Volume-5, Issue-1, January -2016 • ISSN No 2277 - 8160

Research Paper | Commerce

FDI –A PERCEPTIVE

ANU

Assistant Professor, Department of Commerce, Savita Devi Mahavidalya Meerut, UP (India).

ABSTRACT

The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major challenges that it faces.

KEYWORDS : FDI, Indian retail sector, Opportunities and Challenges, Impact on Stakeholders.

I. Introduction

Widespread liberalization and deregulation of financial markets, cross-border mergers and 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. In fact, 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 viz. 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. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space. Retail modernization in India depicts a similar story.

According to A.T. Kearney"s Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. Being encouraged by India"s growing retail boom many multinational companies also started to enter India"s retail market. 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. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

II. Objective Of The Study And Methodology

The objective of our study is to analyze the current retail scenario in India, investigate the controversial views of the various stakeholders and evaluate the likely challenges and threats of FDI in both single and multi-brand retail in India. The whole paper is based on descriptive arguments, statistical data, case studies, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

III. Indian Retail Sector: An Overview And Current Position

1.1 Meaning of retail

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. In 2004, The High Court of Delhi defined the term „retail" as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

1.2 Evolution of Indian Retail Industry

It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were transformed Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc has brought a great revolution to the Indian retail market (figure-1)

1.3 Distinction of Indian Retail

The Indian trading sector, as it has developed over centuries, is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent retailers („vertical separation") and (b) directly from the producer („vertical integration"). In India, however, the above two modes of operation are not very common. Small and medium enterprises dominate the Indian retail scene. The trading sector is highly fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Retail giants like US-based Wal-Mart and French Carrefour are very keen to enter in the segment. Bharti Enterprises and Wal-Mart Stores entered into a joint venture in August 2007 and started cash-and-carry stores named 'Best Price Modern Wholesale' in 2009.

1.4 Division of Indian Retail Industry

The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing.

(a) 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 corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

(b) Unorganized Retailing - refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

In the developed economies, organized retail is in the range of 75-80 per cent of total retail, whereas in developing economies, the unorganized sector dominates the retail business. The share of organized retail varies widely from just one per cent in Pakistan and 4 per cent in India to 36 per cent in Brazil and 55 per cent in Malaysia (Table-1). Modern retail formats, such as hypermarkets, superstores, supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by family-run neighbourhood shops and open markets. As a consequence, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain in these countries.

Recent statistics states that though organized retail in India constituted a meager 4 percent of total retail in 2006, but it is expanding at a much faster pace of 45-50 percent per annum and has quadrupled it share to 16 percent by2011-12. The unorganized retail sector is also growing at about 10 percent per annum with sales rising from US $ 309 billion in 2006-07 to US $ 496 billion in 2011-12.

1.5 Types of Retailing in India

(a) Single Brand- Single brand implies that foreign companies would be allowed to sell goods sold internationally under a „single brand‟, viz., Reebok, Nokia and Adidas. FDI in „Single brand‟ retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

(b) Multi Brand- FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ‟kirana‟ store.

The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

While the minimum capital requirement of US$ 100 million is unlikely to be an issue for the large foreign players vying to enter India in the supermarket/ hypermarket segment, it could make it difficult for foreign investors planning to enter specialty formats such as music, mobile, electronics goods, among others, as these formats require relatively lower investments. Further, the approval requirements from State Governments could limit the cities that FDI backed retailers can operate in. The current opposition raised by a number of political parties, if persists, may pose a major roadblock in the entry of the foreign retailers in India. Besides restricting the number of cities these retailers can operate in, it could also lead to problems in creating supply chain efficiency.

1.6 Rationale Behind Allowing FDI in Retail Sector

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country, & its productive use in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmers‟ income & agricultural growth and assist in lowering consumer prices inflation.10 Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

Indian Council of Research in International Economic Relations (ICRIER) has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to the conclusion that investment of „big‟ money (large corporate and FDI) in the retail sector would in the long run not harm interests of small traditional retailers.

1.7 Entry Options for Foreign Players Prior to FDI Policy (2006)

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

(a) Franchise Agreements:

It is an easiest track to come in the Indian market. In franchising and commission agents‟ services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian arketplace by this route.

(b) Cash And Carry Wholesale Trading:

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

(c) Strategic Licensing Agreements:

Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radha krishna Foodlands Pvt. Ltd.

(d) Manufacturing and Wholly Owned Subsidiaries:

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

1.8 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 .

Being aware of the large market, growing consumerism and brand-consciousness and to provide a greater fillip to high economic growth, in 1997, the Indian retail sector witnessed the first footprints of FDI with 100% FDI being permitted in cash & carry wholesale trading under the government approval route, subsequently brought under the automatic route in 2006. As a step ahead, FDI in single brand retail was permitted to the extent of 51% in 2006, while FDI in multi-brand retail remained prohibited till recently. Despite changes in consumer behaviour and retail modernization, India is one of the few countries where FDI was prohibited in multi-brand retail (until 2011), primarily to protect the traditional mom-and-pop retailers. This policy restricts global low-cost multi-brand retailers such as Wal-Mart, Tesco and Metro AG from catering directly to Indian consumers. Within the country, there has been significant debate on whether FDI should be allowed in multi-brand retail. In July 2010, the Department of Industrial Policy and Promotion (DIPP) released a Discussion Paper on 'Foreign Direct Investment (FDI) in Multi-Brand Retail Trading' to facilitate discussion and debate on whether FDI should be allowed in multi-brand retail and, if so, what conditions should be imposed on FDI.

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:

- 1995 World Trade Organization‟s (WTO) General Agreement on Trade in Services (GATS) which included both wholesale and retail trade in services came into effect.
- 1997 – FDI in cash and carry (wholesale) allowed up to 100% under the government approval route.
- 2006 - FDI in single brand retail was permitted to the extent of 51%; FDI in cash and carry brought under automatic route.
- 2011 – 100% FDI in single-brand retail permitted with government approval; 51% FDI in multi-brand retail with few conditions.

IV. Opportunities And Threats Of Fdi In Retail In India

Market liberalization, a growing middle-class, and increasingly assertive consumers are sowing the seeds for a retail transformation that will bring more Indian and multinational players on the scene. 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". Many studies and surveys were conducted to analyze the impact of FDI in retail sector in various segments of the economy. 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.

REFERENCES

[1] AC Nielsen (2008): Consumer and Designer Brands. AC Nielsen, April 2008 [2] A.T. Kearney (2011): "Retail Global Expansion: A Portfolio of Opportunities-2011 Global Retail Development Index", A.T. Kearney, 2011 [3] CBRE (2011): How Global is the Business of Retail. CB Richard Ellis, Global Research and Consulting, 2011 Edition. [4] Department of Industrial Policy and Promotion, 2010. "Foreign Direct Investment (FDI) in Multi- [5] Brand Retail Trading," Discussion paper. Available at http://www.dipp.nic.in.