FOREIGN DIRECT INVESTMENT IN RETAIL: OPPORTUNITY AND CHALLENGES WITH SPECIAL REFERENCE TO INDIA

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ABSTRACT

FDI globally is considered to be a significant component of development strategy of any country and more so for developing countries and India is no exception to it. Indian Market is constantly on the path of growth due to its increasing size and rise in purchasing power of the people. This has gained the attention of several foreign retailers with regard to Indian Market. Opening up retail sector for FDI has its own pros and cons. Present paper focuses on a brief description of the status of Indian retail industry as of now along with challenges and opportunities which might be faced in case it is decided to open up the entire retail sector for FDI.

Keywords: FDI; India; Opportunity and Challenges; Retail

INTRODUCTION

As per Dictionary of Economics, FDI is defined as,” Investment in foreign country through the acquisition of local company or the establishment there of an operation on a new site.”

FDI on a more generic note means long term investment in a country by an entity which is not the resident of the host country.

Issue of opening up the retail sector for FDI is very sensitive in India. There is a tremendous potential for growth and development of retail sector in India as most of it is unorganized. Considering the size aspect also, as per the Investor’s Commission of India’s Report, it is expected that Retail sector will grow to the level of 660$ by 2015. Seeing the massive size of Retail Sector in India, many MMCs want to enter India. FDI is one of the many preferred routes of investment.

As per Swar(2007),” Important driver for the growth of retail sector in India includes the rapid growth in income, Increasing Urbanization, Increasing young population and increasing attitude of individual to Spend now and save earlier.

But the issue of opening up Retail Sector for FDI is very sensitive. Presently there is no permission for FDI in multi brand retail in India. Proposed figures of 26% or 49% may have major and immediate consequences. Impact of FDI in retail is expected to be mixed.

One strong view point is that opening up Retail sector for FDI will offer tremendous opportunities for growth and development. More choice of goods will be there and it will also lead to appropriate pricing by increasing the level of competition.
Contrary view point suggests the upfront challenges in the form of increase in unemployment for the local traders along with many others. There has been uproar in the parliament concerning the issue of FDI in multi brand retail.

**OBJECTIVE OF THE STUDY**

The main objectives of this study is to understand the current scenario of retail sector in India and to analyze the impact of opening up of sector in retail in terms perceived opportunities and challenges posed.

**METHODOLOGY**

Nature of the study is descriptive and exploratory.

Study is entirely based on the secondary data. Data sources includes various books, news papers, research papers published in leading journals and also various reports and websites.

**Indian Retail Sector:**

Retailing as per Delhi High Court (2004) is defined as,” Sale for final consumption in contrast to sale for further sale or processing.

Retailing is thus direct interface between Producer of goods and that of individual consumer who is buying the goods for final consumption. However, the direct interface between Producer of Goods and Institutional buyers like government.

Retail Industry is considered to be one of the Pillars of Indian Economy accounting for about 35% of GDP. It is a sector which is growing at a very fast pace.

Retail Industry is divided into two segments:

1. Organized retail
2. Unorganized retail.

Organized retailing basically means the retail activity done by retailers who have license. For eg Retail Chain, Whereas Unorganized retailing means traditional ways of doing retailing business. For example local grocery shops, local general stores etc.

Study says that in India about 97% of retail business is done by unorganized retailers.

Single Brand Retail: None of the circulars or notification of the Government provides a clear-cut definition of single brand. However even in the absence of a precise definition, the implied meaning is that foreign companies can sell goods which are sold internationally only under a single brand. For example Addidas, Reebok etc. With Reference to FDI, it implies that retail stores having foreign investments are allowed to sell only one brand. Separate permission is required if they intend selling more than one brand.

Multi Brand Retail: Similar to Single brand Retail, Government has not given any definition for multi brand Retail. With Reference to FDI, the implied meaning is that retail stores which has foreign investment can be allowed to sell multi brands under one roof. As of now multi brand retail sector in India is dominated by Kirana store.

As of now the Retail sector in India is highly fragmented with no single player dominating any segment. This structure is beneficial to both suppliers as well as consumers.

As per the Global Retail Development Index, 2012 India has been given the rank of fifth among the top 30 markets which are emerging for retail. India is considered to have strong fundamental. High Saving and Investment Rate, Growth of GDP at approx 9% real rate in 2010.In addition to above approx. 8.7% yearly growth is forecasted annually through 2016. Compound Annual Growth Rate of 13.3% has been observed in the Indian Retail industry during the financial year 2006-2010. As per
Shukla(2007) and Goya et al.(2009) fastest growing sectors within the organized retail includes food and grocery, health and Beauty, Jewellery, Apparel, Consumer Durables.

FDI in Retail: Present Status of the Regulation:

FDI in India is very much restricted in retail sector. Policy was eased by the government for the first time in 2006 allowing up to 51% FDI in Single Brand Retail.

In India, Foreign Investments are governed by the Government of India’s FDI policy and the % nodal agency for reviewing the FDI policy from time to time is the Ministry of Commerce and Industry.

As per FDI policy of 2010,

1. FDI up to the extent of 100% for cash and carry for whole sale trading and export trading is allowed under the automatic route.

2. FDI up to the extent of 51 % with the prior approval of Government ( Foreign Investment Promotion Board) for retailing of single brand Product

3. No FDI in multi brand Retailing in India.

This is the situation as per current regulatory situations. Thus as of now FDI in multi brand retail is totally prohibited. It is only allowed to the extent of 51% in Single brand retail that too through the government route.

Impact of FDI: Whenever we try to analyze the impact of opening up of this retail sector for FDI with the discussion of probable pros and cons, we need to consider the effect over a long time period instead of immediate effects considering the various unique factors specific to individual country.

Perceived Opportunities:

A Survey was conducted by CII in 2011-2012, for studying the impact of FDI on SMEs (Small and Medium Enterprises). Number of SMEs surveyed was 250. As per survey result, Majority of SMEs were for 100% of Foreign Direct Investment in single brand retail sector .About 66.7% see the FDI in retail as an opportunity whereas 21% perceived it to be a threat. 12.5% opinioned that there would not be any impact of FDI to their SME sector.

One school of thought suggests that opening up of retail sector for FDI will offer significant benefit both to Indian economy as well as Indian retailers.

As per Kalhan(2007), Indian retailers will benefit from the international experience and best practices introduced by foreign retailers.

Organized retailing might benefit the farmers also. DIPP(2010) report suggests that farmers get only about approx one third of the price paid by the consumers whereas this proportion is two third in case of those countries where retail sector is more organized. Big retailers in order to be competitive in the market will buy the product directly from the farmers by eliminating middleman. This will benefit the farmers as well as also help the economy by controlling the food inflation.

Inefficient supply chain is a matter of concern in India especially when it comes to agricultural produce. As per data, around 35-40% of fruits and vegetables and approx 10% of food grains get wasted annually in India. It is also argued at length that there can be a significant improvement in Warehousing and Distribution System in India leading to overall improvement in supply chain because of the technical expertise from foreign firms.

As per DIPP discussion paper (2010), there are several companies in retail sector in India

Which are under considerable debt. Opening up of retail sector for FDI would stimulate investment in this sector benefitting the companies.
Company | DEBT(Rs) | Market Capitalization(Rs)
--- | --- | ---
Pantaloon | 4200 Cr | 386.7Cr
Vishal Retail | 700 Cr | 42 Cr
Provogue | 400 Cr | 275 Cr

It is also argued that Big Retailers will source from Indian Producers and will benefit many FMCG Companies like Godrej, Dabur etc.

And finally from the angle of end consumers as per Baskar(2007), it is seen from the United States experience that there has been an increase in the overall efficiency in the retail sector leading to the better price and increased convenience for the ultimate consumers.

It is also argued that probably opening of retail sector might lead to quality job opportunities in the retail sector leading to the overall improvement in the standard of living and also life style of common man.

Perceived Challenges:

There is a massive outcry about the negative impact which liberalization of Retail sector might have on local communities ie. Small unorganized retailers, farmers, consumers etc.

According to Charles Fishman(2006), Wal Mart effect occurs when Wal-Mart or any other big retailers comes to town. They re shape the shopping habit and the viability of traditional local shopping areas is drained out.

First Concern relates to loss of employment. As per NSSO Report( 2007), after agricultural sector , retail sector is the second largest employer in India. Liberalization in this sector may probably lead to loss of jobs for the middleman and also unemployment for front end retailers.

However the empirical studies have given mixed results as to the impact of liberalization on loss of jobs. As per study conducted by Basker(2005) ,entry of Wal Mart increased the level of Retail employment in USA during the year of entry. But there is a contradictory conclusion of an study conducted by Neumark,Zhangand Ciccarella(2008) which states that one Wal Mart worker replaces approximately 1.4 retail. This when computed means on an average 2.7% reduction in retail employment.

It is also argued that multinational companies considering their considerable size might use size as their weapon to kill the competition .Kalhon( 2007) , have highlighted that local small shopkeepers in Mumbai are badly affected because of growing shopping mall culture in Mumbai.

MNCs may even try to squeeze the margins from their suppliers in an attempt to offer competitive price, thus challenging the argument that Indian Supplier will be benefitted. There is a case of Mexico highlighting this aspect. Wal Mart Mexico had a disastrous impact on Mexico’s Manufacturing Unit since its arrival to the country in 1991.Many suppliers were driven out of the business In a bid to maintain their profit margins while passing on the benefits to the consumers, they ended up forcing local suppliers to cut costs. Local suppliers got badly affected because of this. After a decade they ended up importing more than 50% of merchandise from low wage foreign countries like China. Thus it is feared that the argument that consumers will be benefitted seems to be happening only in short term. In the long run probably entire economy seems to be affected very badly.

It is also said that opening of this sector for FDI can also lead to perceived distortion of Indian Culture to some extent.

CONCLUSION

FDI in retail is a highly debatable issue which needs to be resolved after considering the long term impact on various shareholders.
As per a study conducted by Anusha.C and TCA M Raghvan(2011) potential benefits significantly outweighs cost in case of entry of large scale retailers into the country. Indian Council of Research in International Economic Relations (ICRIER), had also concluded that investment in retail sector would not harm the interest of small and traditional retailers in the long run.

More ever it is also equally significant to understand that most of the focus in case of debate for and against opening up of the sector for FDI has been on the issue of impact on small retailers whereas the issues of impact on ultimate consumers have been grossly under considered. While ultimate consumers will ultimately get benefitted due to increased competition and wide choice, small retailers may not lose much provided they try to provide quality services because ultimately its consumer’s choice to decide where he wants to go that is big shopping malls or small retail stores.

Considering the various Opportunities vs. Challenges with reference to opening up of Retail Sector, it can be concluded that retail sector should be opened up FDI gradually with a proper machinery of vigilance by having a strong regulator. It should be dealt very cautiously seeing its impact and our unique social economic conditions. It is a widely known fact that foreign capital inflow if uncontrolled and unregulated may end up widening the gap between rich and poor. Appropriate safeguards must be taken to ensure that positives outweigh the negatives and also it should be ensured that small retailers can also coexist along with the bigger ones. For example investment in infrastructure and back end supply chain can be made a precondition before granting permission for investment in multi brand retail. Some sort of job reservation can also be proposed for rural youth. Planning should be done in such a manner that there should be a win win situations for all stakeholders.

REFERENCES

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