FDI IN RETAIL SECTOR IN INDIA: A BIRD EYE VIEW

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ABSTRACT

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 through up-gradation of technology, managerial skills and capabilities in various sectors. Indian retail industry is one of the sunrise sectors with huge growth potential. However, in spite of the recent developments in retail sector and its immense contribution to the economy, it continues to be the least evolved industries in India when compared to rest of the world. Undoubtedly, this dismal situation of 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. Retailing in India is witness to the boom in terms of modern retailing formats, shopping malls etc. the future of retailing for any product across the country will definitely be in malls where the consumer can get variety, quality and ambience. However, in spite of this continuous debate to be or not to be, recently Government has allowed up to 51 percent FDI in single brand retailing by foreign companies like Reebok and Louis Vuiton. As of now, single brand retailers operate through the franchisee route and there is a strong view that FDI in this segment would not displace jobs or impact the local industry but help create employment. Even today the government is undecided about the level FDI in retail, but a number of foreign players, including the Wal-mart stores, Inc., have announced their intention to enter India in a big way. At present Wal-mart is operating through its subsidiary in Bangalore, which was functioning as a liaison office till last year. Now it is in the process of setting up offices in New Delhi and Mumbai.

Key *Words: FDI, Companies Economy retail Product developments*

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INTRODUCTION

India is a land of retail democracy- hundreds of thousands of weekly haats and bazaars are located across the length and breadth of our country by people‘s own self-organizational capacities and interests. Our streets are bazaars – lively, vibrant, safe and source of livelihood for millions. India has the shop density of 11 outlets per 1000 people and number around 15 million, giving India the highest retail outlet density in the world. But only four per cent of them have larger than 500 square feet area. Food constitutes 70 per cent of retail sector, which means it has a direct link with the rural economy. Our retail democracy is characterized by

1. High levels of livelihood in retail with nearly 40 million employed which accounts for 8% of the employment and 4% of the entire population.
2. High levels of self - organization.
3. Low capital input
4. High levels of decentralization

The Indian retail market, variously estimated at $400-450 billion, is dominated by the highly decentralized unorganized sector. The small retail outlets, most of them family-owned businesses, account for about 95 per cent of the sales. The creaky, old distribution system that India has lived with is grossly inefficient. The Indian farmer typically gets only a third of what the final consumer pays, instead of the two-thirds that his counterparts do in countries that have organized retailing. India is the second largest producer of fruits and vegetables in the world, but almost 30 per cent of these go waste for want of storage and processing facilities. It is generally agreed that the bulk of the Indian economy would gain, significantly, from the emergence of a well-capitalized retail industry. The organized retail industry is one of the sunrise sectors with huge growth potential. Total retail market in India which currently stood at USD 400 billion in 2009-10, is estimated to attain USD 573 billion by 2012-13. Organized retail industry accounts for only 5% of total retail industry but is expected to reach 10% by 2012.

CURRENT SCENARIO OF INDIAN RETAILING INDUSTRY:

The share of organized retailing in India, at around 2%, is too low, compared to 80% in the USA, 40% in Thailand, or 20% in China, thus leaving the huge market potential largely unexploited. Mounting earning levels, education and an international revelation have contributed to the progression of the Indian middle class purchasing and shopping practices are burgeoning as an outcome. Retailing all the way through non-traditional channels such as Fuel Stations, Direct Selling and Home Shopping Television is on the rise. Contemporary organized retail is short and uneven with cast list not being able to harvest economies of scale. However, retailing through formats such as supermarkets, hypermarkets, department stores and other forte chains are escalating. Top business houses in the country are investing in the sector. This includes Food World, Shopper‘s Stop, Crossroads, Globas, Pyramid and other such outlets. FDI in retail trading is not encouraged in any form. However, a few overseas retail names appear in the marketplace in the nature of franchisee. Quite a lot of companies including Metro, Carrefour and Ahold are exploring way in options. Benetton, Lifestyle and Zegna are already in the Industry in India. Organized retail is a lucrative proposition for a thespian that can bring supreme practices from around the globe, leverage economies of scale and garner these benefits through retail operations in India. India has a hefty middle class of 350 million and sophisticated personnel to lever diverse significant functions like merchandising, sales promotion, inventory management, purchasing and marketing. Despite the global economic recession and a consequent slowdown in the Indian economy, organized retail continued to make headway although at a slower pace in 2009. Nonetheless, if the current retail landscape is compared with that of 2004, it has undeniably become a much larger environment. Retail stalwarts such as Wal-Mart, Tesco and Marks & Spencer have already made inroads into the Indian retail industry and with multi-billion dollar investments by major domestic players such as Reliance Retail; the market is expected to go from strength to strength. India also possesses IT skills in the area of supply chain management, database management and inventory management.

OBJECTIVES OF STUDY

- To study the need of opening up of FDI in multi-brand retail.
- To analyze the positive and negative impacts of the reforms to be undertaken.
- To review the challenges to be faced by FDI‘s while investing in India.

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THE CHANGING INDIAN CONSUMER

The following are the few factors which drive the big retailers for seeing India as a lucrative market for its business: Indians with an Ability to spend over USD 30,000 a year (PPP terms) on conspicuous consumption

CREDIT AVAILABILITY: Retail loans have doubled in the last three years to reach USD 38.7 bn by 2005. All the above figures represent only about the rich and middle class of the country. Because of the Big consumer market that India offers, the government gives no regard to the concerns of unorganized 97% of the retail trade in India. People of all classes depend upon these traders for their daily supplies.

EXPANDING OF THE EDUCATION SECTOR: Education sector has led to a incredible development which has ultimately led to the growing awareness and demands of the youth regarding the brand culture in the country. Few reports depict that among teenagers (aged 17 to 20 years) apparel, books, footwear and mobiles phones account for nearly around 42% of the total discretionary spend.

ENVIRONMENTAL AND AGRICULTURAL FACTORS: The continuous changes in the environmental factors and the changing agrarian facilities with the increasing outputs and better yields have also led to the growth in demands of the consumers.

IMPACT OF MEDIA: The change in the thought process of the consumers due to the increased impact of media on their lifestyle has made the retailers find the market for new and lucrative products which were earlier not accessible to the consumers.

IMPROVED LOGISTICS: The various infrastructure development schemes which have led to better connectivity between different regions has also led to the development of a more lucrative market for India as a whole.

ARGUMENTS IN FAVOR OF FDI IN RETAILING

FDI in retailing is favored on following grounds:

(1) The global retailers have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing.

(2) Entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices.

(3) Industry trends for retail sector indicate that organized retailing has major impact in controlling inflation because large organized retailers are able to buy directly from producers at most competitive prices. World Bank attributes the opening of the retail sector to FDI to be beneficial for India in terms of price and availability of products as it would give a boost to food

products, textiles and garments, leather products, etc., to benefit from large-scale procurement by international chains; in turn, creating jobs opportunities at various levels.

(4) As foreign investors exploring their potentials in the retail sector are keen on developing malls in India, the size of organized retailing is expected to touch $30 billion by 2010 or approximately 10 per cent of the total. This has initiated market-entry announcement from some retailers and has signaled to international retailers about India‘s seriousness in promoting the sector.

(5) India is already a key sourcing country for some global retailers. The entry of foreign retailers is likely to further promote India‘s manufacturing and export sectors, leading to a double bonus for the economy.

(6) Allowing FDI in multi-brand retail can give a big push to the country‘s social agenda, too, and has the potential to even positively impact and promote tourism, computerisation, systemisation, government‘s ability to influence trade when required, address issues such as inflation (since data available becomes more reliable/ accurate and trade gets increasingly organized), reduction of black economy, control over food hygiene, better food quality assurance and accountability, increased direct and indirect employment, push to real estate and availability of better managerial talent, etc.

(7) Also, the retail revolution can change country‘s perception across the globe, integrating it seamlessly into world trade and economy.

ARGUMENTS AGAINST FDI IN RETAILING

Many trading associations, political parties and industrial associations have argued against FDI in retailing due to following reasons:

(1) 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.

(2) The examples of south east Asian countries show that after allowing FDI, the domestic retailers were marginalized and this led to unemployment.

(3) FDI in retailing can upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in local products.

(4) 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.

(5) 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.

(6) The opening up of the retail sector would affect the sales in the unorganized sector. As a result the employment it provides would be affected. Also, by reducing the number of intermediaries, organized retailing will lead to some job displacement.

(7) It is said that FDI would provide employment opportunities. But, the fact is that they cannot provide employment opportunities to semi-illiterate people. Though they can provide employment opportunities like drivers, watchman etc. but this argument gets more attention because in India semi-illiterate people in quiet large in number.

(8) Some fear that, if FDI is allowed in retailing then it would result in lowering of prices because FDI will result in good technology, supply chain, etc. If prices were lowered then it would lower the margin of unorganized players. As a result the unorganized market will be affected.

(9) 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.

(10) Loss of cultural and ethical values due to more influence of the other cultures.

CHALLENGES FACING FDI

1. RESOURCE CHALLENGE:

India is known to have enormous amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

2. EQUITY CHALLENGE:

India is definitely developing in a much faster pace now than before but in spite of that it can be identified that development has taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth.

3. POLITICAL CHALLENGE: The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common opinion between the Parliament and the Foreign countries investing in India. This would increase the reforms in the FDI area of the country.

4. EXECUTION CHALLENGE: Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the accomplishment of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important. **5.** India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

FDI'S BENEFIT FROM THE VIEW OF THE CUSTOMERS (i) FDI will provide access to larger financial resources for venture in the retail sector and that can lead to several of the other advantages that follow. ii) The larger supermarkets, which tend to become regional and national chains, can negotiate prices more aggressively with manufacturers of consumer goods and pass on the benefit to consumers. (iii) They can lay down improved and tighter quality standards and ensure that manufacturers adhere to them. (iv) The supermarkets offer a wide range of products and services, so the consumer can enjoy single-point shopping.

SUGGESTIONS AND RECOMMENDATIONS

Let us discuss few suggestions given by Retail Association of India for allowing FDI in retail:6 **RETAIL INDUSTRY CAN BE ACCEPTED AS AN INDUSTRY:** Providing industry status is the first basic step needed for reforming the Indian retail sector. This will facilitate better financial processes due to benchmarking and enable prudent practices in retail. Retail industry will also eligible for support and incentives as applicable to other industries.

POLICY CLARIFICATIONS TO PERMIT INVESTMENTS BY FINANCIAL INVESTORS:

Current FDI policy allows 100% FDI in Cash–and-carry wholesale formats and 51% FDI is allowed in single brand retailing. However, the regulations have been interpreted as guiding to a blanket ban on foreign investments in the sector. Thus, even investments by financial investors like FIIs and PE funds are prohibited, limiting the flow of capital required for the expansion of the sector. A clarification if issued will enable investments by financial investors in the retail sector. This can be done by allowing investments by investors such as FIIs, Venture Capital Funds and other financial investors in the sector.

PERMISSION TO OPERATE 24*7 AND REVISION OF LABOUR LAWS:

To strengthen the retail industry, it is important for a serious revision of the labour laws to bring them at par with the western world.

CUSTOMS DUTY AND OTHER ENTRY TAXES:

A reduction in the customs duties relating to consumer items would greatly channelize funds to boost the economy.

SERVED FROM INDIA SCHEME:

"Served from India Scheme" should be made available for Retailers. Any sales using foreign currency/international credit cards must be counted against this and duty credit entitlements must be credited for retailers. This can be used for import of items. Income tax depreciation rate on Furniture, Fixture and Building improvement etc should be increased to 25%.

Government needs to give enough observation about the proposed GST model for industry to study and also plan for compliances. GST is a consumption based tax also because of the lower tax rates, uniformity in taxation and virtually no harassment in the movement of goods across the country would lead to an increase in consumption, and individual states would stand to gain revenue by this increased consumption.

CONSUMPTION INCENTIVE:

Provide a consumption incentive in the form of personal income tax relief to consumers, who can spend upto 25% of their income on consumer goods to

services. This will bring a considerable amount of consumer spend into the indirect tax net, while incentivizing consumers. Such scheme also supports the government current initiatives. **12. DIRECT TAX INCENTIVES:**

In order to promote employment in the sector, tax incentives in the form of 100% deduction on expenditure incurred on employment of new workmen could be considered (Similar to deduction available under Section 80JJAA of the income tax act 1691 to an industrial undertaking engaged in manufacture of articles or thing). A weighted deduction could be allowed for payment made by retailers towards training and development of their personnel in order to improve their expertise. For example contribution made to technical universities, institutes etc.

LET US DISCUSS FEW RECOMMENDATIONS FOR THE RETAIL SECTOR

1. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve appropriate lending policies that will enable retailers in the organized and unorganized sectors to enlarge and improve efficiencies.

2. A National Commission must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI as and when it comes.

3. The proposed National Commission should develop a clear set of conditionalities on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionalities must be aimed at encouraging the purchase of goods in the domestic market, state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc.

4. Entry of foreign players must be slow and with social safeguards so that the effects of the labour displacement can be analyzed & policy fine-tuned. Initially allow them to set up supermarkets only in metros. Make the costs of entry elevated and according to specific norms and regulations so that the retailer cannot immediately indulge in ‗predatory' pricing.

5. In order to address the dislocation issue, it becomes vital to develop and improve the manufacturing sector in India. There has been a substantial fall in employment by the manufacturing sector, to the extent of 4.06 lakhs over the period 1998 to 2001, while its contribution to the GDP has grown at an average rate of only 3.7%. If this sector is given due attention, and allowed to take wings, then it could be a source of great compensation to the displaced workforce from the retail industry.

CONCLUSIONS

At present it is also not desirable to increase FDI ceiling to more than 51% even for single premium brand stores. It will help us to ensure check and control on business operations of global retailers and to look after the interests of domestic players. However, the limit of equity participation can be increased in due course of time as we did in telecom, banking and insurance sectors. Foreign players should not be allowed to trade in certain sensitive products like arms and ammunition, military equipment, etc. and the list of excluded products should be clearly stated in the FDI policy. However, it can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP.

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