
**FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR IN INDIA: AN
EVALUATION**

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ABSTRACT

India is the 3rd largest producer of agriculture, but do not have the technologies to process the goods. Foreign Direct Investment (FDI) in retail helps in transfer of new technologies, management skills, and intellectual properties. It can increase competition within the local market, ensure quality, brings higher efficiencies and reduce the cost of the products. It will increase the awareness about the foreign brands and there may be change in the lifestyle of a section of the Indian Society. FDI also helps in increasing exports and tax revenues. The entry of foreign companies into Indian Retailing will create many employment opportunities mainly for well technically skilled and educated. However, majority of Indian population are still illiterates though skilled. Lack of proper education keeps them behind. Similarly, the organised retail will tend to dominate the entire consumer market in the long run as it will make the Indian markets more prone to international fluctuations. The entry of foreign retailers in our country will not only hit the livelihood of the local retailers but also the middlemen working in their industry may be thrown out of the job. Thus, foreign direct investment in India will affect adversely the job opportunities of common man, livelihood of small shopkeepers and middlemen etc. which will harm economy. Hence, as a whole FDI in retail is not good for Indian economy. Global experience even in advanced countries such as US, Germany etc. is also not much good in this regard. If government, in spite of many drawbacks, still wants to continue FDI in retail, it should have to create rules and regulations to keep control and maintain the growth level in India.

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INTRODUCTION

Foreign Direct Investment (FDI) plays major role in the economic development of a country. FDI helps in transfer of new technologies, management skills, and intellectual properties. It can increase competition within the local market and this brings higher efficiencies. FDI also helps in increasing exports and increase tax revenues. The entry of foreign companies into Indian Retailing will not only create many employment opportunities but will also ensure quality of products, development of modern technology. This helps the Indian human resource to find better quality jobs and to improve their standard of living. It will increase the awareness about the foreign brands and there may be change in the lifestyle of a section of the society. There are many disadvantages too. The organised retail will tend to dominate the entire consumer market. The entry of foreign retailers in our country will not only hit the livelihood of the local retailers but also the middlemen working in their industry may be thrown out of the job. Since they look for a place in the heart of cities to establish their company, the real estate value increases. Therefore, at same time it will affect the poor people as there are more negatives over positives of FDI in retail sector in India and as a whole it is not good for Indian economy. Although it will decrease the price initially but in the long run, it will make the Indian markets more prone to international fluctuations which will harm the economy. Moreover it is seen in many countries where FDI in retail is allowed that there is sharp growth in the rate of unemployment. Therefore, the aim of this paper is to evaluate the effect of FDI in retail on the economic development of the country.

LEGAL STRUCTURE/CONDITIONS FOR FDI IN RETAILING IN INDIA

Initially in early 2000s, Government of India had given the approval of FDI in retail only to the foreign players deals in single brand such as Nokia, Samsung, LG etc. but in 2013 approval has also been given for 51% FDI in multi brand retailing subject to the condition of at least 100 million US \$ by each player, 50% of it in back end infrastructure and 30% procurement from micro, small and medium enterprises. The government has the right to procure the farm produce first. However, these players are allowed to sell perishable goods such as fruits and vegetables as unbranded. Permission for multi brand retail trade has been granted only in cities having

population of one million or more. At present there are 53 such cities in India. Further, the state governments have the right to take final decision for FDI in retail in their respective state. However, the aim of government is to take up this case gradually by permitting FDI in retail in phased manner beginning with metros.

FDI IN RETAILING: GLOBAL EXPERIENCE

Since the advent of modern retailing in the 19th century, it has largely remained local. It is only after 1990, the retailers started to venture out of their own countries especially in Europe due to saturation in their home markets and local regulations which prevented them to expand and grow. In all the major economies, emerging or mature, the market share of local retailers across categories is higher than foreign retailers. Thus, India is not the first country to have FDI in retailing. There is good experience to understand and learn from many foreign countries so as to build our confidence to move forward. We look out at China. China took over 12 years to liberalise its FDI regime. It firstly allowed only 26% in 1992, after 10 years increase it to 49% and in 2004, 100% FDI in retail was permitted only after the retailing industry acquired some muscle. Thus, it is the opinion that what China has done, India should do. But there are key differences between the two economies. Unlike India, China enjoys a huge trade surplus with US and other major trading partners. China's manufacturing base is very strong. Because of its globally competitive manufacturing sector, China can afford to open its retail sector to foreign investment. In contrast, Indian economy is services-led and agriculture based economy. The services sector accounts for 55 percent of India's GDP. According to the A.T. Kearney Global Retail Development Index (2011), Indian retail sector is about 95% self-organized and accounts for 22 percent of the country's GDP and contributes to 8 per cent of the total employment. India's low-cost retail trade exists in various forms and millions of small retailers make a living by serving small communities and neighborhoods. Unlike developed countries, 51 percent of the India's total workforce is self-employed. One of the biggest avenues of self-employment mainly for unskilled and poor people is in retail trade due to very little entry barriers. Given the lack of alternative employment opportunities available, it is highly unlikely that the displaced unemployed (post foreign investment in the retail sector) will be absorbed in agriculture or

manufacturing sector. The US provides one of the most poignant examples of reduction in number of stores and employment. The unfettered growth of big retail in the US has put small retailers out of business. Between 1951 and 2011, the population of the US doubled from 155 million to 312 million. But the number of stores actually declined from 1.77 million in 1951 to 1.5 million in 2011. The number of independent stores having less than ten employees also declined from 1.6 million to 1.1 million during the same period. Imagine if such a process takes place in India, it would pose a serious unemployment problem.

Further, after opening their economies for foreign retailing in early 2000, there are more cases of failure and exit rather than success in terms of creating scale in emerging economy. The recent case of exit of Best Buy from China and in the past Wal-Mart from Germany and Carrefour from Korea are demonstrative of incapability of Transnational Retailers to fight local competition due to lack of understanding of local consumer taste, preferences and culture, local regulations and necessary conditions for retailing to be successful. The international expansion in retailing has taken places in waves as shown in Table -1.

Table – 1: Phases of Globalisation of Transnational Retailers (TNRs)

Wave	1st	2nd	3rd	4th
	Early 1990s	Mid-late 1990s	Early 2000s	Late 2000s
Countries	South America East Asia (outside China and Japan). Parts of South East Asia (e.g Thailand, Philippines). northern-Central Europe (e.g. Poland & Baltic countries) South Africa	Mexico & Central America Much of Southeast Asia (e.g. Indonesia) south -Central Europe South Africa	China Eastern Europe Russia Other parts of Central America & S.E.Asia India	South Asia (outside India) Sub-Saharan Africa outside countries impacted in 2nd and 3rd waves. Poorer countries in South East Asia (e.g. Cambodia) South America (eg. Bolivia).
'Modern' retail market share mid 2000s	50-60%	30-50%	1-20%	

Source: The Globalization of Trade Retail Services, OECD Report, Nov, 2010

Why FDI in Retailing is Good for Indian Economy?

Keeping in view the global experience, it is necessary to study whether FDI in retailing is good for Indian Economy or not. Those who are in favour of FDI in Indian retail sector say that because of the collapse in value of rupee, people are facing a huge problem of rising prices. As compared to this, the cost of foreign products is less. Moreover India is the 3rd largest producer of agriculture, but we do not have the technologies to process the goods. FDI gives new technologies to make the goods look more presentable and efficiently usable. The biggest beneficiary of FDI in retail would be farmers who will be able to improve their productivity. Further, The farmers will not only be able to increase their output but will also get better rewards in terms of supplying to organized retailers by tying up long term contracts with them. The foreign retailers will purchase raw materials from the farmers and various other goods from the original producer directly. Direct purchase from farms will hugely benefit small farmers who are not getting good returns by selling in the local mandi. Investment in back end infrastructure will help to reduce wastage of farm produce as storage is a major problem and 20 to 25% of the agri products get wasted due to improper storage. Thus, It improves livelihood of farmers, food safety, hygiene and quality, lower the prices of products and ease supply side inflation. Rate of Employment also increases. In India a lots of unemployed are still searching for job, government wants revenue, and the farmers want to eliminate the middle man which usually charge high commission to sell their product. Thus, if some companies want to invest in Indian economy and help the farmers to get rid of these type of problems why not it should be appreciated. Hence if FDI in retail come into force, it will curb the inflation and other economic situation will also get better. While working in these foreign organizations one can learn about the good areas of their culture. Indians can continuously work better and get to a high level job as well. After reaching to a magnificent position, One can cultivate Indian morals and values at the foreign grounds. It can only happen due to this collaboration. Through FDI many other foreign companies like WAL-MART; TESCO etc will also enter in the Indian Market. Thus, there is no chance of monopoly rather competition among the foreign and Indian companies will increase which will bring the prices down, create more employment and thereby better services

to customers. The kirana shops will also lose their strong hold and practices like black market, hoarding will stop and they will also be forced to sell at legitimate prices. Institution of Middlemen will also be destroyed and peasants will be less exploited and more benefited as the companies will also help them out by providing better technologies. Thus, FDI will benefit us through more efficient processes and price adjusted after eliminating middlemen share which will help cultivators to sell their crop at higher prices and consumers to buy product at low price. Large fraction of Indian customers is credit customers so they will never stop using the kirana stores. Hence, FDI is a qualitative move, create win-win proposition and should be encouraged. Similarly, India is facing some severe levels of fiscal deficits as well as continuous fall in exchange rate of Indian Rupee with US Dollar which is creating more pessimism among the investors who are withdrawing their money from the market and which in turn is pushing up the inflation rate. So in short it can be said that we are in real need of a massive level of cash influx in a short term into the Indian market so as to rejuvenate the market and FDI is the best solution to this crisis. Thus, FDI must be welcomed. It will enhance the living standards of people which will ultimately lead to country's development. In brief, FDI in retail may be good for Indian economy because of some benefits given as under:

1. Increase in employment which helps to increase national and per capita income.
2. Customer get improved quality product at reduced price.
3. Farmers get enough prices for their products.
4. Many options available for customer to choose best among the various brand available under one roof.
5. Infrastructure sector will get better as new technology come and become helpful to fulfill customer need.
6. Provide access to global markets for Indian producers.
7. Relationship with foreign countries will get better.

Why FDI in Retailing is not Good for Indian Economy?

India has a very big economy and more importantly is developing very fast. As we know many Indian companies are doing far better jobs even in current situations. Therefore, Indian

Government should bring policies which are friendly for local Entrepreneur's and promote the existing technocrats. The Organized Retail is accessed majorly by Tier 1 & 2 Cities not the Rural Indians who stay in villages and which will create the gaps between rich and poor. Even today more than 70% of Indian population does not have easy access to this sector. So bringing in FDI is like calling for mechanism which will suck our actual money and take it away to other countries. Technologies brought by these foreign Companies can also be very well emulated by existing technologies. We Indian's have excellent brains and can very well devise our own Technologies for this sector if needed so. Bringing FDI can give a booster dose to GDP growth immediately. However to ensure the consistent growth Indian Government will have to pitch in time and again to create conducive environment even for the foreign players. It is better to frame the alternate policy which will involve Indians and focus more on inclusive growth as the same can be sustained for longer time to come ahead. This will also improve the Morale of all Indians.

As the rupee value is demolishing day by day, these foreign countries will be able to provide goods at a very low price which will not be affordable to our local sellers and hence they will have to close their medium of livelihood. As we all know that India is a poor country having about 12 million retail outlets dominated by kirana stores and out of these about 95% in unorganized sector. There are very few other sources of income and after arrival of these foreign huge companies, the sources of income in the Indian market will become almost zero. In nutshell, there are negative impact of FDI in retailing on the followings:

1. Agriculture.
2. Manpower in rural area.
3. Productivity in some sectors.
4. Breakdown of small shops.
5. Decrease in rupee value.
6. Internal resources will be exploited badly.
7. Indian Entrepreneurship will be destroyed and large part of our economy will become fully dependent on FDI.

8. Small industries will be affected very badly as they may not be able to compete with world class large companies and may ultimately be edged out of business.

9. Domestic companies fear that they may lose their ownership to overseas company.

10. Large giants of the world try to create position of monopoly.

If you think blindly for capital adequacy it is good but if you think as a long term investment point of view it is harmful to our economy. If look into it for the long terms we will losses control over the prices of products because it will finish the entrepreneurs who has low capital investment. It creates monopoly in the market and only these big stores decide the prices of products like vegetables and cereals which are basic need of every human. Today as a customer I want the prices as low as possible and the hike of prices in daily used products is completely depend on the weather of our country but if we allow these things then prices will depend on the dollar's exchange rate also and we will not handle that because we don't have control over that. Even if we have good monsoon but just because of global instability we bound to pay extra. See the examples of petrol in this case. I know we import petrol that's why we are dependent but even in the current FDI norms only 30% goods or raw material are mandatory from India, rest they can import from other countries. Thus, it is necessary to see its dark side once again as India is a developing country suffering from issues like increasing population and unemployment. Thus, if permission continues for FDI into multi brand retail, foreign investors will come and they modernize its working infrastructure. More advent of modern technology and installation of machines will definitely replace manpower in India and definitely it will affect our employment opportunity and will not also consider the rural area development. FDI may increase job opportunities for the smart and educated section but what about uneducated and poor people, basically for whose development government talks. These people who earn their livelihood by involving in small businesses or as workers in retail sector will be just thrown out of jobs and left poor again. This will ultimately increase the gap between the rich and poor. Unless this gap is made least, India can never come under developed countries. It will have drastically effect on overall economic development of India. India will develop when its downtrodden society, backward people in village side will develop. Also it has same adverse

effect to other sectors also. By the time Indian market will go in the hand of foreign company and then they will regulate as per their policy. Only talking about the technology and money that FDI will give is not sufficient for the development. Who will talk and contemplate about the small issues. Once Gandhi ji said "INDIA DEVELOP WHEN ITS RURAL AREAS WILL DEVELOP". So we should not allow FDI into our powerful country. There is a great need of establishing companies in India by Indian industrialists who are opening their companies in foreign. Indian Government should make such economic policies which are favorable for Indian investors and take the benefit of their talent or entrepreneurship in the country. FDI may be allowed in that sector where India don't have the edge of excellence e.g. manufacturing of arms and ammunition which can boost its economy to a large scale. India still import all its defence needs from other countries. So by allowing FDI in such sectors India can not only become self dependent but can also make a good profit by selling these products to other countries.

If permission for FDI in retail sector mainly in multi brand retail continues and foreign players come in India, it will break the supply chain. India is a developing country where development of all citizens is must as here people are not on a same income platform. A big part of population is below poverty line and a big part is very rich. So its first aim should be to reduce this gap between people. It can only be eliminated by increasing the employment offers. If supply chain will break, products will be supplied directly from the company to consumer and it will finish the role of domestic whole seller and retailer. Ultimately, medium sound businessman will go in loses.

Promote the Indian market and exports as India has plenty of natural resources and diversities which no other nation has. Introducing FDI will be a great loss to a developing economy like India. Firstly, try to develop the Indian economy in spite of thinking anything else. India needs huge money to develop its economy and if permission for FDI continues, it will take almost much part of Indian Economy and for a developing nation really it will be a great loss.

FDI may increase the living standard. Everyone wants himself to be standard, but before increasing the status, we have to be at that level. Unless our country is counted in developed nation, a FDI will just be a sucker of the Indian Economy and instead of developing; it will

again be deepening in the terms of standardization as well as a good status in the world. Taking all aspects, government should be very clear about FDI in retail because once introduced, it will not be easy to take it out from the country. Just imagine the situation after 20 years, when our country will be attaining a good position and at that time, foreign companies increase the prices of goods very rapidly, then where poor citizen will go to purchase the things when our Indian market will all be closed. There is no doubt that the history may repeat itself and the people of India will once again be slaves.

It is clear from the above facts that FDI in retail has both advantages and disadvantages. Thus, we need to analyse the long term effects of it on Indian economy. It may be that the opportunities for development that FDI offers are very attractive. But does it suit India? India is a developing nation and the development of over last 15-20 years is tremendous. With all the resources of the country, India has reached heights. Then has India really need to depend on FDIs for development in terms of modern technologies etc? Considering the employment opportunities, it is agreed that FDI could bring boon to employment sector, but employment for well technically skilled and educated or the local people who are illiterate. I don't think they would consider the latter. Majority of Indian population are still illiterates though skilled. Lack of proper education keeps them behind. They do their living by small shops etc. Thus, why they are not considered as entrepreneurs and encourage them instead of foreign companies. The results may be late and not rapid as FDI. But after all nation is for people. Focus must be on common people as they constitute the major portion in Indian population.

As India is a developing country the FDI would not be a good option if see its basic market structure. In India the inclusion of FDI in retail sector will centralizes the marketing to a few big malls or marts and this will create havoc among local shopkeepers. They will be forced to go for jobs which are already a major issue. Thus, government should focus on strengthening present retail sector and bring more transparency rather than bringing FDI to India. In spite of all, if government still wants to continue permission for FDI in retail, there should be strict rules and regulation to protect job opportunities of common man, our retailer and middleman in urban and rural area as well as in our core production system of agricultural products. Otherwise FDI in

retail should be discontinued in India.

CONCLUSION

FDI would definitely contribute to Indian GDP and India's foreign reserves would see an upswing. Better technology will lead to efficiency in process, and less wastage, efficient utilization of resources say e.g. we still lack proper cold storage infrastructure which leads to huge wastage. It will also drive competition among the local markets both to sustain as well as excel. The government can chip in to make norms easier for entrepreneurs to start business. A lot of both industrial and civic infrastructure growth would take place as tax revenues will enhance significantly. It can help the government in turn to allow it for subsidies for Indian entrepreneurs.

India is a big country and lots of unemployed are still searching for job. Government wants revenue and the farmers want to eliminate the middlemen which usually charge high commission to sell their product. Thus, if some foreign companies want to invest in Indian economy and help the farmers to get rid of these type of problems why not it should be appreciated. Further if FDI in retail come into force, it will curb the inflation and other economic situation will also get better.

Although FDI in Retail will help in providing employment and developing our country in short term but this will create a problem for small Indian retailers to exist in the market as this will increase the competition for them. For small Indian retailers it will become hard to compete with the global retail chains. Retailing in India accounts for 14 to 15 percentage of GDP. Allowing FDI will benefit the consumer by lowering the price of the commodity and eliminating the middlemen in the short-run.

FDI may increase job opportunities for the smart and educated section but what about uneducated and poor people, basically for whose development government talks. These people who earn their livelihood by involving in small businesses or as workers in retail sector will be just thrown out of jobs and left poor again as global retail chains will prefer to hire trained and skilled personnel. Thus, it will create unemployment for unskilled/semi-skilled personnel. This will ultimately increase the gap between the rich and poor. Thus, Policies while allowing FDI

should make it mandatory to employ local people with inflation adjusted remuneration at all times. Further, there should be strict clauses indicating termination of business in-case of any foul play by these retail giants.

If governments, in spite of many drawbacks, still wants continue FDI in retail, it should have to create rules and regulations to keep control and maintain the growth level in India. Thus, Government should consider all the positive as well as negative facts regarding FDI before taking any step. FDI may benefit in short term by providing employment and increasing the competition to bring out the best in all the respective areas but in the long term it will benefit the global chains only. They will use our India for its own development. Thus, instead of continue allowing FDI in retail we should develop our Indian retailers to compete with global retailers by providing different growth opportunities.

SUGGESTIONS

FDI in retail will be beneficial for Indian economy if government allow the FDI in warehousing infrastructure to increase the storage capacity for the agriculture crops mainly fruits and vegetables. It will help the farmers to hold their surplus produce through proper storage and sell it keeping in view the demand and supply position in the market to get reasonable price of their crops. Government should also frame favourable export policy for the farmers. It will help the country to earn foreign exchange which in turn helpful to bring down country's current account deficit.

As retail sector is not organized in India, government should take more initiative to make it more organized which in turn creates huge tax revenue for the government. It will help the country to bring down fiscal deficit. It will avoid middle men. Thus, both consumer and manufacturer will benefit by bringing down the product cost.

No doubt when FDI was accepted in other areas, these areas had become competitive as well as service oriented such as telecom sector, aviation sector etc. Now the Consumers are getting better quality services from such sectors at low prices. Developing economy like India needs more investment to create jobs as well as contribution to the GDP. Therefore, Government of India can continue FDI in retail and decide the way to regulate and control FDI in Retail to save

the jobs of poor Indians, livelihood of middlemen and small shopkeepers etc. Further, government should promote the Indian entrepreneurs to start their own business. Government can help them by providing funds through banks/financial institutions etc. While businesses have run by Indian people, it attracts jobs and profit stays within Indians.

Similarly, middlemen may be eliminated between farmers and retailers. It can be done by Indian Government by promoting Indian entrepreneurs to start ups retail chains in the country if they want. But perhaps government wants a huge capital so that they can start subsidy based new schemes from that amount and eat up that money as always.

Lastly, it is opinion that prices will go down only at the start to eliminate the local retailers. Problems arise in the long run i.e. after 15 years when Foreign players will raise prices to increase their profit. Weak and corrupt Indian system as usual can't keep them under check. In nutshell, FDI can be beneficial when government monitors pricing, employment and contracts of foreign retailers. It is only possible by enforcing stringent rules and regulations, but the system of order in India is dull and corrupt. So before implementing FDI in retail, there is a need of clean system, so that India can really benefit from it. However as a whole, FDI in retail is not good for Indian economy. Hence, rather than hope from FDI in retail, government should focus on removing bottleneck and fast tracking projects related to improving infrastructure like roads, special incentives in economic zone to set up warehousing for increasing storage capacity, early implementation of GST, streamlining labour laws for retail trade, planned urbanization with proper spaces for malls, shopping centres etc. to facilitate retail activities with adequate parking, availability of adequate power to run the shops. Despite all above facts, If government wants to continue FDI in retail then must set strict norms for retail giants to set shops so that it does not lead to complete monopoly, corruption and exploitation of Indian people and resources.

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