FDI IN RETAIL INDUSTRY IN INDIA

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There has always been a strong opposition to FDI in India's retail sector (though 100 percent FDI is allowed in distribution companies that sell to the trade and not to the consumer). The BJP was not too keen on it early on, though towards the end of Vajpayee's government's term there were noises that it would consider such a move. These days, the left parties are orchestrating a passionate opposition to allowing FDI in retail. The arguments are familiar – that global retailers will swamp the Indian markets, wipe out small kirana stores and put millions of jobs in jeopardy. They also argue that giant global retailers will squeeze suppliers and finish them off. " The negative effects in terms of job losses and the displacement of traditional supply chains by the monopoly/ monophony power of multinational retailers far outweigh the supposed benefits…" the left observed in a recent seven-page note that summarized its arguments against FDI. Given the political clout of the small trading community, because of their enormous numbers, the government has barred FDI in retailing since 1997. Most of India's home grown retailers also oppose FDI, though for a different reason. "What is the hurry (to allow FDI)? For 10 years, China allowed only one foreign store per province. I allowed domestic chains to build up good valuation before opening FDI, "argues Kishore Biyani, managing director, Pantaloon Retail. " The debate is not 'whether or not to allow FDI, but 'when and how'," he clarifies. Biyani is also chairman of Confederation of Indian Industry's retail committee, which estimates that Rs.20, 000 crore will be needed in retail to scale up to its potential. Indian companies need time to mobilize at least part of the capital before the foreign players are allowed in, argues CII. In private some domestic retailers fear getting lower valuations from their global counterparts if they sell out today. But five or 10 years later, when they have built up larger business, they may get far higher valuations. Of course, the argument of asking for more time to get even better valuation may not lose its appeal even a decade later, if the approach is instinctively protectionist.

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INDIA’s retail industry – the fourth largest in the world – accounts for 11 per cent of the country’s GDP and employs over 40 million people (about 7 per cent of Sector retailers (Yes, they have retailing PSU’s!) had a 32 percent share and private sector retailers had 45 per cent total employment in the country). Now, a huge majority of the retail workforce is in kiranas.This sector, in fact acts as an informal social security net – almost anyone without a job can set up a kirana. The big worry is that global retailers will quickly put these kiranas out of business, leading to millions of job losses. Is that fear justified? The answer can be found in the experience of othercountries that allow FDI in retail. In Thailand and Malaysia, global retailers have spelt doom for the traditional mom and pop stores. In fact the Thai government had to step step in to save local retailers from annihilation. It set up Allied Retail Trade, a network of franchised stores, which brought small stores together to fight the big chains.

But if the Thailand story is forbidding, then the China one is inspirational. Global chains have had a 13 year run in china. In 1992, China had one supermarket. Today it has 60, 000. (Supermarkets are perceived to be kirana killers!). Four of the world’s 10 largest retailers, 35 of the top 50 and 78 of the top 250 have already opened stores in China. Hypermarkets, supermarkets, discount stores, cash & carry convenience stores every conceivable format operates in China. The globalization of china is complete.

The top 100 retailers (both domestic and foreign) in China had combined sales of $60 billion in 2004, according to the China Chain Store & Franchise Association. These 100 companies have so far opened 30,416 stores with a total area of 25.8 million square metres. But – and here’s the revelation they have only 9.6 per cent share of China‘s $628- billion retail trade! That figure has grown from 2.9 per cent in 2000.

It must be mentioned that the global giants got unfettered access into China only in 2004. Therefore their performance cannot be compared with rest of the country’s retail sector, but must be benchmarked only against the top 100 firms. When seen thus, the foreign firms account for only 23 percent sales of the top 100 retailers. China’s public Now, the question is which theory is relevant to India – China’s or Thailand’s? “India cannot be compared with Thailand and Malaysia as the scale is much smaller and economic levels are dissimilar. The right comparison would be Germany 20-30 years ago or Brazil today.

The question is why are foreign investors so keen on throwing away huge sums to a substantially poor nation and why is India so reluctant to divert from an inherently “closed economy”. India has one of the largest consumer markets of the world and a huge population that likes to spend irrespective of its financial constraints. Moreover, compared to counterparts, India's blossoming economy has remained alien to the foreign touch. And this void of investments in the retail sector makes India so appealing to the entire world. Today the foreign investors are like filthy rich kids with nowhere to spend their money since almost every profitable economy has been milked out; so India's retail sector is nothing short of a casino at the hands of these billionaires – they can stand the test of time and survive possible hits at their own expenses.

Furthermore, the second question can be answered by an analysis of the Indian Retail Sector. In 2004, the Delhi High court defined retailing as "an act of making a sale to the final consumer". According to this definition, the retail sector of India is prominently divided into organized and unorganized retail trade shops, with the latter making up 97% of it. The unorganized retail sector is largely composed of local kirana shops, owner manned general stores, pan/beedi shops, pavement vendors, convenient stores etc; it is the kind of retailing an average Indian can relate to as it comes naturally to them hence it is the largest source of self employment there. On the other hand, organized retailing refers to corporate-backed hypermarkets, retail chains and privately owned large businesses which are only allowed to retail under a license and are liable to huge sales and income taxes. The growth of retailing in India under the organized sector is such that in spite of owning a meager 2-3% of the sector, it is responsible for trade worth 180-394 (US$ billion), compared to 360 of China's. Statistically speaking, retail in India is growing at a rate of 46.64% annually.

So where does FDI come into the picture? India has recently shifted from a closed economy and is now looking to expand organized retailing to 10% of the Indian Retail Sector. To make that goal possible, it needs to rely on providing competition to the locals by bringing in foreign investors. India's current economic policy encourages large Indian players like Reliance, Bharti AirTel, ITC to make significant investments in its market, allowing foreign investors only 51% direct investment opportunities. Now, India offers three retailing formats to all : Single brand Retail shops, Multi brand Retail shops and Convergence Retail outlets. According to the latest economic policies, India allows up to 51% FDI in Single Brand Retail and up to 100% in Convergence Retail Outlets for wholesale trading and export. The multi brand retail format is off limits to the foreign investors. Consequently, they are forced to succumb to breaking and entering via either of the following routes:

1. **Franchise Agreements** – Authority to approve lies with Reserve Bank of India
2. **Cash and Carry Wholesale Trading** – it is not retailing in essence but leads to it ultimately and is expected to bring in huge sums of money based on the high investments required get it started

3. **Strategic Licensing Agreements –** Foreign players can enter into an agreement with the locals and license them to distribute their products/ services
4. **Manufacturing and Wholly Owned Subsidiaries –** Foreign brands can manufacture in India and thereby be treated as “Indian” companies.

So how is the FDI likely to affect the Indian retail sector? India has just glimpsed a view of modern retailing in the form of high rise malls, super markets and a luxurious shopping experience. It can account for much more and revolutionize the Indian Retail Sector, given a few more years. Increased FDI will result in higher global integration and greater chances of traditional retailers to access the international community. In addition, it can account for a higher standard of living by bringing in foreign (high-quality) items of luxury that were previously banned in India. As a result, the high class of India (the ones that can afford foreign luxury) won’t have to resort to importing these goods and generating a cash outflow. This can in turn support the Indian economy by controlling corruption, cash out flow and encouraging high priority items to be manufactured within India. This provides an excellent opportunity for the growth of the Indian Industrial Sector besides retailing. It can also be interpreted as an incentive for traditional retailers to step up their game and look for non orthodox means of attracting good-will to keep in competition with the foreign players. However, there's an ugly side to this dream that most investors are relying on. In changing the landscape of the Indian market, the foreign brands are eventually going to replace traditional Indian retailing. While it sounds good in theory (who would want noisy rickshaws, unhygienic food and a suffocating market experience), this is what the locals rely on. This form of retailing is the bread and butter of millions of people in India. Though FDI will still be revolutionizing the Indian Retail Sector, it will be at the cost of the Indians themselves.

The problem arises because FDI are prone to affecting the most sensitive issue to Indian economy: employment. This form of modern retailing is expected to occur at a cost of heavy labor displacement. And till a time India is creating jobs for its people, this can be nothing but disastrous. The Indian economy is heavily dependent on traditional retailing to create livelihood opportunities. To understand this better, lets take the much popular Tesco issue into account. Tesco, being a multi brand retailer, is denied admission in India. Hypothetically - if India allows it to make a direct investment, it is bound to play big. And will soon open up supermarkets in at least 35 prime locations (cities with population greater than a million). These markets would sell a complete range of products including luxuries and necessities.

Share of retailing in employment across different countries	
Country	Employment (%)
India	8
USA	16
Poland	12
Brazil	15
China	7

Source:- Presentation to FICCI by Alan Rosling (Chairman, Jardine Matheson Group): "International Experience on Policy Issues."

The new middlemen the government welcomes have no regard for village and community. Maximizing their own profit is their sole concern. As the number of buyers shrinks to a handful of corporations, farmers will have fewer places to sell their produce. What kind of bargaining power will they have against these mega-middlemen, some of whose worth would place them, if treated as nations, amongst the top ten economies in the world? The "contracts" in the new dispensation will reflect that power equation. The National Commission for Farmers headed by Dr. M.S. Swaminathan had observed that rushing into contract farming without ensuring the needs, safety and bargaining power of the farmer would result in major displacement in the sector.

And because it is a giant in the international community, it can afford to make huge sales at low costs, most probably lower than the average Indian retailers. So even if it takes a while for the middle and lower classes to adjust to the idea, why wouldn't they want to go out of their way to shop at a place that offers comfort, convenience and low prices? As good as that sounds for normal customers, it involves traditional retailers going out of business; they wouldn't be able to compete and it would trigger a greater lapse in the employment sector, creating bigger problems for the Indian economy.

By allowing FDI in retail, India may soon be looking at a modern version of the "farangi (foreign) take over on Indian economy". There is no doubt that investments of such huge magnitude and potential can revolutionize the Indian Retail Sector, it must be ascertained that the change serves India more than the investors. India has to choose between customer satisfaction and employment opportunities. Given the circumstances, it is evident that India will go for the latter and delay a shift in its market to a time when the foreign investors can't hurt the livelihood of the traditional retailers and the economy is adequately prepared for implementation of FDI in Retail policy.

FDI POLICY WITH REGARD TO RETAILING IN INDIA

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps. Up-to 51% investment in a single- brand retail outlet permitted, 2006 – FDI in cash and carry (wholesale) brought under the automatic route, 1997 – FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route, 1995 – World Trade Organization's general agreement on trade in services, which include both wholesale and retailing services, came into effect, 2011 – 100% FDI in single –brand retail permitted, 2012, Sep – 51% FDI in multi- brand retail permitted. After months of policy paralysis, Manmohan Singh's government roared back to life on Friday, 14th of September by unleashing a blitz of reforms. It also made drastic progress in allowing multi-brand retailing, which had so far had been prohibited in India. India has liberalized its retail industry to permit foreign investment, with regulatory issues and legal structures pertinent to establish operations in this new dynamic market.

FDI Single and Multi-Brand Retailing

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. 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.

Promises of FDI in the Indian Retail Sector

With the advent of FDI, retail sector is likely to make massive strides, and catalyze the growth of the country's economy. As far as developing nations are concerned it is the life blood of economy. Retailing is one of the world's largest private industry. Liberalization in FDI has caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment availability of quality products at a better and cheaper price. It enables a country's product or service to enter into global market.

Positive Impacts of FDI in the Indian Retail Sector:

(i) **Cheaper production facilities:** FDI will ensure better operations in production cycle and distribution. Due to economies of operations, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price.

(ii) **Availability of new technology:** The Micro Small & Medium Enterprises (―MSME‖) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganised sector in overall manufacturing has declined from34.5% in 1999-2000 to 30.3% in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface. FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. Greater managerial talent inflow from other countries is made possible. Domestic consumers will benefit getting great variety and quality products at all price points.

(iii) **Lead driver for the country's economic growth:** FDI would create a competition among the global investors, which would ultimately ensure better and lower prices thus benefiting people in all sections of the society. There would be an increase in the market growth and expansion. It will ensure better managerial techniques and success. Higher wages will be paid by international companies. Urban consumers will be exposed to international life styles.

(iv) **FDI opens new doors for Franchising:** Restrictions on FDI are considered as trade barriers as they deny direct market access to foreign firms. Retail giants who are at their wings, seeking entry into foreign market look for other available alternatives. These restrictions on the global retailers regarding the inflow of FDI, leads them towards acquiring the market entry through franchises. Thus, countries which offer promising market potentialities for retail growth offers substantial growth in the franchising sector as well.

(v) **Growth in economy:** Due to coming of foreign companies new infrastructure will be build, thus real estate sector will grow consequently banking sector, as money need to be required to build infrastructure would be provided by banks. In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would inter alia also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (kirana) and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them.

(vi) **Job opportunities:** Huge investments in the retail sector will see gainful employment opportunities in agro- processing, sorting, marketing, logistics management and front-end retail. At least 10 million jobs will be created in the next three years in the retail sector. Estimates shows that this will create about 80 Lakh jobs. These career opportunities will be created mostly in retail, real estate. But it will create positive impact on other sectors as well.

(vii) **Benefits to farmers:** FDI in retail will help farmers secure remunerative prices by eliminating exploitative middlemen. In most cases, in the retailing business, the intermediaries have dominated the interface between the manufacturers or producers and the consumers. Intermediaries often flout mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3rdof the total price paid by the final consumer, as against 2/3rdby farmers in nations with a higher share of organized retail.Hence the farmers and manufacturers lose their actual share of profit margin as the lion's share is eaten up by the middlemen. This issue can be resolved by FDI, as farmers might get contract farming where they will supply to a retailer based upon demand and will get good cash for that, they need not to search for buyers.

(viii) **Benefits to Consumers:** Consumers will get variety of products at low prices compared to market rates, and will have more choice to get international brands at one place. Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

(ix) **Channelizing the Resources:** Lack of infrastructure in the retailing chain has been one of the common issues in India for years which have led the process to an incompetent market mechanism. For example, in spite of India being one of the largest producers of vegetables and fruits, lack of proper count of cold storages has significantly affected the selling of these perishable items. FDI might help India overcome such issues by channelizing the resources in the right manner.

(x) **Effective PDS:** In the last years, the Public distribution system (PDS) is proved to be significantly ineffective. There is a big question mark on the efficacy of the public procurement and PDS setup and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a 'farm-to fork' retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.In spite of the fact that the government arranged for subsidies, the food inflation has caused its negative impact continuously and it can be handled by FDI.

(xi) **Create transparency in the system:** The intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realises only one-third of the price, which the final consumer pays.

(xii) **Quality Control and Control over Leakage and Wastage:** Due to organisation of the sector, 40% of the production does not reach the ultimate consumer. According to the news in Times of India, 42% of the children below the age group of 5 are malnourished and Prime Minister Dr.Manmohan Singh has termed it as ―national shame‖. Food often gets rot in farm, in transit and in state-run warehouses. Cost conscious and highly competitive retailers will try to avoid these wastages and losses and it will be their endeavour to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society. This will have a salutary impact on food inflation from efficiencies in supply chain. This is also because food, which perishes due to inadequate infrastructure, will not be wasted.

(xiii) **Healthy Competition:** Healthy Competition will be boosted and there will be a check on the prices (inflation):Retail giants such as Walmart, Carrefour, Tesco, Target and other global retail companies already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices. Supermarkets tend to charge consumers lower prices and offer more diverse products and higher quality than traditional retailers—these competitive advantages allow them to spread quickly, winning consumer market share. In most countries supermarkets offer lower prices

(xiv) Building up the Infrastructure: Heavy flow of capital will help in building up the infrastructure for the growing population: India is already operating in budgetary deficit. Neither the government of India nor domestic investors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base. There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT. 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

(xv) Phased Approach towards Liberalizing: Industrial organisations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centers Association of India (a 44 member association of Indian multiband retailers and shopping malls) favour a phased approach toward liberalizing FDI in multi-brand retailing, and most of them agree with considering a cap of 49-51 per cent to start with. The international retail players such as Walmart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multinational retailers such as US-based Walmart, Germany‘s Metro AG and Woolworths Ltd, the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalisation of FDI rules on multi-brand retail for some time.

(xvi) **Supply-Chain Efficiencies:** Foreign retail majors will ensure effective supply-chain efficiencies. That will also create an opportunity for the local players in retail to learn from them. If anything, the entry of retail big boys is likely to hot up competition, giving consumers a better deal, both in prices and choices. Mega retail chains need to keep price points low and attractive - that’s the USP of their business. This is done by smart procurement and inventory management: Good practices from which Indian retail can also learn. Existing Indian retail firms such as Spencer's, Foodworld Supermarkets Ltd, Nilgiri's and ShopRite support retail reform and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management.

(xvii) **Reduction of post-harvest losses:** Policy mandates a minimum investment of $100 million with at least half the amount to be invested in back-end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce post-harvest losses

CONCLUSION

The most important element of the present paper is to analyze Foreign Direct Investments and its relationship with economy. To an average Indian, FDI represent the ostentatious part of India; they stand for air conditioned malls, renewed shopping experience and availability of international brands in India etc. In short, they are responsible for providing small but effective shopping havens to Indian consumers. However, a trained mind can reduce it to more important effects. Essentially, the term FDI according to investopedia means *“An investment abroad, usually where the company is invested in is controlled by the foreign corporation.”* Therefore, to a strong economy it is more important to make an investment; investors are responsible for strengthening their country's economy by acquiring assets that can generate a cash flow into it. On the other hand investments into a country allow cash to flow out of it into the investor's economy.

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