Research Paper Commerce

Impact Of FDI in Retail Sector in India

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ABSTRACT

The role of Foreign Direct Investment in the economic growth of a host country is indeed a very difficult task to quantify. It can provide new markets, cheaper and standardized production facilities, access to new technology, skills and financing. But the entry of FDI in retail sector of India is not free from any criticism. Therefore, it is necessary to study the relativity and impact of FDI in the productivity and economic growth of the host country.

Keywords :

INTRODUCTION

Foreign Direct Investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. Rajiv Bhattacharjee (2012)[1], states that among the various forms of foreign investment, foreign direct investment 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. FDI is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding of an existing business in that country. It is substantially differs from indirect investment such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange.

OBJECTIVES AND METHODOLOGY OF THE STUDY

The objectives of the study are to overview the impact of FDI in retail sector of India and evaluate the opportunities and challenges of FDI. The paper is based on descriptive research and comparative study of research papers, books, journal etc.

TYPES OF RETAILING

The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing. Organized retailing refers to trading activities undertaken by licensed retailers, who are registered for sales tax, income tax etc. While unorganized retailing refers to the traditional formats of low cost retailing e.g. local kirana shops, owner manned general stores, convenience store, hand cart and pavement vendors etc.

The organized retails are further classified as Single Brand and Multi Brand. Single brand implies those store which deals with single brand like Reebok, Nokia and Addidas. FDI in single brand retail can sell only one brand. On the other hand FDI in multiple brand retail implies that a retail store with foreign investment can sell multiple brands under one roof. FDI in multiple brands retail includes Wal Mart, Carrefour and Tesco, that offer a wide range of household items and groceries directly to consumers in the same ways as the Ubiquitous Kirana Store.

RETAILING IN INDIA

Retail market in India is wide and varied ranging from street retailers working on roadside and small family run businesses to international brands. It draws the attention of many global players. Retail sector has been providing employment to more than 50 million of Indian directly or indirectly. Retailing contributes about 14-15 per cent of its GDP (Dikshit, 2011)[2]. A.T. Kearney rates India as the most attractive nation for retail investment. The study presented in the Global Retail Development of India 2011, has rated India as fourth highest. India's retail industry is estimated to be worth approximately US $ 411.28 Billion and is still growing, which is expected to reach US $ 804.06 Billion in 2015.

Gaurav Bisaria states that FDI in multi brand will make foreign goods and items of daily consumption available locally at a lower price to the Indian consumers (Bisaria, 2012)[3]. A recent UNCTAD survey projected India as the second most important FDI destination after China for transnational Corporation during 2010-12. As per the report, the sectors which attract higher inflows were services, telecommunication, construction activities and computer software and hardware (Sarvamangala, 2012)[4]. On 14 September 2012, Government of India allowed FDI in aviation up to 49%, in Broadcast sector up to 74%, in multi-brand retail up to 51% and in single-brand retail up to 100%. In India, there are many small sectors, medium sectors, private limited companies and public companies that have been consistently manufacturing various medicinal products to meet the increasing demands of the people.

A report of World Bank states that, the opening of retail sector to FDI would be beneficial for India in terms of price and availability of products. But the opening of FDI to multi brand are opposed by several expert due to the fear for the loss of employment, adverse impact on traditional retail and rise in import from cheaper sources like china adherent of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits (Bhattacharjee, 2012)[5].

IMPACT OF FDI

The entry of foreign companies into Indian retailing will not only create many employment opportunities but, will also ensure quality in them. Inflow of FDI will ensure quality jobs and improve the standard of living and life style. The retail market will be more expanded creating large amount of additional job. It will vary from ordinary workers to top level management. Such retails will make professional approach and salary will be more lucrative than domestic retailer. A study by Basker (2005)[6] finds that, entry of Big Giant retailer like Wal-Mart increases retail employment in the year of entry. While contrasting evidence indicates that each Wal-Mart worker replaces approximately 1.4 retail workers representing a 2.7 per cent reduction in average retail employment (Neumark, 2008)[7]. The opening of Wal-Mart may reduce the average earning of retail workers (Dube, 2007)[8]. Another study by Jia (2008)[9] revealed, that having a chain store in a market makes roughly 50 per cent of the discount stores unprofitable and that Wal-Marts expansion over the 1990's explain about 40-50 per cent of the net reduction in the number of small discount stores.

The Indian consumer will have the luxury of world class opportunity of shopping to meet the requirements of daily life. Retailing in organized sector with computerized billing system will also yield more revenue by collection of service tax and VAT by the government. On the other hand Indian retailer will have the opportunity to make partnership with the global firm.

FDI in multi brand retail would either displace various wholesale markets or the size of such markets would shrink. Such local markets are run on capitals which are floating in nature. But with the coming of multi brand retail stores this floating capital would freeze and small retailers and vendors will be evicted from the market (Chahal, 2013)[10]. Kalhan (2007)[11] highlights how small shops in Mumbai are adversely affected, in terms of falling sales, by the growing influence of shopping malls in the city.

FDI in retail sector would be beneficial to agriculture and its allied activities. It will enable to increase their production capacity with better reward in terms of supplying to organized retailers. Due to the high purchasing power of foreign retailer, the small farmers will be more benefited as compared to sales in local Mandi. This system will also remove the composition of middlemen in the market.

CONCLUSION

The impact of FDI can be beneficial to the home country, if it is properly manage. In the Indian context, the government considers FDI as the remedy to solve the economic problem, but it should not influence into the functioning of traditional and local business. It is also important to consider possible consequences of FDI to the large scale exit of incumbent domestic retailer sector, especially the small family owned business. Participation into the global market should be designed without compromising the value of indigenous retailers. Therefore, adequate care has to be taken to safeguard the advantage of FDI in retail sector are not overtaken by its disadvantages.

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