Research Paper
Impact Factor: 4.729
Refereed, Listed & Indexed

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

A STUDY ON OPPORTUNITIES AND CHALLENGES OF FOREIGN DIRECT INVESTMENT (FDI) IN RETAIL SECTOR IN INDIA

Prof. Sanjeev Bhatnagar
Professor, Department of Management, Dayalbagh Educational Institute, Agra.

Abstract
In today's competitive global business environment, innovations are required for growth & survival of FDI which can be used as an innovative tool in order to accelerate growth. Despite encouraging signs, India's retail market remains largely off-limits to large international retailers like Wal-Mart and Carrefour.

Foreign direct investment (FDI) is direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment (FDI) is an integral part of an open and effective international economic system, which acts as a major catalyst in the development of a country. Indian retail industry is one of the sunrise sectors with huge growth potential.
+
The retail sector, despite the ongoing wave of incessant liberalization and globalization, stems from the absence of FDI encouraging policy in the Indian retail sector. Moreover, technical know-how from foreign firms, such as warehousing technologies and distribution systems can improve supply chain efficiency in India, in particular for agricultural produce. Better linkages between demand and supply have the potential to improve the price signals that farmers receive and also serve to enhance agricultural and other exports.
In this context, the paper attempts to review the latest opportunities and challenges of FDI inflows into the Indian retail sector, based on the FDI Policies of the country.

Keywords: Foreign Direct Investment, Opposition to Liberalization, International Economic System, Indian Retail Industry, Price Signals.

Introduction

Foreign Direct Investment is a method of allowing financial resources, technology, and techniques raises in the diverse sector of economy. Basically it is considered as a tool to a economic development and also in various other sector of the techniques like in Defence sector, retail sector, agriculture sector, service sector and many more. Foreign direct investment is defined by the Reserve Bank of India as when a foreign country wants to establish any business operation in India which may include company under the company act, 1956(joint venture or wholly owned subsidiary) or set up a liaison office or project office or a branch office of the foreign company which can undertake activities permitted under the foreign exchange management regulation, 2000.

Retail Sector is one of the most important pillars of Indian economy and it is growing at a phenomenal pace. The increasing disposable incomes among the Indian middle class, increased urbanization, credit availability, improvement in infrastructure and increasing young population have been cited as the main reasons for the attractive optimism. Foreign Direct Investment (FDI) in the Indian retail sector plays an integral role in the economic growth of the country.

A widespread liberalization and deregulation of financial markets, cross-border mergersand acquisitions (M&As), increasing role of investors willing to invest abroad, rapid advances in modern telecommunication and computer network – have all resulted in a tremendous upsurge of international capital flows in India, particularly private capital flows, as compared to official capital flows over the last two decades. Among the various forms of foreign investment, foreign direct investment (FDI) flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depends on the performance of projects financed by the investors.

FDI provides a win – win situation to both the host and the home countries. The home‟ countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the „host‟ countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, in order to overcome the deficiencies of all kinds of resources like- financial, capital,

Entrepreneurship, technological know- how, skills and practices, access to markets- abroad - in their economic development. Developing nations accepted FDI as a sole visible panacea for all their scarcities.

Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption.

India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness (A.T. Kearney‟s Annual Global Retail Development Index (GRDI) for the year 2012). So being a signatory to World Trade Organization's General Agreement on Trade in Services, had to open up the retail trade sector to foreign investment. There were initial reservations towards opening up of retail sector due to fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector to Foreign Direct Investment (FDI). The Government cap over FDI in retail has been a personification of the dilemma that confronts policy makers about whether opening up FDI in retail would be a boon or bane for the sector.

Objective of the study

1. To study the current retail scenario in India, investigate the controversial views of different stakeholders .
2. To evaluate the likely challenges and threats of FDI in both single and multibrand retail in India.

Review of Literature

Prof. Kore Chandrakant (2011) examines the changing habits of Indian consumers, impact of FDI on consumers, suppliers and present retailers. It raises the concern regarding the employment opportunities citing the example of Wal-Mart, the world's largest retailer which has the capability of wiping out immediate competition and sustaining losses for few years, an estimated eight million people in the unorganized sector will be displaced.

Moghe (2012) critically analyzed the decision of Indian government to open retail sector for FDI in single-brand and multi-brand category and it's likely to have an adverse impact on various components of Indian economy.
Vaidehi and Alekhya (2012) studied the positive and negative effects of FDI on Indian economy. It can be concluded that to keep pace with the forecast of Indian GDP, government should encourage foreign investment.

Jain and Sukhlecha (2012) studied FDI in multi-brand retail and tried to establish the need of the retail community to invite FDI in multi-brand retailing.

Kumar (2013) examined the decision of government to allow 51 percent FDI in multi brand retail. India came under serious flake due to many reasons, loss of employment being one of them.

Mahadevaswamy and Nalini (2013) analyzed the perceptions of the common man about foreign direct investment (FDI) in multi-brand retailing (MBR).

Methodology

The study is based on secondary data and information collected from books, journals, government publications, newspapers etc., and research is descriptive in nature. Data is presented in the form of tables and analyzed in the form of charts. Internet searching has also been done for this purpose.

Overview of Retail Sector in India

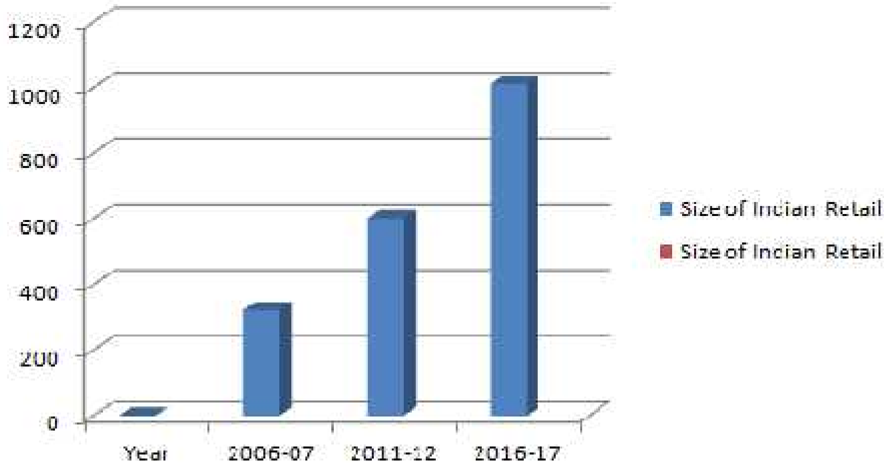
Retailing is one of the prime movers of an Indian economy. In India, retailing is the second largest industry accounting for about 14 to 15% of its GDP and around 8 % of the employment. Nearly 40 million people earn their livelihood from retailing business and majority of them are small traders, kirana shop owners etc. In 2010, the Indian retail market was valued at $435 billion and attracted the largest number of new retailers. According to study conducted by Indian Council for Research on International Economic Relations (ICRIER), total retail business in India will grow at 13% annually, from $ 322 billion in 2006-2007 to $ 590 billion in 2011- 2012 and further to $ 1 trillion by 2016-2017.

Current Position and FDI Norms in Indian Retail

In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011). 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 (figure 1)

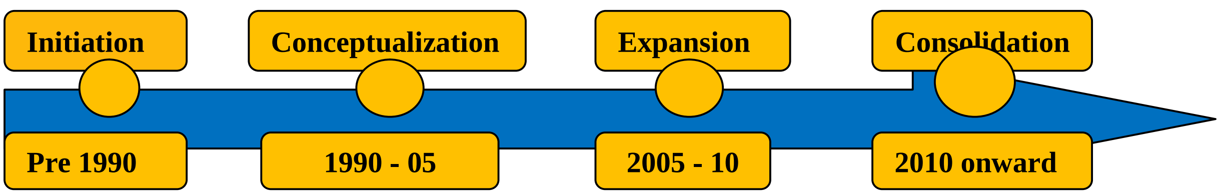
IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Figure – 1
Size of Indian Retail (in US $ bn)



Source: Technopak Analysis, CSO and other sources.

Figure - 2
Evolution of Retail in India



Manufactures opened their own outlets

pure play retailers realized the potential of the market most of them in apparel segment

substantial investment commitment by large Indian corporate entry in good & gener. Merchandise Category Pan-India Expansion to Top 100 cities

- Cumulative FDI inflow from April 2000 to September 2015 reached USD 344.93 million.
- Retail 2020: Retrospect, Reinvent, Rewrite
- Movement to smaller cities and rural areas
- More than 5–6 players with revenues over USD1 trillion by 2020
- Large-scale entry of international brands
- Approval of FDI limit in multi-brand retail up to 51 per cent
- Rise in private label brands by retail players
- Sourcing and investment rules for supermarkets were relaxed
- E commerce has emerged as one of the major segments

Source: Technopak Advisors Pvt Ltd, BCG, TechSci Research

As a part of the economic liberalization process set in place by the Industrial Policy of 1991, the government of India opened up the retail sector to FDI through a series of steps:

1. 1995 – World Trade Organization's (WTO) General Agreement on
2. Trade in Services (GATS) which included both wholesale and retail trade
3. in services came into effect.
4. 1997 – FDI in cash and carry (wholesale) allowed up to 100% under the

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

5. Government approval route.
6. 2006 - FDI in single brand retail was permitted to the extent of 51%; FDI
7. in cash and carry brought under automatic route.
8. 2011 – 100% FDI in single-brand retail permitted with government
9. approval; 51% FDI in multi2005 - 10-brand retail with few conditions.

Division of Indian Retail Industry
The Indian retail industry in two major segments

1. Organized retailing
2. Unorganized retailing.

Organized Retailing:relates to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.
Unorganized Retailing:deals with the traditional formats of low-cost retailing, like- the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

Opportunities And Threats Of FDI in Retail in India
India is tipped as the second largest retail market after China, and the total size of the Indian retail industry is expected to touch the $300 billion mark in the next five years from the current $200 billion. But the recent debate has centered on the issue of whether FDI in retail in India will be a “boon or a bane”. According to a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP, 2010), FDI in retail must result in backward linkages of production and manufacturing and spur domestic retailing as well as exports. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits.

Major perceived benefits of allowing FDI in retail in India

1. **Capital Infusion**
   FDI- a major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.
2. **Boost Healthy Competition and check inflation**
   This promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.
3. **Improvement in Supply Chain**
   Coupled with capacity building and introduction of modern technology to help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages)
4. **Improvement in Customer Satisfaction**
   Increasing tendency focuses on quality and ease and access to a “one-stop shop” which create a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies is challenged.
5. **Improved technology and logistics**
   This sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning, could be a direct consequence of foreign companies opening retail shops in India
6. **Benefits for the Farmers**
   With the onset of multi-brand retail, the food and packaging industry also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure.
7. **Creation of More And Better Employment Opportunities**
   Entry of foreign companies into Indian Retailing are expected to create employment opportunities & also ensure quality in them. This system helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with the citizens of developed nations.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Conclusion

The retailers in organized and unorganized sector are adopting new strategies to enhance their market share. The present study was conducted with the purpose of identifying the impact of FDI in retailing with the perception of unemployed youth on employment opportunities in India. To conclude, FDI in retail will help integrate the Indian economy with the global economy. It will also help increase the experience in organized retailing sector and the availability of quality human resources at low costs. FDI in retail would reduce the intermediate costs and the costs of production and impose setting up of integrated supply chains that would minimize wastage, give producers a better price and will be beneficial to producers/manufactures and consumers.

India's retail sector remains off-limits to large international chains especially in multi-brand retailing. A number of concerns have been raised about opening up the retail sector to FDI in India. The first concern is the potential impact of large foreign firms on employment in the retail sector. A second related concern is that opening up FDI would lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business. A third concern raised by domestic incumbent firms in the organized retail sector is that this sector is under-developed and in a nascent stage.

Reference

1. Department of Industrial Policy and Promotion, 2010. “Foreign Direct Investment (FDI) in MultiBrand Retail Trading,” Discussion paper. Available at http://www.dipp.nic.in
2. Dube, Arindrajit, Lester, T. William and Eidlin, Barry, 2007. “Firm Entry and Wages: Impact of WalMart Growth on Earnings Throughout the Retail Sector.”
3. Kalhan, Anuradha and Martin Franz, 2009, “Regulation of Retail: Comparative Experience,” Economic and Political Weekly, Vol.44, No.32, pp.56-64.
4. Neumark, David, Junfu Zhang, and Stephen Ciccarella, 2008. “The Effects of Wal-Mart on Local Labor Markets,” Journal of Urban Economics, Vol. 63, No. 2, pp. 405-430.
5. Sarma, E.A.S, 2005, “Need for Caution in Retail FDI,” Economic and Political Weekly, Vol.40, No.46, pp.4795-98.
6. Volpe, R. J. and N. Lavoie, 2008. “The Effect of Wal-Mart Supercenters on Grocery Prices in New England,” Applied Economic Perspectives and Policies, Vol. 30, No. 1, pp. 4 - 26.
7. A.T. Kearney (2011): “Retail Global Expansion: A Portfolio of Opportunities-2011 Global Retail Development Index”, A.T. Kearney, 2011 [3]
8. CBRE (2011): How Global is the Business of Retail. CB Richard Ellis, Global Research and Consulting, 2011 Edition. [4]
9. Department of Industrial Policy and Promotion, 2010. “Foreign Direct Investment (FDI) in Multi- [5]
10. Brand Retail Trading,” Discussion paper. Available at http://www.dipp.nic.in. [6]
11. Basker, Emek, 2005a. “Job Creation or Destruction? Labor Market Effects of Wal-Mart Expansion,” [7]
12. Review of Economic Statistics, Vol. 87, No. 1, Pages 174-183.
13. Chari, Anusha. and T.C.A. Madhav Raghavan: “Foreign Direct Investment in India‟s Retail Bazaar: Opportunities and Challenges”, March 2011. [10]
14. Confederation of Indian Industry (2012): “The Impact of FDI in Retail on SME Sector: A Survey Report”. [11]
15. Joseph, M., N. Soundararajan, M.Gupta and S. Sahu (2008): “Impact of Organized Retailing on the Unorganized Sector”, ICRIER, May, 2008. [12]
16. Joseph, M. and Nirupama Soundararajan (2009): “Retailing in India: A Critical Assessment”, Academic Foundation, New Delhi.