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Foreign Direct Investment in Global Retail Sector

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Ms. Fanny Rebashline Daniel
Assistant Professor, Department of Management Studies, Ponjesly college of engineering, Parvathipuram, Nagercoil-629003

Ms.Jerusha.J
Assistant Professor, Department of Management Studies, Ponjesly college of engineering, Parvathipuram, Nagercoil-629003

Ms. P. AmmeeNesa Stella
Assistant Professor, Department of Management Studies, Ponjesly college of engineering, Parvathipuram, Nagercoil-629003

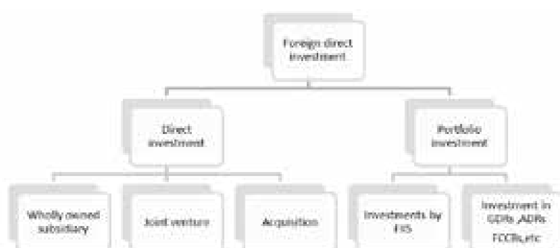
ABSTRACT *The study on FDI in global retail sector analyses the significant relationship of FDI with its impact on developing countries and global retail sectors. Foreign direct investment occurs when a firm invests directly in facilities to produce and market a product in a foreign country. Nowadays almost all major developed and developing countries have allowed foreign investment in retailing. Some have imposed certain other restrictions while others have opened up the sector in a phased manner to allow the domestic retailers to adjust to the changes. Experiences of other countries show that a major part of FDI is now directed towards retailing sector. India can learn from the experiences of other developed and developing countries and develop its own strategies. Though now almost all governments have hung the open sign for foreign retailers for its various advantages, it is also witnessing barriers like government restrictions, minimum capital requirement and local incorporation requirements.*

1. INTRODUCTION

FDI refers to investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm or starting a joint venture in the foreign country. Foreign direct investment is an investment involving a long term relationship and reflecting a lasting interest and control by a resident entity in one economy. FDI implies that the investor exerts the significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by both individuals as well as business entities.

Flows of FDI comprise capital provided by a foreign direct investor to a FDI enterprise or capital received from an FDI enterprise by a foreign direct investor.FDI has three components: equity capital reinvested earning and intra company loans. It may be noted that the government of India used to exclude reinvested earning from the estimation of FDI in India.

FDI are governed by long term consideration because these investments cannot be easily liquidated. Hence factors like long term political stability, government policy, industry and economical prospects influence the FDI decision. However portfolio investments are generally much more sensitive than FDI. Direct investors have direct responsibility with the promotion and management of the enterprise. Portfolio investors do not have such direct involvement with the promotion and management.



II.SIGNIFICANCE OF FDI

Foreign investment has assisted and assisting the economic growth of many countries .As the World Bank report points out for the developing countries FDI has the following advantages over the official development assistance (ODA).

- FDI shifts the burden of risk of an investment from domestic to foreign investors.
- Repayments are linked to profitability of the underlying investments, whereas under debt financing the borrowed funds must be serviced regardless of the project cost.
- Further it has also being observed that FDI is the only capital inflow that has been strongly associated with higher GDP growth since 1970.

III.FACTORS AFFECTING INTERNATIONAL INVESTMENT

1. Stable predictable macroeconomic policy
2. An effective and honest government
3. A large and growing market
4. Freedom of activity in the market
5. Minimum government regulations
6. Property rights and productions
7. Reliable infrastructure
8. Availability of high quality factors of production
9. A strong local currency
10. The ability to remit profit, dividends and interest
11. A favourable tax climate
12. Freedom to operate between markets.

IV.THE FORM OF FDI: ACQUISITIONS VERSUS GREENFIELD INVESTMENTS

FDI can take the form of a green field investment in a new facility or an acquisition of or a merger with an existing local firm. The data suggest the majority of cross border investment is in the form of mergers and acquisitions rather than green field investments. UN estimates indicate that some 70 to 80 percent of all FDI inflows are in the form of mergers and acquisitions. However, there is a marked difference between FDI flows into developed and developing nations. The case of developing nations, only about one-third of FDI is in the form of cross-border mergers and acquisitions. The lower percentage of FDI inflows that is in the form of mergers and acquisitions may simply reflect the fact that there are fewer target firms to acquire in developing nations.

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1. First, mergers and acquisitions are quicker to execute than green-field investments. This is an important consideration in the modern business world where markets evolve very rapidly.
2. Second, foreign firms are acquired because those firms have valuable strategic assets, such as brand loyalty, customer relationships, trademarks or patents, distribution systems, production systems, and the like. It is easier and perhaps less risky for a firm to acquire those assets than to build them from the ground up through a green-field investment.
3. Third, firms make acquisitions because they believe they can increase the efficiency of the acquired unit by transferring capital, technology, or management skills.

V. HORIZONTAL FOREIGN DIRECT INVESTMENT

Horizontal FDI is investment in the same industry abroad as a firm operates in at home. FDI is expensive and risky compared to exporting or licensing. FDI is expensive because a firm must bear the costs of establishing production facilities in a foreign country or of acquiring a foreign enterprise.

Retail sector:

A detailed classification of retail trades are,

1. Food and grocery
2. Textiles and apparel
3. Consumer durables
4. Music and books
5. Specialty products- jewellery, wooden furniture, leather footwear and handicrafts.
6. Fast food chains
7. Non store formats: direct selling and e-retailing
8. Shopping malls
9. Fuel retailing

Different retail formats are,

1. Supermarket/hypermarkets
2. Department stores
3. Specialty chains
4. Discount store
5. Wholesale cash-and-carry
6. Convenience store

FDI in retailing (impact on developing countries):

1. Increased the speed of development of modern formats
2. Improved productivity and efficiency of the retail sector
3. Enhanced sourcing
4. Improved quality of employment- no negative impact on employment-no negative impact on employment if the economy is growing
5. Encouraged investment in supply chain
6. Led to integration of suppliers, logistic service and retailer's reduction in the number of intermediaries.
7. Linked local suppliers, farmers, manufacturers to global markets
8. Low cost global retailers are likely to lower prices.
9. Consumers are assured of product quality better services and shopping experience.

VI.GLOBAL DEVELOPMENTS IN RETAILING:

The advent of global retailers is changing the procurement pattern within the region. The top three food retailers- wall-mart, Carrefour and A hold are shifting towards more centralized procurement structure in all the regions in which they operate. This centralization increases the efficiency of procurement by reducing coordination costs and other transaction costs related to product standardization.

As the distribution sector is becoming more and more sophisticated, retail chains in Latin America and Asia are increasingly outsourcing logistics and wholesale distribution function and entering into joint ventures with logistics firms and wholesale distribution function and entering into joint ventures with logistic firms and wholesale distribution firms.

As multinational retailers are spreading their operations, regional players are also developing their supply chain, differentiating their strategies and improving their operations to counteract the rise o international players. Regional players key advantage lie in their understanding of the retail market and knowledge of the supply market, while international retailers have the advantage of technology including management and marketing skills and knowledge, purchasing power and new formats.

The impact of the entry of foreign retailers on employment is controversial. While some studies show that they have led to unemployment by forcing the local players out of business, others have countered the claim by asserting that they have created more jobs not just in their stores but also in supporting industries. In Thailand, when foreign retailers entered the country during the Asian crisis, their present increased the pace f unemployment. However, when the economy recovered, employment in retailing increased. Low salary and long working hours characterized the Malaysian retail sector but with the advent of foreign players salary level became at par with other industries and working conditions improved.

In Singapore, with the emergence of both national and international supermarket chains, the number of outlets and employment increased. Foreign firms have entered the Japanese market in various new formats such as discounter and mail order retailers and this have generated new jobs. In India the direct selling format of companies such s Amway, Tupperware and Oriflamme have created significant employment. With liberalization, employment in china's retail sector is steadily growing.

Entry of large low-cost retailers leads to lower prices. The decline in prices has direct beneficial effects on low-income shoppers. Modernization of retail sector and entry of foreign retailers have benefited consumers at all income levels. Consumers are assured of product quality, they have better shopping experience and they have access to better customer services.

FDI inflows to Africa as a whole declined for the third successive year, to $42.7billion. however, the decline in FDI inflows to the continent in 2011 was caused largely by the fall in north Africa; in particular, inflows to Egypt and Libya, which had been major recipients of FDI, came to a halt owing to their protracted political instability. In contrast, inflows to sub-Saharan Africa recovered from $29billion in 2010 to $37 billion in 2011, a level comparable with the peak in 2008.

VII.BARRIERS TO INTERNATIONAL EXPANSION

A large number of retail chains are expanding their operations beyond national boundaries, however, only few of them are able to sustain those operations and make profits. In fact, many of them have to withdraw their operations due to several barriers in foreign markets. Such barriers and difficulties can be broadly classified under these categories;

A. Barriers to entry and operation. These are only faced by foreign retailers.
B. Domestic regulation related barriers. Both foreign and domestic players face these, but they may sometimes affect the foreign players more than the domestic ones.
C. Other barriers, these include strong local competition, unfamiliar customer taste, low purchasing power of consumer, customer preference for certain domestic formats, unstable political situation, poor quality of infrastructure etc.

A. Common barriers to entry and operation

1. FDI restriction
2. Joint venture/local incorporation requirement
3. Minimum capital requirement
4. Local sourcing requirement

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B. Common barriers due to domestic regulation

1. Restrictions on geographical location and zoning regulation
2. Limitation on size and number of retail outlets
3. Restrictions on shop opening timings
4. Restrictions on pricing, advertising, promoting and selling certain products etc.

VIII.FDI IN INDIAN RETAIL SECTOR

India is witnessing a change in the age and income profiles of its over 1 billion population, which is likely to fuel accelerated consumption in the years to come. The country is believed to have an average age of 24 years for its population as against 36 years for the USA and 30 years for china. A study conducted by ICRIER on Indian retail industry estimates that the total retail business in India will grow at 13 per cent annually from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. The unorganised retail sector is expected to grow at approximately 10 percent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion. Organised retail, which constituted a low four percent of total retail in 2006-07, is estimated to grow at 45-50 percent per annum and attain a 16 per cent share of total retail by 2011-12. In short, both unorganised and organised retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years. This is clearly not a case of a zero sum game as both organised and unorganised retail will see a massive scaling up of their activities.

IX.CONCLUSION

FDI is just helping a other country to develop with our resources. Foreign players will bring in the necessary investment to upgrade the retail sector infrastructure across the country. Since their focus would be profit they would set up efficient supply chain management systems to ensure that product deliveries are on time Number of investor will increase thus owner can get best value of his/her goods, and of-course the middle man who sucks the blood of farmer will be minimized. The Quality of goods will improve, Level of business will rise, GDP will rise, and we will get options between investors. It will create a million of quality job

Healthy competition is always improves the growth rate and bring in innovative ideas. But Government should provide aids to small retailers to bring everyone on the same level field, where small retailers can also survive the competition and bring in new ideas. In the world of globalization we cannot restrict investments in the sector. The market has to be open to the world. It will bring in new technologies, more employment opportunities and ideas.

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