

Foreign direct investment in retailing in India

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Abstract

Foreign direct investment is the best way of transferring business knowledge from the developed to developing countries. FDI consists of not only technology defined in the conventional sense of production processes for existing and new products, but also organizational, managerial, marketing, distribution, procurement and logistics knowledge and systems. The Indian retail industry is 5th largest in the world. Currently more than 80% of the retail industry is concentrated in large metros. The unorganized and self-employed retail around 10 million constitutes around 96% of the market. One should assess the pros and cons of FDI in retailing over the next 10 to 20 years. This article focuses on a critical analysis on the efficacy of implementing FDI policy in retail sector in India. There is no denying that foreign capital will flow into the country and the economic agenda of the Government is intact. However the adverse implication felt over long time in terms of job loss and displacement of small retailers and traditional supply chains. A large number of countries have expressed negative impacts of multinational retail chains. Therefore, it is important to the policy makers to learn such experiences from past in India and other countries. Government should adopt a cautious approach towards allowing FDI in retail sector.

Keywords: direct investment, retailing

Introduction

India is one of the most attractive markets for investment by the global investors in retail industry. Foreign direct investment is the best means of transferring business knowledge from the developed countries. This consists not only of knowledge defined in the conventional sense of production processes for existing and new products but also organizational, managerial, marketing, distribution, procurement and logistics knowledge and systems. FDI flows are preferred over other forms of external finance because they are non-debt creating, less volatile and their returns depend on performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology. According to Mc Kinsey global Institute (2010), India is likely to join the premier league of world's consumer market by 2025. The retail market in India has experienced an astronomical growth in the post-liberalization period.

Objective of Study

To make a critical analysis on the efficacy of implementing FDI policy in retail sector in India.

Review of Literature

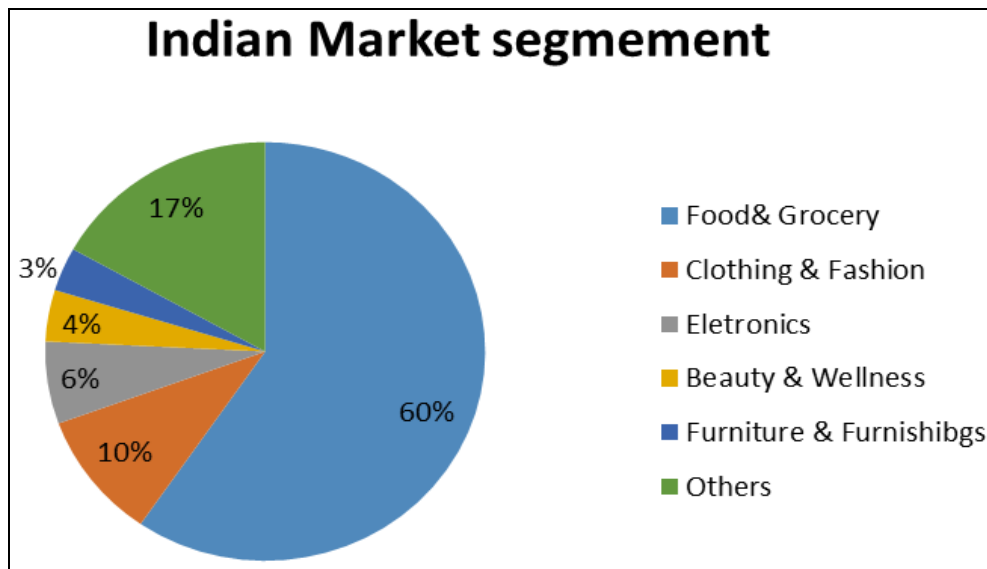
Retailing is an interface between Manufacturer/ supplier and consumer of the product. It is the retailer through whom the customer gets the glimpse of the product, makes the purchase decision and does the final transaction. In other words

suppliers use retail platform to interact with the customers, understand their preferences and promote their offerings. Indian retail sector is highly fragmented with 96% of the market is dominated by unorganized retailers. The share of organized retailing is around 4%. The unorganized retailing includes local kirana shops, pan beedi shops, street vendors, local mom and pop stores. Most of the shopping takes place in local bazaars, small independent grocery shops and retail stores in the locality. These shops are mainly family run businesses employing very few personnel and access to shelf and product areas is limited.

Indian Retail Market

In terms of population, India is the second largest country in the world. Indian economy has survived during global recession and with high growth rate during that period. Consumer expenditure increasing over the years with increase in per capita income, which shows a positive sign for the producers in the Indian market who want to sell their products. Increasing urbanization and surging youth population are a boost for Indian retail sector. It is forecasted that by 2020, the average age of Indian will be 29 years as compared to 37 years for China and 49 years for Japan. This will promote the market for clothing, fashion, beauty & wellness and also electronic segments of Indian retail industry.

Indian retail market is broadly divided into six segments, which has been showed in the figure-1.



Multi-brand Retailing

It refers to marketing of different unrelated competitive products under single roof /firm. Multi-brand retailing gives many benefits such as i. obtaining greater space for owns products and leaving little for competitors' products; saturating the market by filling all price and quality gaps; useful for brand switching users in providing different brands; Increased competition will improve competitors knowhow resulting increased standards; consumers will be able to reap the benefits of global industries; the domestic retailers will be able to develop the technology to compete with global competition resulting joint ventures, mergers etc., and also India will become a global shopping destination leading to increased economic benefits.

Challenges in Multi-Brand Retailing

According to several studies on multi-brand retailing, it is concluded that, if FDI has to setup in multi brand retailing, then it will have negative impacts, which will have a constraint in FDI flows in retail sector in India. These challenges may include, big retailers may become dominant and start more bargaining power over a period of time. The political scenario and competition from Indian multi-brand retailers is also a constraint for FDI.

FDI in retail - Boon or bane for India

Sujith kumar Roy *et al* (2012) ^[11] today, as much as two-thirds of world trade amounting to 2trillion, is accounted for by 1000 odd- multinational enterprises (MNEs). KPMG (2010), The Chinese frontier has already been won, there is no surprise that MNEs will be vying for the lucrative retail market in an emerging economy like India where about 10% of the Country's GDP of US\$ 1 trillion comes from retail sales to Indian consumers. Mukherjee and Patel, (2005) ^[8], the size of retail market is, too big to be ignored. But the same time, the inherent risk in allowing MNEs entry into the Indian retail market is far bigger and is not affordable without further thought about all its attendant hazards.

Boon -FDI in retail means foreign direct investment in the Indian retail business. It is a major step towards providing liberalization to the farmers from middlemen and ensuring remunerative prices to their products. Now the retail business

can be either a single brand retail business (like say one particular brand for example Gucci setting up its store in India) or multi brand retail (like Walmart, Carrefour). Foreign players will bring e necessary investment to upgrade the retail sector infrastructure across India. It would create employment opportunities to cater to these retail stores, to manage supply chains effectively. The emphasis would be on reduction in wastage of food items. This would bring down the food prices which have been a major cause of inflation in the country as well as a source of public dissent against the government. Foreign players would bring in the practice of contractual farming which would be beneficial for the farmers as middlemen are removed between farmers and sellers. Efficient supply chain management can be expected which will ensure prompt delivery of the products. Retail trade in India is a capital starved sector. The provision of FDI involves an effective solution to the problem of capital deficiency. With the entry of foreign retailers, consumers will experience more variety of products with improved quality.

Bane the people who are opposing FDI in retail sector are saying that large foreign players work on wafer thin margins since they offer their goods at low prices. In that scenario they would procure their goods at the lowest possible price to get the maximum benefit. More over there will be a loss of livelihood for millions of small time traders who would not be able to compete with the large foreign players in terms of prices. In addition, manufacturing sector would suffer since the foreign players would source their products from international markets in order to get low prices. Some are opining that a fragmented market is better than a consolidated market in India's case simply because the retail sector in India is very small and a large number of small time independent traders and retailers are dependent on it for their survival. Also the middlemen will be replaced by large foreign players who would anyway squeeze the producer for lower prices. Swapan Kumar Roy (2012) ^[11] More over A total population of around 58.8 million small and marginal farming families that is more than 32crore rural people live on farming in India. Their farm size is 5acres or less when compared to UK (432 acres), France (274 acres) Canada (1798 acres), USA (1089 acres) and Australia (1798). So a country like India should not allow FDI in retail sector as the foreign retailers will hurt domestic

players with the practice of predatory pricing and become monopolies.

FDI policy towards retail sector

India has taken a conservative approach towards allowing foreigners in to the trading sector. In 1997, 100 percent FDI in cash and carry whole trading was first time permitted mandatorily under the Government Approval route. The definition for wholesale trade was not clear at that stage. However the demarcation between wholesale trading and retail trading was made it clear in Federation of India Vs Union of India (2005, 79, Dr 426).

According to World Trade Organisation’s General Trade Agreement on Trade in Services (1995) included FDI in both whole sale and retailing services. As a result of India’s promise on progressive liberalization, in 2005, India has submitted a revised conditional offer under the ongoing negotiations on Trade in Services under Article, XIX of the GATS to WTO, which includes opening in commission agents’ services and whole sale services, but the retailing sector still remains unbounded category of commitments. GATs is essentially based on the principle that guaranteed policy binding and non-discrimination in which all members will be treated as equal with respect to market access.

Since 2006, 51% FDI is allowed in Single Brand Retail and FDI up to 100% is allowed under Automatic route for cash and carry whole sale trading. In 2012, The Government removed restrictions on FDI in the Single Brand retail sector and notified 100% FDI in Single Brand retail and 51% in multi-brand retail.

The current scenario of Retailing in India

India is a land of retail democracy. Millions of weekly haats and bazaars are located in streets across the length and breadth of the country with people’s own capabilities. In a country with large number of people and high level of poverty, the existing model of retail democracy is the most appropriate in terms of economic viability. In the globalised environment, one cannot shut its doors to the world. However, FDI in retail would potentially lead to a more comprehensive integration of India into the global market. It is imperative to the Government to promote this sector for the overall economic development and

social welfare of the country. A.T. Kearney GRDI (2011), India is in 4th position among 30 developing countries in terms of retail sector prospects in those nations. The FDI flows in by various countries and sectors are given below:

Table 1: Foreign Direct Inflows in India

Top six contributors	2012-13	2013-14	2014-15 (provisional)	% of change in 2015 over 2014
Mauritius	8059	3695	5878	59.1
Singapore	1605	4415	5137	16.4
Netherlands	1700	1157	2154	86.2
Japan	1340	1795	2019	12.5
USA	478	617	1981	221.1
United Kingdom	1022	111	1891	1603.6
Total FDI	18286	16054	24748	54.2
Sector				

United Kingdom is the highest contributor with a changeover of 1603.6 % in 2015 over 2014.

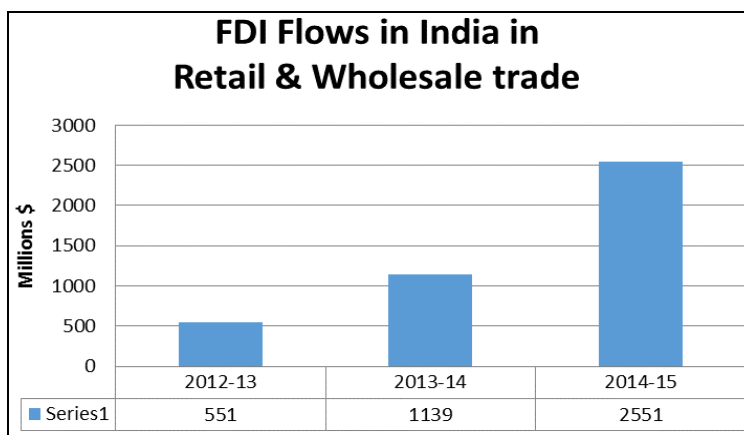
Table 2: Foreign Direct Inflows in Indian market (Millions)

	2012-13	2013-14	2014-15 (provisional)	% of change in 2015 over 2014
Manufacturing	6528	6381	9613	50.7
Financial Services	2760	1026	3075	199.7
Retail and Wholesale trade	551	1139	2551	124.0
Computer services	247	934	2154	130.6
Construction	1319	1276	1640	28.5

Table 3: Sector Wise Foreign Direct Inflows in India (Millions)

Sector	Apr- Jun 2015	Jun-Dec 2015	% of contribution to recent FDI
Computer software and Hardware	17575	5344	11.1
Trading	8958	4618	9.6
Telecommunications	17453	4515	9.4
Services Sector	43,350	4526	9.4
Automobile	13477	4311	8.9
Construction Development	24098	1104	23
Total	258020	48179	100

Trade flows in Retail and whole sale trade is given in figure: 2



FDI in whole sale trade and retail trade has increased from 1139 to 221 millions. It indicates 124.0 % of change in 2015-16 over 2014-15. Foreign direct investment in India is guided by the approval from RBI/ Foreign Investment Promotion Board and

FEMA guidelines. The overall monitoring authority is the Department of Industrial policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India.

India Foreign Direct Investment forecast 2016-2020

Indian retailing is the largest private sector in India. The liberalization of FDI in retail clearly indicates a shift of power from manufacturing sector to retail sector (Ailwadi, 2001) ^[1]. The hoopla is regarding the government's decision to allow FDI of 51% under multi brand retail. The Delhi High Court has issued a press note in March this year clarifying that 100 per cent FDI through automatic route was permissible in online retails running under 'marketplace model'.

Foreign Direct Investment in India is expected to be 3535.91 USD Million by the end of this quarter, according to Trading Economics global macro models and analysts expectations. Looking forward, we estimate Foreign Direct Investment in India to stand at 3401.25 in 12 months' time. In the long-term, the India Foreign Direct Investment is projected to trend around 3396.49 USD Million in 2020, according to our econometric models.

Conclusion

FDI in retailing would potentially lead to a more comprehensive integration of India into the global market and as such it is imperative for the government to promote this sector for overall economic development and social welfare of the country. Notwithstanding, India has her own cultural heritage, which may have to face challenges from brand conscious youths. Anything indigenous may have to try to gain footing as the choices and preferences of our youth are likely to be inclined for foreign brands. Therefore, it may not be wrong, if any conservative citizen fears the loss of the very identity of anything 'Indian'. The dominance of foreign players in retail market may further enhance class division among classes.

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