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FDI in Indian Retail Sector- A Conceptual Study

KEYWORDS
Retailing, producer, consumer

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ABSTRACT *Retailing is the interface between the producer and the consumer buying for personal consumption. Retailing does not include direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. A retailer is one who accumulates the producer's goods and acts as selling it to the individual consumer, at a margin of profit. Further, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. The retail industry in India is one of the sunrise sectors in the economy. The well-known international management consultancy AT Kearney, recently identified India as the 'second most attractive retail destination' globally from among thirty emergent markets. Against this back ground the present paper explores key issues of FDI with respect to Indian retail sector.*

INTRODUCTION
Retailing is the largest private sector industry in the world economy with the global industry size exceeding $6.6 trillion .A latest survey has projected India as the top destination for retail investors. The government is in a process to initiate a second phase of reforms, it is cautiously exploring the avenues for multi-brand segment.

Industry experts are endowed to the point that local markets have an edge over the retail investors in India as they have unique advantages such as an understanding of local needs and extended service like home delivery. FDI influence on the Indian retail sector has resulted in increasing of the total size of the retail trade and the consumer segments patronizing the big malls will create frenzy for organized retailing predicting a growth of 25-30 per cent per annum over the next decade. Moreover, Indian retail chains are being integrated with global supply chains since FDI resulted in emerging of innovative technology, quality standards and marketing thereby, leading to new economic opportunities and creating more employment generation.

At present 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 considers the opening of the retail sector to FDI to be beneficial for India in terms of price and availability of products. This results in boosting to food products, textiles and garments, leather products, and so on which in turn results in creating jobs opportunities at various levels.

OBJECTIVES OF THE STUDY
1. To understand the concept of FDI and Retail.
2. To analyze the recent developments in the retail sector in India.
3. To know the benefits of implementing FDI.
4. To recommend for the proper implementation of FDI in retail sector.

CONCEPT OF FDI AND RETAIL
FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. According to Dictionary of Economics (Graham Bannock) FDI is defined as "an investment in a Foreign country through the acquisition of a local company or the establishment there of an operation on a new site". In other words Foreign Direct Investment means "Acquisition or construction of physical capital by a firm from one country in another host country"

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 (i.e. wholesale), a sale to the ultimate consumer. Thus, retailing can be said to be the exchange of goods between the producer and the individual consumer buying for personal consumption. This does not include direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the end link that connects the individual consumer with the manufacturing and distribution chain. A retailer sells goods to the individual consumer at a margin of profit.

RECENT DEVELOPMENTS IN THE RETAIL SECTOR IN INDIA
With liberalization, economic growth and changes in Indian consumers" demographic and economic profile and their shopping behavior, the retail sector is undergoing changes. Before the introduction of 1990 reforms, India was a closed economy. During that time, the retail sector mainly consisted of small privately owned stores that did not have corporate management and were known as traditional retailers. These stores largely sell non-branded products. The concept of branding was limited and very few brands such as Bata were present in the Indian market. The liberalization of the economy in the 1990s and the entry of multinationals and Indian corporates in manufacturing led to the proliferation of brands. A number of Indian corporates started investing in retail and different store and non-store formats evolved. Although FDI is restricted in retail, foreign retailers and brands entered the Indian market through various routes such as wholesale cash and carry, wholly-owned subsidiary in manufacturing, licensing and distribution agreements, joint ventures for each brand (or single-brand retail route), franchising and commission agents. At present, foreign retailers operate in India through both store and non-store formats. Thus, the present FDI restriction is not an entry ban. It restricts their ability to choose their preferred route of entry to this market.

Retail is one of the fastest growing sectors in India. It is estimated that the share of retail trade in GDP is approximately 11-12 per cent. In 2010, the Indian retail market was valued at $435 billion, of which the share of organized or modern retail was 7 per cent or $30.05 billion (A.T. Kearney 2011). The sector is expected to grow to $535 billion by 2013, while the share of modern retail is expected to reach 10 per cent by 2013 and 20 per cent by 2020 (A.T. Kearney 2010, 2011). Although modern retail is projected to grow at a faster pace, traditional retail is also growing. In 2010, food and grocery

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was the largest segment of retail in India with a share of around 50 per cent, but only around one per cent of it was in the modern sector. Modern retail has a larger presence in product categories like clothing, watches and footwear, where there has been significant penetration of branded products despite the present FDI restrictions, a number of studies such as A.T. Kearney (2011), McKinsey & Company (2007) and A C Nielsen (2008) predict that modern retail will continue to witness double-digit growth in India.

BENEFITS OF FDI

a) Inflow of investment and funds: FDI will provide access to larger financial resources for investment in the retail sector and that can lead to several of other advantages.

b) Better Quality and Reduced cost: The large super-market lay down better quality standards and ensures that manufacturers adhere to them. This will pull up the quality standards and cost competitiveness of Indian producers in all these segments. That will benefit not only the Indian consumers but also open the door for Indian products to enter the global markets.

c) Growth of Infrastructure: With the availability of sufficient finance, the super- markets can invest in much better infrastructure facilities such as parking lots, coffee shops, ATMs etc. All this will make shopping a pleasurable experience.

d) Integration with Global Markets: India become will more integrate with regional and global economies in terms of quality standards and consumer expectations. Super market could source several consumer goods from India for wider international markets.

e) Increase the Number and Quality of Employment: A number of new jobs will be created, far better paid than the underage labor working in the local shops. According to the study done by bank, Indian retailing is the largest employer at about 8% of the population. FDI would result in market growth and expansion and would therefore lead to increased employment opportunities.

RECOMMENDATIONS:

1. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organized and unorganized sectors to expand and improve efficiencies. Policies that encourage unorganized sector retailers to migrate to the organized sector by investing in space and equipment should be encouraged.
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 evolve a clear set of conditionality's on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionality's 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. Giant shopping centers must not add to our existing urban snarl.
4. Entry of foreign players must be gradual and with social safeguards so that the effects of the labor dislocation can be analyzed & policy fine-tuned. Initially allow them to set up supermarkets only in metros. Make the costs of entry high 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 imperative 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%17. 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.

CONCLUSION

FDI has gained momentum in the economic landscape of world economies in the last three decades. It had outpaced almost all other economic indicators of economic transactions worldwide. FDI is considered as the safest type of external finance both by the developed and developing nations. this has resulted in growing competition among the countries in receiving maximum inward FDI. Trends in world FDI inflows shows that maximum percentage of global FDI is vested with the developed nation. But in the last two decades, developing countries by receiving 40% of global FDI in 1997 as against 26% in 1980 make waves in the economics of developed nations. Among developing nations of the world, the developing economies of the Asian continent are receiving maximum share (16%) of FDI inflows as against other emerging countries of Latin America (8.7%) and Africa (2%). In the last two decades, India has progressively increased its share of world FDI from 0.7% in 1996 to 1.3% in 2007. Thus we can conclude that the entry of FDI in India's retailing sector is inevitable.

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