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FDI IN INDIAN RETAIL: MYTHS AND REALITIES

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ABSTRACT

One of the most important developments during the last two decades is the outstanding growth of FDI in the global economic scenario. This consummate growth of global FDI from 1990 around the world made it an important and vital component of development strategy in both developed and developing nations. The home countries can take the advantage of vast market potential accelerated by industrial growth, whereas the host countries can acquire technical know-how, managerial skills and supplement domestic savings and foreign exchange. According to AT Kearney's Annual Global Retail Development Index for the year 2010, India has been placed at third rank next to China and Kuwait. It is also mentioned that the Indian retail market is worth $410 billion and only 5% sales are through organised retail. India is the most appealing opportunity for the foreign retailers. Till today, FDI in Indian multi-brand retail has not been permitted due to various reasons. Foreign investors are extremely passionate in India's retail sector. This article develops an insight to the trends in Indian Retail Industry and trace out the probable challenges. It also attempts to analyse the related pros and cons of FDI in Retail sector in India.

Keywords: FDI, Retail market, Multi-brand.

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Introduction

FDI refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor. It is a major source of external finance through which countries with limited amounts of capital can receive finance beyond national borders from wealthier countries. It functions in many forms like direct acquisition of a foreign firm, construction of facility or investment in a joint venture. FDI provides a company with new markets and marketing channels, cheaper production facilities and access to new technology, products and financing. For a horde country which receives the investment, it provides a source of new technologies, capital, processes, products, skills and a strong drive to economic development. It has the potential to generate employment, raise productivity, transfer skills and technology, enhance exports and contribute to the long-term economic development. FDI is considered as an essential tool for economic growth through its augmentation for domestic capital, productivity and employment.

In case of India, countries such as Singapore, the US and the UK are the leading sources of FDI. Telecommunication, construction activities and computer software and hardware and retail sector etc are the segments which attract higher capital. There have been discussions about FDI being opened up in retail which has drawn a lot of support from international retailers like Walmart and Tesco. Better bureaucracy of the unorganized retail structures, lower costs and enhanced technologies make it an attractive proposition. The Indian Government has allowed foreign investment in a number of sectors including banking, telecom and insurance.

FDI in Retail Business

India is tilted as the second largest retail market after China. Retailing is the largest private sector in India and it is second to agriculture in employment. India today has approximately 15 million retail outlets which are considered as the highest retail outlet density. The entire retail trade contributes about 10-11% to India's GDP and its value is around Rs 9, 30,000 crores. But organized retailing industry is only around Rs 35,000 crores. Organized retailing is generally centred in urban areas and it is growing at more than 30%. Mass merchants and food retailer is the most provoking investment opportune in India. The domestic retail business is broadly divided into two segments: food and apparel. Grocery is the largest segment accounts for over 70 per cent of the retail trade. The circle of economic activity cannot be completed until what is produced reaches the consumer. Hence, efficient distribution and retailing are very important. Presently, retail trade in India is highly unorganized and inefficient. The Government approved flouncing reforms in FDI with a first step towards partially opening retail markets to foreign investors. It has also announced its intention to open up the retail sector to foreign investment. But the decision is not taken whether it is 26 per cent or 49 per cent in the sector. It may allow 51 per cent FDI in single brand products in the retail sector.

4.1. FDI in Retail – Benefits & Concerns

To protect the interests of certain sectors like agriculture the Department of Industrial Policy and Promotion (DIPP) has prepared some rules for foreign investment. The big Indian retail players like Shopper's Stop, Pantaloon, Lifestyle, Subhiksha, Food World, Vivek's, Nilgiris, Ebony, Crosswords, Café Coffee Day, Wills Lifestyle, Raymond, Titan, and Bata are fervent to enlarge their operations. Well-established business houses such as Wadia, Godrej, Tata, Hero, Malhotras, etc., are preparing sketches to enter the fast-growing organized retail market in India. The international players currently in India include McDonald's, Pizza Hut, Dominos, Levis, Lee, Nike, Adidas, TGIF, Benetton, Swarovski, Sony, Sharp, Kodak, and the Medicine Shoppe. As Foreign Direct Investment is not allowed in the sector global players are entering India indirectly, via the franchisee.

In India the Retail business is growing at 5-6 per cent per annum. But it suffers from limited access to capital, labour and suitable real estate options. FDI in retail sector is opposed on the ground that the local *kirana* stores and smaller players will be redundant. In contrast, China, which allowed 49 per cent FDI in the retail sector since 1992 is benefited immensely with foreign players who brought capital and new technologies and growing export market for domestic products. At present, around 40 foreign retail players account for almost 20 per cent of the organized retailing in that country. The entry of the organized sector in retail trade is assumed to mitigate the huge waste involved in the current system. The producers will receive better return and consumers can get the products in lower prices. The efficiency of organized sector in retailing is apparent in some of the newer supermarkets in metros of India. The products will be cleaner, fresher, well packed, and often cheaper than the local shopkeeper. The other benefits of transforming retail sector into an organized sector are a number of better paid employment generation, up dated records will curb circulation of black money and tax evasion.

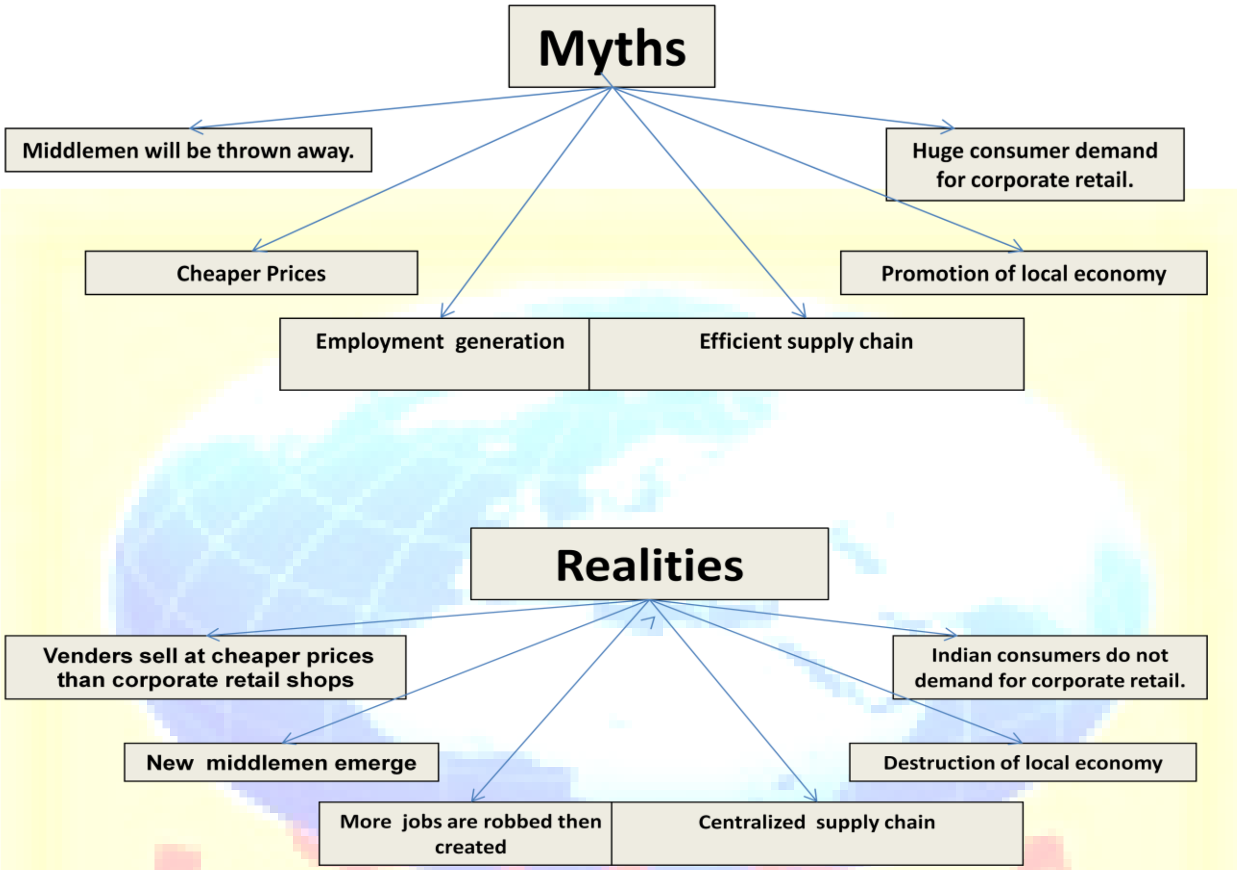
The total size of the Indian retail industry which is around $200 billion is expected to touch the $300 billion mark in the next five years.

Research Objectives

The major objectives of the paper is to

- Flesh out the Indian retail story
- Narrate the myths and trace out the realities of global giant's entry to India.
- Review the impact of Organized Retailing on the Unorganized Sector.
- Provide some proposals that should be examined before allowing FDI in Multi brand Retailing.

Myths and Realities about the Global Giants arrival to India



Suggestions

Many foreign companies have already entered into Indian market through the available modes such as, Franchising and Exporting. They are much enthusiastic to change their entry to FDI that would strengthen their operations in India. What is really needed for the growth of any country is the promotion of consumption. Effective consumption will lead to greater economic growth of a country. It is also not fair to deny the Indian consumers preferring better and modern products.

- FDI should be primarily allowed in less sensitive sectors and also in the sectors where the domestic companies are established strongly.

- Try to emphasise on more sourcing of products locally.

- In order to facilitate the establishment of transportation, FDI should be initially permitted in Tier-II Cities of India.

- Indian government should bring out another condition by which the foreign retail giants should require to spend a portion of their profit to take care of certain social welfare activities such as, controlling pollution, generation and conservation of energy, etc.,

- The new shopping centers, to be opened by the foreign companies should not add to the obstruction of the cities.

Conclusion

Many developing countries have made spectacular progress in promoting private sector participation in their infrastructure sectors with the help of foreign investors. However, this has not been the case in Southern and Eastern Africa, which has been perceived as relatively unattractive locations for investment. It is obvious that India, being a member in WTO, it has to allow FDI in multi-brand retail also. India could only delay the permission to FDI but not to disallow it. In this juncture, India Should find out suitable ways as suggested in this paper to allow FDI so that it can enjoy more of the benefits than threats. Even the threats of FDI could be handled properly if allowing FDI is planned out very strategically. Since, many people involved in Indian retail traditionally shall be displaced by the entry of foreign giants, the government should take efforts to strengthen the industries like manufacturing which will accommodate those displaced employees. Legal frameworks tended to address traditional public-sector responsibilities and not investor concerns. Regulatory environments either did not exist or did not provide investors enough guarantees that their future operating environment would be sufficiently reliable. FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all these segments. It will benefit not only the Indian consumer but also open the door for Indian products to enter the wider global market. Retailers entering the Indian market need to ensure that they have considered the opportunity along with the challenges to maximize their returns. Retailers will need to bank on the local knowledge brought in by their partners/employees/ service providers to be able to reduce the lead time required by them to set-up operations and get a foothold in the Indian market.

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