Research Paper Management

A Study on the Advantages and Disadvantages of Foerign Direct Investment in Retailing

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ABSTRACT

The retail sector in India is witnessing a change by the introduction of new formats such as departmental stores, super markets, hyper markets, and specialty stores. Liberalization policy of the government allowed various foreign investors for the establishment of their retail outlets which helps the consumers with varieties of choices. The entry of foreign direct investors is creating some favorable and unfavorable environment in the country as such the study has been designed to analyze the advantages and disadvantages of foreign direct investment in retailing. The arguments favorable to the foreign direct investment support the availability of varieties of quality of products at cheaper rates while the arguments against are the elimination of small scale retail sector and consequent creation of unemployment problems.

Keywords : Quality of products, retail sector, specialty stores, super markets, unemployment problems

INTRODUCTION:

A retailer is one who purchases the goods from the producers, stocks and sells them to the individual consumers with the aim of generating profit. As such retailing may be treated as a process of creating a link that connects the individual consumers with the manufacturers. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. The retail sector in India is playing an important role in the economic development and also occupied as the second largest attractive sector in the country. The sector has deep penetration with rural people and is treated as one of the source of employment next to agriculture. Due to its importance in the economic development and its contribution to the GDP, the retailing sector has been ranked as the single largest component in the service sector. The Indian markets have been affected to a large extent in the recent past due to the liberalization and privatization policies of the governments. As a result of these policies both national and international players entered into the Indian retail markets and divided the retailers into organized retailers and unorganized retailers. Organized retailers are the licensed retailers, i.e. their activities are registered with the authorities for the purpose of tax payments. The examples of organized retailers include the super markets, privately owned large retail businesses and shopping malls managed by the corporate. Unorganized retailers refer to traditional retailers; as such their activities are on small scale basis. The examples include local kirana shops, individual managed general stores etc. the Indian retail markets are dominated by unorganized retailers with a share of 96 percent as compared with organized retailers with a share of only 4 percent. The unorganized retailing has been in existence for centuries and still it is continuing its lead due to consumer familiarity, low cost structure and low tax payments etc..

The organized retail markets in India are growing at a faster rate in recent times due to strong support received from the various sections of the society. Organized retail stores rose from 3125 covering an area of 3.3 million square feet in 2001 to 27076 with an area of 31 million square feet in 2006, satisfying the estimates that the retail sector will grow at 13 percent annually from 322 billion dollars in 2006-07 to 590 billion dollars in 2011-2012 (Shilpa Kokatnur, 2009). In spite of these statistics, it is stated that the organized retailing sector is still at the developing stage in comparison with other Asian developing countries like China, South Korea and Philippines etc.

ROLE OF RETAILING:

The country has witnessed a significant growth in the retailing sector in terms of both social as well as economic perspective and is expected to grow faster than GDP growth in the next few years. The major factors that are responsible for the significant growth may be considered as changes in the life style of the consumers, increased income levels, availability of multinational products with different varieties, liberalized economic policies of the government, easy availability of finance, rapid development in the infrastructural facilities etc. Indian retail is highly fragmented, with about more than 11 million outlets operating in the country employing over 4 crores of people and contributes around 10-11% of India's GDP with the expectation to reach 637 US billion dollars by 2015. One among the various reasons for the explosion of retail industry is the absence of proper employment opportunities and low wage jobs. Hence, the dissatisfied youth is increasingly turning towards service sector and establishing their own retail outlets. Retailing is the easiest way of entering into own business, with low capital and infrastructural needs. The existence of large number of retail outlets in different parts of the country, especially in rural areas indicates the deep penetration of retail sector in the Indian economy. The rapid increase in the retail sector would definitely help the country for economic growth. This help in efficient distribution of various goods and services to the consumers for their ultimate consumption in a short span of time.

MEANING OF FDI:

The dictionary of economics has defined FDI as an investment in the foreign country through the acquisition of a local company or the establishment for an operation on a new site. In simple words, it may be stated as a cross border investment wherein the foreign assets are invested into the organizations of the domestic market to enhance the production capacity of the economy. The FDI policy in India allowed foreign investors free to invest. The FDI policy in India is governed by the Foreign Exchange Management Act (FEMA) 1999 and the Reserve Bank of India's the Foreign Exchange Management Regulations, 2000. Liberalization and privatization policies of the Indian Government during the recent decade emerged India to become one of the investment friendly countries. Foreign direct investment in this country assumed critical importance in the context generating employment opportunities.

FDI IN THE RETAIL SECTOR:
Retailing is one of the largest private industries in the world. Foreign Direct Investment (FDI) in retail is fundamentally different from that in manufacturing, because FDI in manufacturing basically enhances the opportunities of employment in most cases but FDI in retail sector may create lose of the individual job and displacement of traditional supply chain. Hence, allowing the retail sector to Foreign Direct Investment (FDI) becomes a very sensitive and debatable one in recent days, with arguments to support and oppose the issue. The people who support the foreign direct investment favor the benefits like the availability of organized retail stores, availability of various quality products at a better and cheaper prices as well as advancement in employment. Others who oppose the entry of foreign investors are of the view that they may try to establish the monopoly power in the country and consequently disrupt the livelihood of the poor people engaged in the traditional retail sector. With this background the present work makes an attempt to study the likely impact of FDI on Indian retail sector, with focus on some specific cases.

Advantages of retailing in India:
1. The liberalization policies of the government in allowing the foreign direct investment have created large impact on the retail industry as a whole. One of the important benefits obtained in this regard is the availability of various products in much cheaper prices.
2. It helps in the development of infrastructure of the Indian country, as the latest technology available in the foreign countries is transferred.
3. Managerial talent available in the developed countries is possible to adopt for the domestic operations, as a result quality products made available to the consumers at lower prices.
4. It helps in improving the production and distribution system as the advantages of economies of scale are possible.
5. The entry of foreign investors creates stiff competition among themselves at global level which definitely ensures better quality products at lower prices. Thus the benefits of lower prices and quality products reach to all section of the society.
6. It encourages the inflow of foreign investment into the country.
7. The investment made in the domestic country takes place in the form of long term investment for setting up retail stores and the capital invested cannot be easily withdrawn
8. FDI improves the retail employment and standard of living of the employees as higher wages will be paid to them.
9. It helps the Indian consumers a feeling of exposure to international life styles.
10. The farmers will benefit from FDI as they will be able to get better prices for their produce. The elimination of the intermediate channels in the procurement process will lead to reduction of prices for consumers.
11. The government regulation that 30% of the total procurement has to come from small and medium enterprises will definitely benefit the domestic businesses.
12. The FDI in the Indian market creates completion among local retailers also, that helps in giving better service to Indian consumers. It is obviously good for local competition.

Problems of retailing:
According to the government, the foreign direct investment will benefit consumers and farmers, and also help in bringing down inflation to lower levels, along with the protection of the interests of small traders. It is a fact that creating competition in general is good for the market as long as the proper procurement and distribution system exists. Absence of such infrastructure will not give the desired results to the consumers as well as to the retailers. Without giving due importance to this system the government has opened a back door for the foreigners to conquer the entire Indian retail sector. FDI creates big trouble on the small retailers in the market. The big giants entering the market will surely impact the small retail store owners. These big companies with huge investment capacity will buy goods at lesser rates and pass on big discounts to consumers, wherein small local retailers will not be able to stand against the competition. The opinion that by eliminating the middleman the farmers will get good rates for their produce and storage facilities will improve, these are only temporary benefits. Once the foreign retailers have their own monopoly in the market, they will start exploiting the market and in the long run, it will not good for economic growth. Bringing in big foreign players will, no doubt, give direct competition to big domestic retail chains but small retailers will eventually get eliminated. In the history of capitalization, the beginning is always good but once monopoly sets in, small-time retailers, consumers and farmers get exploited. The foreign investors are strong and powerful and have huge annul turnovers. They have a common tendency of establishing their own control over the entire chain of buying, transport, storage and the selling to the customers. Local retailers cannot stay in market and slowly disappear from the market. This happens not only in large cities but also in villages. When small traders eliminates from the market then the foreign retailers don’t have much competition. In these circumstances the FDIs establish a strong relationship with the local manufacturers which directly affect the economy. It creates a situation of large number of manufacturers and a few or only a single buyer. The producers or the manufacturers do not have any direct link with the customers. Hence, the producers have no other option expect to sell their produce to these foreign investors. Thus at one hand a large number of manufacturers and a single buyer and on the other hand a single seller and uncountable number of customers. These circumstances create a new opportunity to the trade corporations to increase their profit. They can buy the goods from the manufactures at very nominal prices and sell them to the customers at high rates. With this trade, the profit of the small scale unorganized retailers will decrease. Further the entries of FDIs create unemployment problems also. The unemployment category includes not only the small scale retailers but also middlemen, wholesale dealers and the middle level shopkeepers in addition to transporters.

CONCLUSION:
The retail sector in India is witnessing a change by the introduction of new formats such as departmental stores, super markets, hyper markets, and specialty stores. Western style retail malls have begun appearing in metro areas as well as in other leading cities giving an exposure to the Indian customers a feeling of foreign exposure. Liberalization policy of the government has allowed various foreign investors to enter into the country for the establishment of their retail outlets which helps the consumers with varieties of choices. The customer preferences and tastes have also changed in the recent past, and attracted towards the organized retailers. The entry of FDIs is creating some favorable and unfavorable environment in the country. The arguments favorable to the foreign direct investment support the availability of varieties of quality of products at cheaper rates while the arguments against the FDIs are the elimination of small scale retail sector and consequent creation of unemployment problems. Hence, it is the responsibility of the government to look into the fact and establish a mechanism to see that the benefits will applicable to all sections of society without having any adverse effect on the small scale retailers.

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