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SIGNIFICANCE OF HRM IN AUGMENTING OF FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL INDUSTRY

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Abstract

India is one of the largest budding markets, with a population of over one billion. India is one of the biggest economies in the world in terms of purchasing power. The market size of Indian retail industry is about US $312 billion Foreign direct investment has boomed in post-reform India. Moreover, the composition and type of Foreign direct investment has changed considerably since India has opened up to world markets. This has fuelled high expectations that foreign direct investment may serve as a channel to the higher economic growth of India. Foreign direct investment in trade has developed into the fresh theatre of war flank by the pro-reform and anti-reform lobbies. Foreign investors are extremely eager on charisma in Indian retail sector. Incontrovertibly, foreign direct investment in retail is budding as a sort of litmus trial to the government's pledge to liberalization.

This paper is going to try to give a better view of what is the Retailing, what are the types of retailing, Retail trade in India also explains different polices of FDI in India, and role of FDI in Indian retail industry, benefits of FDI. This paper also tries to outline impact on country and State-wise Number of Workers Engaged in Retail Trade by Type of Enterprises in India.

Keywords: Foreign direct investment, Retailing, India, Government.

Introducton

Retailing is one of the most important sectors of India economy. It provides 9% employment to the total workforce and contributes around 15% to the Indian GDP. It could have been a welcome step in strengthening India's FDI regime with making it in tune with country's needs. The FDI policy has been moving away from the license mentality of protection against imagined foreign dictators towards a more open, healthy and competitive environment. This policy would have provided a window for the world class retailer Hermes, Tiffany & Co and WalMart, etc. to set their foot in the booming Indian retail sector. The Indian Government believe that the opportunity of FDI in multibrand retail and further liberalization of single-brand retail trade will facilitate greater FDI inflows providing new opportunities and benefits besides quality improvement. At a time when declining investments have led to slower GDP growth, however, a healthy competition, between the large domestic retailers and those with FDI, should be

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maintained. Imposing sociallydesirable constraints on FDI funded retailers would lead into unfair competition.

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 organized retailing in India has been much slower as compared to rest of the world. One main cause for this is that retailing is one of the few sectors where foreign direct investment is not allowed. Within the country, there have been protests by trading associations and other stakeholders against allowing FDI in retailing.

In 2004, The High Court of Delhi referred to Black's Law Dictionary to define the term 'retail'. The term 'retail' is defined as 'a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale).

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

Objectives of the Study

The following are the main objectives of this paper relevant to the current market.

1. To study the FDI inflows in Indian retail industry.
2. To examine the FDI policies towards retail industry.
3. To examine the FDI benefits and impact on the country.

Methodology of the study

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, etc.

Division of Retail Industry

Retailing is the largest private
industry in India. It is mainly divided into:
1) Organized and 2) Unorganized Retailing.

1. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporatebacked hypermarkets and retail chains, and also the privately owned large retail businesses.
2. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores, hand cart and pavement vendors, etc.

The Indian retail sector is highly fragmented with 96 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP. The performance of this sector has a strong influence on consumer welfare.

Retail trade in India

After globalization our economies have moved from social sector to capital sector and there is a great need of foreign capital or investment in our country. As our economy is growing and targeting 10%development rate, there is a great need of concentration on underdeveloped and potentially viable sector i.e. retail sector agriculture etc.

Retailing in India is the largest private sector and second to agriculture in employment. India has highest retail outlet density –Around 1.5 retail crore retail outlets. The retail sector contributes about 10-11%to Indian GDP and it is valued at an estimated Rs.93000 crore out of which organized retailing industry around Rs.35000 crore.

All major players such as Wal-Mart, Tesco, Sainbury and others are keen to enter the retail market. "A.K.Kearney" ranked India 5th out of 30 most attractive retail markets in terms of investment. Recently government has taken certain action to liberalize the retail market in India.

FDI Policy in India

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

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 organized retailing in India has been much slower as compared to rest of the world. One important reason for this is that retailing is one of the few sectors where foreign direct investment is not allowed. Within the country, there have been protests by trading associations and other stakeholders against allowing FDI in retailing.

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (‘RBI’) in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

FDI Policy with Regard to Retailing in India

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

b) FDI up to 51 % with prior

Government approval (i.e. FIPB) for retail trade of ‘Single Brand’ products, subject to Press Note 3 (2006 Series).

c) FDI is not permitted in Multi Brand Retailing in India.

Role of FDI in Indian retail trade

In January 2006, the Government relaxed FDI (foreign direct investment) controls on retailing to allow foreign retailers to participate directly in the Indian market for the first time by allowing equity ownership in `single brand' retailing. Thus, foreign entities are now allowed to operate their stores, but only if they are single-brand stores and only up to

51 per cent ownership. The impact of the consequent increase in FDI, in Indian retail, is expected to not just develop strong backward linkages but also create a domestic supply chain of international standards. What is encouraging now for these global majors is the new policy thrust, which intends to further liberalize the FDI regime in Indian retail.

Though FDI in retail trade is as yet restricted, the Government of India has a more liberal policy towards wholesale trade, franchising, and commission agents' services, thus preparing the ground for FDI in retail as well. Foreign retailers have already started operations in India through various routes:

1. Joint ventures where the Indian firm is an export house.
2. Franchising (eg. Kentucky Fried Chicken, Nike).
3. Sourcing of supplies from smallscale sector;
4. Cash and carry operations (Giant in Hyderabad, Metro in Bangalore).
5. Non-store formats – direct marketing (Amway).

Large international retailers of home furnishing and apparels such as Pottery Barn, The Gap and Ralph Lauren have made India one of their major sourcing hubs. Up to 100 per cent FDI is allowed in 'cash and carry' operations. The Great Wholesaling Club Ltd is one such example. In February 2002, the world's largest retailer, Wal-Mart, opened a global sourcing office in Bangalore. In November 2006, it announced its entry under a joint venture with the Indian corporation Bharti. For the time being, Bharti is to own the chain of frontend retail stores, while the two firms will have an equal share in a firm that will engage in wholesale, logistics, supply chain and sourcing activities. This is seen as a preliminary step by Wal-Mart pending the removal of all restrictions on FDI in retail trade.

India as a Rising Destination for FDI

India today represents the most compelling investment opportunity for mass merchant and food retailers looking to expand overseas. According to A.T. Kearney's annual global retail development index for 2005, India retail market totalling $300 billion is vastly undeserved and has grown at an average rate of 10% in the last five years.

Present Government policy on FDI allows to have a presence of international brands through different routes i.e. Franchise, Joint venture, Manufacturing, Distribution, Cash and carry. For Indian Consumers the gradual and phase wise entry of foreign companies in retail involves three pivotal changes 1) New Technology 2) Improved Transparency in trade 3) sharing best practice.

Foreign Players would displace the unorganized retailers because of their superior financial strengths Induce Unfair trade practices like predatory pricing, in the absence of proper regulatory guidelines. Create monopoly and promote cartels Give rise to cut throat competition rather than promoting incremental business. Increase in real estate prices and marginalize domestic entrepreneurs. Hence checks are to be injected to ensure the overall growth of small and big retailers and to create a level playing field for all.

Why is the government so keen in inviting FDI in the retail sector? Let us look at some arguments made by the proponents of FDI:

1. "Only a few global firms possess proprietary expertise in retail trade. They would not transfer their expertise to local firms unless they were allowed to operate in the domestic market. "Reality: In the literature on retail, we could not trace the existence of any cutting edge proprietary expertise – either technical or managerial.

2. “The government needs FDI to meet its foreign exchange requirements”. Reality: Because of large capital inflows, the Government of India is today burdened with huge and growing foreign exchange reserves. By April 13, 2007, the foreign exchange reserves had swollen to $203 billion. The argument for FDI in retail to attract foreign exchange is not tenable.

3. “Only global retailers can satisfy the rising and varied demands of Indian consumers.” Reality: It has yet to be shown which product or service is being offered by foreign retail firms is unavailable at present to Indian consumers, or cannot be provided without FDI. Moreover, the alleged benefits of ‘consumer choice’ are being inflated. Indeed, the availability of excessively wide choice makes it so complex and time-consuming for the consumer to decide that it leads to stronger loyalty to particular brands! Research reveals that an average grocery store in USA, offers 35,000 to 40,000 stock keeping units versus 12,000 to 15,000 thirty years ago. The suppliers offer about 20,000 new items each year; of which 1,000 are new efforts and the rest are line extensions.

However, the top 5,000 items still account for about 90 percent of sales, as they did thirty years ago

As per the National accounts, private final consumption expenditure, increased from Rs 19,26,858 crore in 2004-05 to Rs 32,26,826 crore in 2008-09, at an average rate of 13.8 per cent per annum-. However, expenditure on some items like transport and communication; expenditure on food in hotels and restaurants; expenditure on rent, fuel and power; and expenditure on education and recreation are distinct from trade. Private consumption expenditure adjusted for items which could be considered a. close approximation to trade, increased from Rs 11,92,405 crore in 200405 to Rs 19,93,380 crore in 2008-09, at an average rate of 13.7 per cent 3.Rate of growth of GDP at current market prices during this period at 14.5 per cent, was higher than this growth.

Impact and Benefits to the Country

¾ Growth of Infrastructure

¾ Franchising Opportunity for local Entrepreneurs

¾ Inflow of funds and investments

¾ Implementation of IT in Retail

¾ Investment in Supply Chain, cold Chain and warehousing

¾ Increase number and Improve

Quality of Employment ¾ Reduced cost and increased

Efficiency ¾ Provide better value to end Customer Hence it will lead to overall economic growth and create Benchmark

ECONOMIC SURVEY 2008-09

The Economic survey recommended FDI in multi-format retail, starting with food retailing, mentioning that: "initially this could be subject to setting up a modem logistics system, perhaps jointly with other organized retailers. A condition could also be put that it must have (for 5 years say), wholesale outlets where small, unorganized retailers can also purchase items (to facilitate transition)".

Force to ensure irreversibility of opening up to FDI in retail

It may be imagined that, if the entry of transnational in retail trade leads to harmful consequences, the government can restrict and regulate their activities, or even remove them altogether. However, TNCs in services are striving to bring in changes in the General Agreement on Trade in Services (GATS) to ensure that their entry is irreversible and ever-expanding. For example, major associations of global retailers like the FTA (Foreign Trade Association) and European Services Forum (ESF), of which global retail firms such as Metro, Spencer are members, have taken renewed initiatives to introduce a separate agreement under the World Trade Organization (WTO) on trade and investment to safeguard their overseas investments. In a position paper on trade and investment in April 2003, the European Services Forum demanded a comprehensive WTO agreement on rules for investment. According to that document (ESF, 2003), a WTO agreement on investment should be legally binding and based on the fundamental legal principles of most favored nation and of national treatment (i.e. non discrimination). It should contain the following:

™ A system for compensation in the case of expropriation;

™ A stand-still against the introduction of new barriers on investment;

™ Effective protection against direct expropriation as well as against indirect expropriation through discriminatory treatment;

™ Independent and binding disputes settlement mechanisms;

™ Post-investment protection;

™ Protection of all material and intellectual property of the company;

™ The right of the company to determine its own ownership structure and provisions on legal, regulatory and administrative transparency;

™ Scheduling of concrete and specific commitments by WTO members to further open their markets to foreign direct investment.

Traditional traders controlled 74 per cent of the retail market in 1997, but by 2002, their share came down to 60 per cent. Faced with severe criticism from local retailers, the government announced that they would place controls on large retail establishments by imposing zoning policy regulations. In 2002, the 'Retail Business Act' was enacted to control the expansion of foreign retailers. However, the Thai government reversed its decision regarding zoning regulation, allegedly under pressure from the European Commission (EC), which had requested Thailand to open up their retail sector through GATS negotiations. As WTO lists zoning laws as 'trade barriers', it is feared that the Thai government would lose what tools remain to control the expansion of giant retail chains if they further open their retail sector through commitments under the GATS negotiation process.

Conclusion

Inward FDI has boomed in postreform India. At the same time, the symphony and type of FDI has changed considerably. The above analysis shows that FDI has positive and negative effects on India economy. It can be concluded that to keep pace with the forecast of Indian GDP, government should encourage foreign investment. To avoid its negative impact on local player's regulatory framework should be redesigned. Government should encourage FDI on gradual basis like currently it is allowed for single brand. India's retail sector remains offlimits 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. In this paper we quarrel that the potential benefits from allowing large retailers to enter the Indian retail market may balance the costs. Proof from the US suggests that FDI in organized retail could help begin inflation, particularly with wholesale prices. It is also expected that technical know-how from foreign firms, such as warehousing technologies and distribution systems, for example, will lend itself to improving the supply chain in India, especially for agricultural produce. India's experience between 1990-2010, particularly in the telecommunications and IT industries, showcases the various benefits of opening the door to large-scale investments in these sectors. Arguably, it is now the turn of retail.

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