International Journal of Management, IT & Engineering
Vol. 7 Issue 6, June 2017,
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

FDI IN INDIAN RETAIL SECTOR

Zeba Sabiha Khan*

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 almost three times its current levels to $660 billion by 2015. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organised 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 analyse the strategic issues concerning the influx of foreign direct investment in the Indian retail industry. Moreover, with the latest move of the government to allow FDI in the multiband retailing sector, the paper analyses the effects of these changes on farmers and agri-food sector. The findings of the study point out that FDI in retail would undoubtedly enable India Inc. to integrate its economy with that of the global economy. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged.The paper ends with a review of policy options that can be adopted by Competition Commission of India.

Keywords: Organised retail, sunrise sector, globalisation, foreign direct investment, strategic issues and prospects, farmers and agri-food sector.

* **Research Scholar (Commerce) A.P.S. University, Rewa (M.P.)**

Introduction

India being a signatory to World Trade Organisation‘s General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towardsopening up of retail sector arising from 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 slowly to Foreign Direct Investment (FDI).

All Indian households have traditionally enjoyed the convenience of calling up the corner grocery "kirana" store, which is all too familiar with their brand preferences, offers credit, and applies flexible conditions for product returns and exchange. And while mall based shopping formats are gaining popularity in most cities today, the price-sensitive Indian shopper has reached out to stores such as Big Bazaar mainly for the steep discounts and bulk prices. Retail chains such as Reliance Fresh and More have reportedly closed down operations in some of their locations, because after the initial novelty faded off, most shoppers preferred the convenience and access offered by the local kirana store.

So how this Western multi-brand would stores such as Wal-Mart and Carrefour strategies their entry into the country and gain access to the average Indian household? Wal-Mart has already entered the market through its partnership with Bharti, and gained opportunity for some early observations. The company's entry into China will also have brought some understanding on catering to a large, diverse market, and perspectives on buying behaviour in Asian households. Carrefour on the other hand has launched its wholesale cash and carry operations in the country for professional businesses and retailers, and will now need to focus more on understanding the individual Indian customer.

As such, these retail giants will try to gain from some quick wins while reaching out to the Indian consumer. For one, they will effectively harness their expertise with cold storage technologies to lure customers with fresh and exotic vegetables, fruits and organic produce. Secondly, they will also emphasise on the access that they can create for a range of inspirational global foods and household brands. Thirdly, by supporting domestic farmers will try ensuring supplies of essential raw materials to them.

Surely, these should engage shoppers' and farmers interest–but what needs to be seen is whether they can effectively combine these benefits, with the familiarity, convenience and personalised shopping experiences that the local "kirana" stores have always offered.

Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP.The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment (FDI) in multibrand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.In November 2011, India's 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 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% ownership, but imposed the requirement that the single brand retailer source 30% 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% requirement.Fitch believes that the 30% 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.

Research Methodology

The researcher has adopted analytical, descriptive and comparative methodology for this report; reliance has been placed on books, journals, newspapers and online databases and on the views of writers in the discipline of Competition law.

Challenges and Attractions for Global Retailers

The key factors that drive growth in retail industry are young demographic profile, increasing consumer aspirations, growing middle class incomes and improving demand from rural markets. Also, rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes. Liberalization of the Indian economy, increase in spending per capita income and the advent of dual income families also help in the growth of retail sector. Moreover, consumer preference for shopping in new environs, availability of quality real estate and mall management practices and a shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc. also contributes to the spiral of growth in this sector. Furthermore, the Internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains.

The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a25% shareA 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers.,The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020.

History has witnessed that the concern of allowing unrestrained FDI flows in the retail sector has never been free from controversies and simultaneously has been an issue for unsuccessful deliberation ever since the advent of FDI in India. Where on one hand there has been a strong outcry for the unrestricted flow of FDI in the retail trading by an overwhelming number of both domestic as well as foreign corporate retail giants; to the contrary, the critics of unrestrained FDI have always fiercely retorted by highlighting the adverse impact, the FDI in the retail trading will have on the unorganized retail trade, which is the source of employment to an enormous amount of the population of India.

The antagonists of FDI in retail sector oppose the same on various grounds, like, that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agriculture sector; secondly that the global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers; thirdly, it would lead to asymmetrical growth in cities, causingdiscontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.

Many trading associations, political parties and industrial associations have argued against FDI in retailing due to various reasons. It is generally argued that the Indian retailers have yet to consolidate their position. The existing retailing scenario is characterized by the presence of a large number of fragmented family owned businesses, who would not be able to survive the competition from global players. The examples of south East Asian countries show that after allowing FDI, the domestic retailers were marginalised and this led to unemployment.

Another apprehension is that FDI in retailing can upset the import balance, as largeinternational retailers may prefer to source majority of their products globally rather than investing in local products. The global retailers might resort to predatory pricing. Due to their financial clout, they often sell below cost in the new markets. Once the domestic players are wiped out of the market foreign players enjoy a monopoly position which allows them to increase prices and earn profits.Indian retailers have argued that since lending rates are much higher in India, Indian retailers, especially small retailers, are at a disadvantageous position compared to foreign retailers who have access to International funds at lower interest rates. High cost of borrowing forces the domestic players to charge higher prices for the products. Another argument against FDI is that FDI in retail trade would not attract large inflows of foreign investment since very little investment is required to conduct retail business. Goods are bought on credit and sales are made on cash basis.

Hence, the working capital requirement is negligible. On the contrary; after making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

Effects of FDI on various Stakeholders

A supermarket revolution has been underway in developing countries since the early 1990s. Supermarkets (here referring to all modern retail, which includes chain stores of various formats such as supermarkets, hypermarkets, and convenience and neighbourhood stores) have now gone well beyond the initial upper- and middle-class clientele in many countries to reach the mass market. Within the food system, the effects of this trend touch not only traditional retailers, but also the wholesale, processing, and farm sectors.When supermarkets modernize their procurement systems, they require more from suppliers with respect to volume, consistency, quality, costs, and commercial practices.

Supermarkets‘ impact on suppliers is biggest and earliest for food processing and food-manufacturing enterprises, given that some 80% of what supermarkets sell consists of processed, staple, or semi-processed products. But by affecting processors, supermarkets indirectly affect farmers, because processors tend to pass on the demands placed on them by their retail clients. Supermarket chains prefer, if they are able, to source from medium and large processing enterprises, which are usually better positioned than small enterprises to meet supermarkets‘ requirements. The rise of supermarkets thus poses an early challenge to processed food microenterprises in urban areas.

By contrast, as supermarkets modernize the procurement of fresh produce (some 10–15% of supermarkets‘ food sales in developing countries), they increasingly source from farmers through ―specialized and dedicated wholesalers‖ (specialized in product lines and dedicated to modern segments) and occasionally through their own collection centers.

Where supermarkets source from small farmers, they tend to buy from farmers who have the most non-land assets (like equipment and irrigation), the greatest access to infrastructure (like roads and cold chain facilities), and the upper size treacle of land (among small farmers). Where supermarkets cannot source from medium- or large-scale farmers, and small farmers lack the needed assets, supermarket chains (or their agents such as the specialized and dedicated wholesalers) sometimes help farmers with training, credit, equipment, and other needs. Such assistance is not likely to become generalized, however, and so overtime asset-poor small farmers will face increasing challenges surviving in the market as it modernizes.

Conclusion

The discussion above highlights:

(1) Small retailers will not be crowded out, but would strengthen market positions byturning innovative/contemporary.

(2) Growing economy and increasing purchasing power would more thancompensate for the loss of market share of the unorganised sector retailers.

(3) There will be initial and desirable displacement of middlemen involved in thesupply chain of farm produce, but they are likely to be absorbed by increase in thefood processing sector induced by organised retailing.

(4) Innovative government measures could further mitigate adverse effects on smallretailers and traders.

(5) Farmers will get another window of direct marketing and hence get betterremuneration, but this would require affirmative action and creation of adequatesafety nets.

(6) Consumers would certainly gain from enhanced competition, better quality,assured weights and cash memos.

(7) The government revenues will rise on account of larger business as well asrecorded sales.

(8) The Competition Commission of India would need to play a proactive role.

Thus from developed countries experience retailing can be thought of as developingthrough two stages. In the first stage, modern retailing is necessary in order toachieve major efficiencies in distribution. The dilemma is that when this happens itinevitably moves to stage two, a situation where an oligopoly, and quite possibly aduopoly, emerges. In turn this implies substantial seller and buyer power, which mayoperate against the public interest.

The lesson for developing countries is that effective competition policy needs to be inplace well before the second stage is reached, both to deter anticompetitivebehaviour and to evaluate the extent to which retail power is being used to unfairlydisadvantage smaller retailers and their customers. The sources of retail power needto be understood to ensure that abuses of power are curbed before they occur. Themore important debate lies in the parameters of competition policy. The benefitsbrought by modern retailers must be acknowledged and not unduly hindered. While itis true that some dislocation of traditional retailers will be felt, time will prove that thehardship brought will not be substantial. Competition law is being created andadopted across Asia but in the immediate future its impact is not expected to belarge. Competition laws only become vital as time passes and retail becomesconcentrated in the hands of a few powerful companies, whether or not thesecompanies are foreign or domestic. In conclusion, the issue that India must grapple with now is the impact of reducedcompetition brought about by retailer concentration will have on various stakeholdersand the ways in which competition laws and policy can deal with this growth of powerbefore it is too late. The new Competition Act, 2002 has all the required provisions. Itwould, anyhow, depend on how it is implemented.

BIBLIOGRAPHY

- Dikshit Anand (August 12 2011). "The Uneasy Compromise - Indian Retail". The Wall Street Journal.
- Anand, J. & Kogut, B: " Technological Capabilities of Countries, Firm Rivalry and Foreign Direct Investment", in, *Journal of International Business Studies* [hereafter *JIBS*], vol. 28, no. 3, 1997.
- Aristotelous, K. & Fountas, S: "An Empirical Analysis of Inward Foreign Direct Investment Flows in the EU with Emphasis on the Market Enlargement Hypothesis", in, *Journal of Common Market Studies*, [hereafter *JCMS*], vol. 34, no. 4, 1994.
- Brewer, T.L: " Government Policies, Market Imperfections, and Foreign Direct Investment", in, *JIBS*, vol. 24, no. 1, 1993.
- Davidson, W.H: " The Location of Foreign Direct Investment Activity: Country Characteristics and Experience Effects, in, *JIBS*, vol. 9, 1980.
- Kindleberger, C.P: *Balance of Payments Deficits and the International Market for Liquidity, Essays in International Finance*, Princeton, 1965.
- Agarwal, Vibhuti; Bahree, Megha (7 December 2011). "India puts retails reforms on hold". The Wall Street Journal.

➢ Sharma, Amol; Sahu, Prasanta (11 January 2012). "India Lifts Some Limits on Foreign Retailers". The Wall Street Journal.

➢ Tripathi, Salil (29 December 2011). "India needs Supermarkets". London: The Guardian.

➢ "WalmartFact Sheets". Walmart. November 2011.

➢ "Indian retail: The supermarket‘s last frontier". The Economist. 3 December 2011.