FOREIGN DIRECT INVESTMENT IN RETAIL IN INDIA

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ABSTRACT

The retail Industry in India is the second largest employer with the estimate of 35 million people engaged by the industry. There has been opening of Indian economy to foreign organisation for FDI through organised retail. The Union Govt. has sanctioned 51% FDI in multi brand like Wal-Mart, Carrefour, and Tisco and up to 100% in single brand retail like Gucci, Nokia & Reebok. This decision of Govt. is under debate as political parties are as usual against this decision, for its possible economic, political & social consequences. This issue is so crucial that it should not be used for playing political games. A similar controversy arouses before our entry into new economic reforms in early 90s and a lot of pessimism was affected in the public mind. But our economy gained a lot through these reforms. So we should accept this opportunity as a big challenge. It is better to act and watch then not to act at all.

In this paper, I will explain how FDI in Retail will benefit the consumers and producers. It will increase farm produce, minimize the wastage of perishable & semi perishable goods, enhance job opportunity. But it have may some adverse effects. So some defensive measures by govt. are necessary.

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INTRODUCTION

Foreign Direct Investment means investment made by foreign companies in order to establish wholly owned companies in other country and to manage them or to purchase the shares of companies in other country for the purpose of managing such companies. The main feature of **FDI** is that native companies are managed by the foreign companies or new companies are set up in India by foreign companies. It is the foreign investor who takes risk and is solely responsible for profit/loss of such company. It also includes foreign collaboration, which means setting up of enterprise, jointly by the foreign and native entrepreneurs. It may be of following types:

1. Collaboration between Indian and Foreign private companies.
2. Collaboration between Indian Govt. and Foreign private companies.
3. Collaboration between Indian Govt. and Foreign Govt.

FDI can be used as one measure of growing Economic Globalisation but it excludes Shares/ Debentures purchased by foreign companies/ foreign institutional investors of native companies.

There are two types of FDI

- Inward FDI

Inward foreign direct investment is when foreign capital is invested in local resources. The opposite of outward investment, an inward investment involves an external or foreign entity either investing in or purchasing the goods of a local economy. A common type of inward investment is a foreign direct investment (FDI). This occurs when one company purchases another business or establishes new operations for an existing business in a country different than the investing company's origin

Inward FDI is encouraged by Tax breaks, subsidies, low interest loans, grants, lifting of certain restriction. The thought is that the long term gain is worth short term loss of income.

Inward FDI is restricted by Ownership restraints or limit and Differential performance requirements

- Outward FDI

Outward foreign direct investment, sometimes called "direct investment abroad", is when local capital is invested in foreign resources. A business strategy where a domestic firm expands its operations to a foreign country either via a Green field investment, merger/acquisition and/or expansion of an existing foreign facility. Employing outward direct investment is a natural progression for firms as better business opportunities will be available in foreign countries when domestic markets become too saturated.

Outward FDI is encouraged by the Government-backed insurance to cover risk.

Outward FDI is restricted by Tax incentives or disincentives on firms that invest outside of the home country or on repatriated profit. Subsidies for local businesses

SINGLE BRAND

'Single brand' implies that foreign companies would be allowed to sell goods sold internationally under a 'single brand', viz., Reebok, Nokia, Titan, Puma. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed.

Some conditions are also associated with the concept of Single Brand.

FDI in 'Single brand' retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

MULTI BRAND

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous '*kirana'* store

NEW FDI POLICY TO RETAIL GROWTH

The recent decision of Central Govt. to further liberalise FDI in retail marketing and allow 51% in multi brand retail , paving the way for opening the mega stores in about 50 major cities of the country with a population more than 10 lakhs as per the 2011 Census. These bid retailers can move beyond the metropolis to smaller cities with the consent of State Govt.

The $428 Billion retail sector in India has received a shot in the arm by the Indian Government's recent policy decision to allow Foreign Direct Investment (FDI) of upto 51% in Multibrand retail and upto 100% in single brand retail. Given that 95% of the sector constitutes unorganized retail consisting largely of „mom and pop" stores, the Government have treaded cautiously by building adequate safeguards for the domestic stakeholders in the unorganized sector.

Foreign investments in retail will have to go through Government approval first. The policy mandates a minimum investment of $100 Million with at least half the amount be invested in back-end infrastructure, including cold chains, refrigeration, transportation, storage, packaging etc. Further, foreign retailers will have to source a minimum 30% from the Indian small and micro industry. Another key policy initiative to safeguard small/unorganized sector retailers is that FDI is being allowed only in 53 cities having a population of over 1Mn out of nearly 8000 cities/towns in India. Finally in India's federal structure, retail trade is a „state level" regulation and it will be upto the states to allow foreign participation in the respective 53 cities within their states.

Overall, the new policy shall provide a significant boost to the $28 Billion Indian organized retail market which is expected to reach $260 Billion by 2020. With sluggish growth in the developed markets across the globe and Indian retailers being bogged down by high debt and high cost of expansion, the new policy presents a win-win situation for both foreign and Indian retailers. The stock markets also reflected the positive outlook for the sector, by pushing up some retail stocks by up to 30% within 2 days of the announcement.

The policy will positively impact a wide cross section of the Indian population. Consumers are expected to save 5-10% on their regular household spend and get a wider choice of products. Farmers will get 10-30% higher remuneration for their produce as back end infrastructure investment will emanate the middlemen. The infusion of capital and setting up of new stores will also provide a boost to real estate as well as create 3-4 million new jobs in retail and a further 4-6 million jobs in logistics, contract labour, security, etc.

There is apprehension and resistance to the policy from some political factions and small retailers/trade associations. However the current policy decision is clearly a point of inflexion for Indian retail. Political agendas of the non-ruling parties, may only delay the policy's roll-out but it is unlikely that they will be able to reverse the direction of FDI entry. This is largely because of the cautious nature of the policy which is clearly aimed at taking small steps at a time with its caveats and restrictions. Thus in principle, allowing for both the unorganized and organized retail sectors to grow and co-exist.

Further, Corporate India and leading Indian organized retail players have come out in strong support of the policy. Clearly the Government has the backing of India Inc. on this one. For serious global retail players waiting in the wings with India aspirations, this is clearly the opportune time to consider an India entry.

While there is no debate on the timing or the opportunity, potential foreign retail entrants need to develop a deeper understanding of the market and its challenges and to draw up a robust entry strategy.

Multiple challenges exist that need to be overcome. For one, the complex regulatory system in India. There are various acts and laws that govern retail in India – the Shop and Establishments Act (state-wise act), a dated Weights and Measurements Act, the complex tax levy system which lacks a consolidated goods and services tax. Indian organized sector retailers have gone up the learning curve on this front and have processes and systems in place to handle these effectively. Rising real estate prices, especially in the 53 cities, coupled with adequate land availability in the right catchment is another strategic factor. New entrants will also need a phasing strategy to prioritize cities for entry. The mandate on 30% local sourcing and 50% investments in back-end infrastructure requires a thorough understanding of vendor selection and vendor development business practices and culture.

All these challenges combined with the policy of 51% FDI limit (at least for multi brand retail) strongly points to identifying and tying up with the right partners. Clearly the Indian organized retail players will be prime targets for JVs/acquisitions and the existing entrants like Wal-Mart have a head start and advantage here. However, given India Inc’s interest and support, it is not late for potential new global entrants to forge new win-win partnerships with reputed Indian corporate. Ultimately it is strategy combined with patience, localization, innovation and smart execution that will segregate the Winners from the also-rans.

THEME

According to the Newspaper Indo-Asian News Service, Washington (dated Dec 9, 2011) US has said that they respect India for opening Retail Stores. The United Nations said that Foreign Direct Investment in Retail Trade would be beneficial to both India and The US. US is happy for getting the opportunity of Retail Business in India, World’s second largest market.

IMPACT OF FDI ON SMALL RETAILERS: DISCUSSION BY BUSINESS EXPERTS IN HARYANA

Meteoric, resurgent, promising are certain attributes that truly encapsulate the story of Haryana, which has swiftly emerged as the neo nerve centre of India Inc. The state's economy clocked an average growth rate of 9.1% during the 11th Plan, which is remarkably higher than the national average of 7.9%. These impressive figures mirror Haryana's enviable status in terms of its per capita income and investment. The state's multipronged approach towards progress has created several avenues of investment that have collectively catalyzed its inclusive growth story. Haryana is home to several industries ranging from textiles to auto and auto components. Galvanizing its position as a manufacturing hub is the Gurgaon-Manesar-Bawal industrial belt that is evenly punctuated with auto and auto ancillary makers. Complementing the state's robust industrial production is the emergence of Gurgaon as a corporate hub. SEZs have created an enabling environment for entrepreneurs with several fiscal and operational benefits. The state has put in place single window clearance system to streamline taxation and attract investment from NRIs. The policymakers have been making the right moves in ushering in reforms, and have supported FDI in the state. The centre’s decision of allowing 51 per cent FDI in multi-brand retail and 100 per cent FDI in single brand retail is expected to significantly boost the FDI inflows.

Haryana has seen fast paced infrastructural developments in the recent past. Several constructive policy initiatives encouraging PPP in this space have started to bear fruit with new infrastructural assets mushrooming across the state. Further facilitating the flourishing industries are the strategically placed industrial estates with easy connectivity to national highways and rail routes. The impetus given to infrastructure in the state through Haryana State Industries and Infrastructure Development Corporation Ltd. (HSIIDC) and other agencies has enabled businesses to optimize their supply chain effectively.

The proliferation of industries in Haryana along with its congenial environment has resulted in an influx of skilled manpower which has further enriched the talent pool within the state. Today, the corporate hubs like Gurgaon have a social fabric that is diverse and pluralistic endowing the state with an enviable resource of rich human capital. Buoyed by the coherent initiatives that have transformed the state of Haryana into a desired destination for investors, it is expected that this small state that geographically occupies about 2 percent of the country's area and is home to about 2 percent of India's population, would continue to be one of the leading states. With the state's consistent efforts to sustain a long term growth and investment in diverse sectors, the future looks all the more promising.

VIEWS OF FARMERS ON FDI IN RETAIL IN HARYANA

Many farmers of Haryana have been working with multi-national companies for years. CNN-IBN travelled to the state tracking reactions on FDI in retail. The farmers in the state seem to be seeing it as a welcome step.

Farmer Satish Singh no longer has the stress of dealing with middlemen to sell his vegetables at the local mandi. He and 150 other farmers from Bakhtawarpur supply directly to Bharti

Wal-Mart, who even provides a mini truck to transport the produce. He says that at the collection centre, payments are prompt. "If you sell vegetables to the mandi, you can't be assured of the price. Bharti Wal-Mart provides fixed rates and payment comes on time," Satish said.

Amar Jyoti also deals with Bharti Wal-Mart. An assured price and a big drop in wastage has allowed Amar to save up and buy a tractor. "Even if they buy from us at the same rate as the mandi, it saves us additional costs that we have to undergo at mandis," he said.

Bharti Wal-Mart MD and CEO Raj Jain say kirana store owners are also happy working with them. "Through our cash and carry model, we will continue to bring this efficiency to kirana stores also. Today we have 18 cash and carry stores and you can ask any kirana store owner how happy they are working with us," he said.

The summary of the discussion was that the experts and farmers are favouring it. But Business community (traders) are against it. Whenever such measures are announced by Govt. the opinion in reaction often gets divided. First we take up the arguments in support of the decision, which are as follows.

ADVANTAGES

1) Direct benefit to Farmers: The biggest beneficiary of FDI in retail will be directly the farmers. Across the world the big retail giants buy the produce directly from the farmers, thereby eliminating the middle men. Thus farmers will get much better price which can be at least 15-20% higher than the existing price they get.

In present system the farmers get approx only 30-35% of the retail price, rest all is taken over by middle men like traders etc. For e.g. during the onion shortage in India most of the hoarding was done by onion traders, whereas they got price as high as Rs. 35 Kg, the farmer got only Rs. 4-5 Kg. Thus farmers will directly benefit from direct purchase.

2) Reduction in Food Inflation: The incoming of FDI will bring in strong competition amongst the retailers at the same time the elimination of middle men who are also the hoarders of stocks will help reducing the supply constraint. The direct purchase policy of bigger retailers will help in passing on the benefit of low procurement cost directly to consumers. Thus helping in reducing food based inflation to a great extent.

3) Earning of Forex: India will earn a great amount of foreign exchange reserves from the investments which the mega multi brand retailers will do in India. Each retailer is suppose to do minimum of 100 million dollars, considering that setting up an average one store costs 5-

10 million dollars, one can easily expect to get investment upto 1 billion dollar from each retailer in total, which can be approx 15-25 billion dollars spread over 5 years.

4) Huge Employment Benefits: The international model suggests that all those countries which opened up multi brand retail to FDI added huge amount of employment. In India the government expects it to generate at least 1 million employments over the next few years. It is very critical to note that the government is allowing foreign retailers to open retail stores in India in joint venture with Indian partners only in top 53 cities with a population of 1 million and above.

5) Drop in Food Wastage: A huge chuck of almost 30-40% of total food is wasted in transportation and poor storage facilities. Not to mention the millions of grains that rot in government godowns every year. The government has made it compulsory for the foreign retailers to invest at least 50% of the investment in infrastructure. Thus it will become critical for them to reduce food wastage by making better storage and quick transport facilities available.

6) Better Consumer Choice: The other major beneficiary will the consumer. Since most of the retail stores operate over a very large format they generally have a large amount of SKUs (products). Thus they will store as much variety as possible. Which generally kirana stores do not keep since they are not sure of its sale.

7) Benefit to Kirana Stores: Well don’t be surprised from this point but its true. As per government approved policy it is compulsory for the mega retailers to have 30% of their sales from small retailers. The Punjab state is a perfect example of this cash and carry model.

At the same time one must realise that the kirana store retailers have been paying a high price to middle men to procure good, which they can now procure at much lower price from the bigger multi brand foreign retailers. At the same time the multi brand retailers with FDI will be allowed to sell only in 53 big cities with population of more than one million. Thus the Kirana stores can directly benefit from buying from cities and selling them in their towns.

One must not forget that most of this big brand multi retail shops will be based on out skirts of city whereas the Kirana stores are in heart of city providing home delivery.

8) Creation of backend Infrastructure: The government has made it compulsory for the foreign brand multi retailer to invest at least 50% if there amount into back end infrastructure. Thus giving a boost to facilities like cold storage, food grain banks etc,

9) More Purchase from SMEs: It’s been made mandatory by the government for the mega brand multi retailers to procure at least 30% of its requirement from SMEs. Till today its been

very difficult for the SMEs to sell their products via kirana stores since non existence of brand. The kirana stores used to reject the goods produce by SMEs due to lower offload.
But the multi brand retailer will have to compulsorily purchase from the SME upto 30%.

10) Overall growth: India's GDP has been slowing down since last few quarters. The influx of foreign funds will lead to huge incoming of investments in critical sectors like construction, employments etc. Such investment will easily contribute upto 0.5% to the GDP growth backed by other critical reforms. Though the government has to bring down interest rates to boost growth, it also has to bring in more reforms.

Biggest Loser will be the middle men, who have been hoarding the goods time and again to make super profits and to work against interest of consumers thereby leading to super inflation.

Thus one can safely say that government has done a pretty good home work before coming up with FDI in Indian Multibrand retail. At the same time one must not forget that "Kirana" stores as in India also exists in US alongside Wal-Mart which is mostly in outskirts of city.

DISADVANTAGES

Now we will take up the argument which will not support the decision. The argument against are that the new system will displace the traditional shops and petty retail shops in markets and mohallahs and at the same time it will not be beneficial for consumers also.

1. Existence of Indian biggies- Already multiple Indian corporate are well entrenched into the Indian Market with their organised multi brand retail offerings. Under this situation is an FDI influx truly required? That is one of the biggest questions that is being asked.

2. **Little incremental value** - The critics of the move say that India as a country requires different fundamentals to survive and deliver value to the consumer. The last mile delivery of a lot of goods happen to the consumer's home - the retailer goes to the consumer in India and not the other way round, thus far in a lot of cases. Hence, the critics claim that there is little incremental value by implementing FDI in retail rules.

3. Will Prices reduce for consumers - Not at all - Will there be a net gain for consumers in terms of Price savings? Not at all. Not even the biggest supporters of FDI in retail claim that the consumer will spend less from his/her pocket due to this FDI in retail influx.

4. Adverse effect on Small Retailers- Experts say that wherever these big retails stores have gone they have ruined the local retailers. For e.g. two soft drinks like Coca Cola and Pepsi wherever they have gone they have killed the domestic products. They did the same in India.

RESEARCH MYTHOLOGY

Sample size = 100

Sampling Technique: Random Sampling

Population: Finite Data Collection

Instrument: Observation, Interviews and Questionnaires

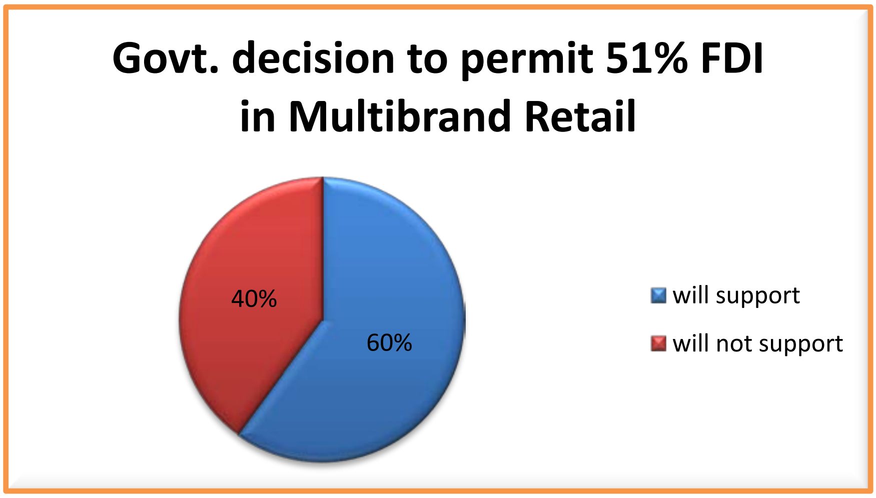
Demographic: 62% females and 38% males

Sample profile was all the sections of society.

Geographical Location: Jagadhri, Distt.YNR, Haryana (India)

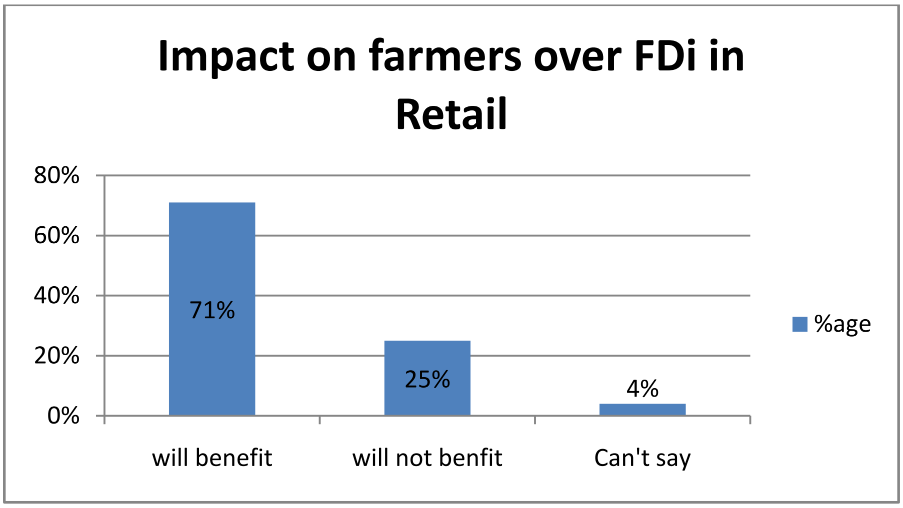
DATA ANALYSIS

Graph 1: Govt. Decision to permit 51% FDI in Multibrand Retail

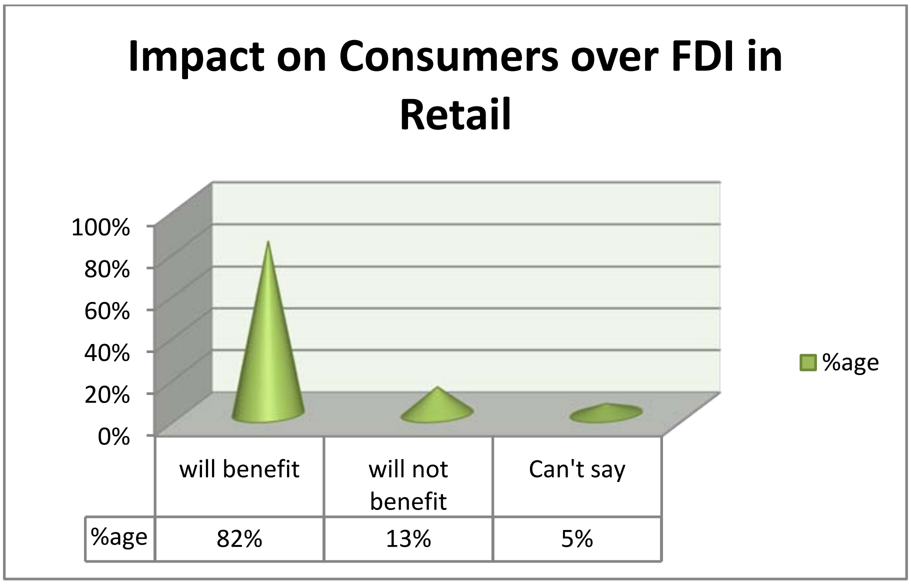


Graph 2: Foreign Big Retails will reduce the purchase from Local Stores

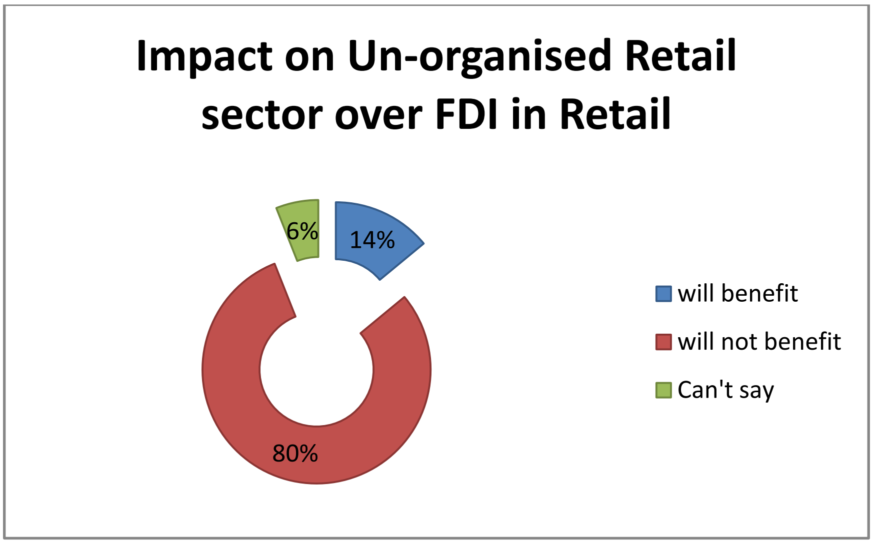
Graph 3: Impact on farmers over FDI in Retail



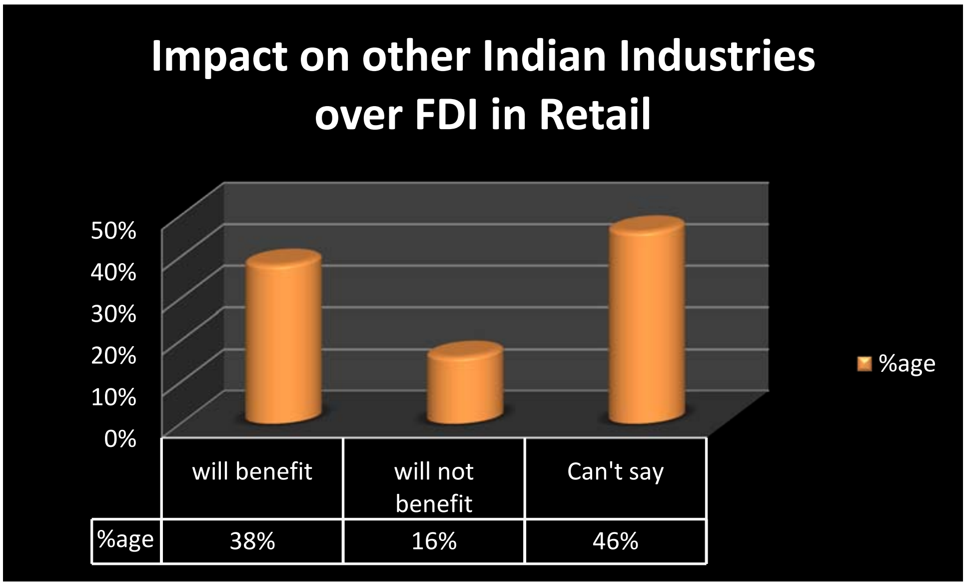
Graph 4: Impact on Consumers over FDI in Retail.



Graph 5: Impact on Un-organised Retail sector over FDI in Retail.



Graph 6: impact on other Indian Industries over FDI in Retail.



FINDINGS

Graph 1: Decision to permit 51% FDI in Multibrand Retail.

The above graph 1 shows that 60% of the people of Jagadhri supported the Govt. decision to permit 51% FDI in Multibrand. This means that they liked to have foreign brands in India. The rest 40% were not supporting the decision to permit. This means that they were having the fear of the foreign trade and were of the view that it can repeat the history.

Graph 2: Foreign Big Retails will reduce the purchase from Local Stores.

The above Graph 2 depicts that 55% of the people of Jagadhri disagree that foreign big retails will reduce the purchase from local stores. This means that they are of the view that foreign big retail will have their own market while local stores will continue with their available market without much change in it. The rest 37% of the people of Jagadhri were of the view that big retailers will reduce the purchase from local stores because the market of local stores will make a switch-over to foreign big retail. The leftover 8% were not having the adequate information about the issue.

Graph 3: Impact on farmers over FDI in Retail.

The above Graph 3 shows that 71% of people of Jagadhri were of the view that Indian farmers will be benefitted by the FDI in Retail. This means that they are of the view that Indian farmers will get good payment for their products, without the agents in between the two parties. There will be a good storage and transportation techniques. The rest 25% of the people of Jagadhri were of the view that the Indian farmers will not be benefitted by the FDI as the Indian farmers will not get advantage as it is a myth. The leftover 4% were not having knowledge about the issue.

Graph 4: Impact on Consumers over FDI in Retail.

The above graph 4 shows that 82% of the people of Jagadhri were of the view that the Indian consumers will be benefitted. This means that majority of the view that Indian consumers will get lot of opportunities in terms of purchasing the products. The rest 13% were not of the view that Indian consumers will be benefitted as they are highly satisfied with the swadesh products in terms of price and availability. The leftover 5% was not having the knowledge of the issue.

Graph 5: Impact on Un-organised Retail sector over FDI in Retail.

The above graph 5 shows that 14% of the people were of the view that the un-organised retail sector will not be benefitted by FDI in retail. Majority of the people were of the view that organised retail sector will capture the un-organised sector. The rest 80% of people were of the view that there will be no major impact of organised sector over the un-organised sector. The leftover 6% were not having adequate information about the issue.

Graph 6: impact on other Indian Industries over FDI in Retail.

The above graph 6 shows that 38% of the people of Jagadhri were of the view that the other industries will be benefitted by FDI in Retail. They were of the view that the other industries will get good business partnerships, supply of raw material, giving of land or building and other means which will lead them to good profits. The rest 16% were of the view that the other industries will not be benefitted by this action as the foreign bi retail will try to depend on their people for business. The leftover was in majority with 46% views it as a difficult situation to say whether FDI in organised sector will benefit or not.

SUMMARISED RESULT

The above findings collected through the people of Jagadhri shows that majority of people are supporting FDI in Retail. There are some who of their own advantage opposing the entry of foreign retailers in India. They are trying to mislead the people of India for their own profits. There is a point of agreement between the Govt. and the foreign retailers tat any moment of time if the Indian Govt. finds irregularities or any fear then Indian Govt. can break the agreement and the foreign retailer has to leave India.

CONCLUSION

The future of foreign retail players is also uncertain like that of the Indian retail players. The Govt. which acts better than the one which does not. Apprehensions were raised on many such occasions in the past on virtually every measures of Liberalisation of Indian Economy but most of the apprehensions were proved wrong while many others come true. It's better to act and watch than not to act at all.

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