply Chain Improvement, Investment in Technology, Manpower and Skill development Tourism Development, Greater Sourcing From India, Upgradation in Agriculture, Efficient Small and Medium Scale Industries, Growth in market size, Greater Productivity, Benefits to government through greater GDP, tax income and employment generation.

STEPS TO BE TAKEN FOR THE SMOOTH INTRODUCTION OF FDI IN MULTI BRAND RETAIL SECTOR

The government has to take the following necessary steps for the smooth introduction of FDI in multi brand retail sector:

1. When allowing foreign players to enter Indian market through FDI in multi brand retail sector, let them start by joining hands with domestic companies.

2. The percentage of FDI in the initial stage should be low (25 per cent) and gradually they should be allowed to raise their share over years. This will give the domestic companies their time to establish themselves and get ready to face the competition from foreign players.

3. Initially the Foreign players should be allowed to make their presence felt in limited cities. They should be allowed to expand their business slowly.

4. Give permission to maximum number of foreign retailers to enter Indian economy so that competition among them will help control the price hike.
5. Establishment of in-built policy to re-employ/re-locate people dislocated due to opening of big malls in the vicinity of their shops.

6. Preparation of a legal and regulatory framework and enforcement mechanism to ensure that large retailers are not able to dislocate small retailers by unfair means.

7. Extension of institutional credit, at lower rates, by public sector banks, to help improve efficiencies of small retailers; undertaking of proactive programme for assisting small retailers to upgrade themselves.

8. Establishment of a National Commission to study the problems of the retail sector; Enactment of an Act to protect medium and small retailers.

9. Providing a level playing field for small retailers; Analysis of traffic and economic impacts before a store is given permission to open.

10. Setting-up of a Retail Regulatory Authority to look into problems and to act as a whistle-blower.

11. Adequate safeguards to prevent diversion of agricultural land for building malls etc.

12. Enactment of a National Shopping Mall Regulation Act to regulate the fiscal and social aspects of the entire retail sector.

13. Formulation of a Model Central Law.

14. Local players (Domestic companies) can be encouraged to become big organizations through mergers and acquisitions; this will make them capable of competing with foreign retailers.

CONCLUSION

FDI in Multi brand retailing can be allowed in a slow and steady manner. According to World Bank, opening up the retail sector to foreign direct investment (FDI) would be beneficial for India in terms of price and availability of products. The Indian Council for Research on International Economic Relations (ICRIER) has suggested phased opening-up of the retail industry, with 49 per cent foreign direct investment allowed initially. In a report it released jointly with the Department of Consumer Affairs, ICRIER said it strongly advocates that FDI should be allowed in retailing since it would speed up the growth of organized formats. The council has said that since foreign retailers are allowed to enter the Indian market through other routes, the existing ban on FDI has not acted as an entry restriction. On the contrary, the country is losing foreign investment while the entry process has become non-transparent and complicated. India is the only major country which has still not allowed FDI in retailing.

The study strongly advocates that foreign direct investment should be allowed in retailing since it would speed up the growth of organized formats. Organized retailing has significant backward linkages through setting up of supply chains, investment in food processing industry and manufacturing units increased productivity of agriculture, growth of interlinked sectors such as tourism and IT. Consumers will also gain from organized retailing since it leads to lower price, improves the quality of the product and widens the choice of products available to them. The slow growth of organized retailing is affecting the progress of allied sectors such as agriculture, food-processing industry etc.

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