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IMPACT OF FDI WITH REFERENCE TO INDIAN RETAIL INDUSTRY

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***Abstract*:**

The rapid growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major challenges that it faces.
Key Words: *FDI, Indian retail sector, Opportunities and Challenges, Impact on Stakeholders.*

OBJECTIVES :-

1. To study the various opportunities and threats posed due to FDI in retail industry in India.
2. To assess the impact of FDI on various parties related to the retail sector.

RESEARCH METHODOLOGY:-

PRIMARY DATA:- Sample Size: 100, Sampling Technique: Random Sampling, Population: Finite, Data Collection Instrument: Observation, Interview and Questionnaire, Demographic: 60% were males & 40% were females. The sample profile was all the sections of society. Geographic Location: Chandigarh, INDIA.
SECONDARY DATA:- Secondary is collected mainly from websites, annual reports, World Bank reports, research reports, already conducted survey analysis, database available etc.

Rajib Bhattacharyya in his paper **The Opportunities and Challenges of FDI in Retail in India**[1] was of the opinion that spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). He further opined that oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

Prof. Murali Patibandla[2] in his paper Foreign Direct Investment In India's Retail Sector: Some Issues has explained that foreign direct investment (FDI) plays an important role in India's growth dynamics. There are several examples of the benefits of FDI in India. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). This also can result in net gains in employment at the aggregate level.

Nidhi Bagaria & Swarup Santra[3] in their paper Foreign Direct Investment in Retail Market in India: Some Issues and Challenges were of the view that India being second most-populous country has immense scope for retail expansion as along with time urbanization and consumerism has also been increasing. Further, India‘s GDP has also been growing at fast rate as it continued to be the second fastest growing economy in the world after China and as the income of the country increases, demand for goods also increases because there is positive relation between demand and income. Initially India was conservative regarding FDI, it imposed restriction on foreign companies to limit their share in equity capital of their Indian subsidiaries but over the time Government of India gradually liberalized foreign investment in various sectors.

K. R. Kaushik & Dr. Kapil Kumar Bansal[4] in their paper Foreign Direct Investment in Indian Retail Sector Pros and Cons have analyzed implication of policies on farmers, traditional retail & employment and on food inflation. FDI has positive impact on some sectors while negative on others. In our analysis we have seen that FDI will bring investment for modernizing farm as well as retail sector and will also improve supply chain. As a result of these factors food inflation will come down and it will benefit consumers as well. On the employment side it can have negative impact as major part of retail sector is unorganized and as a result of FDI many global players will enter in this sector, this may displace the small players. Opening up the economy for the multi-brand retail sector to FDI will help to develop the farm sector and it would modernize the farm sector in India and it may generate higher level incomes for the certain section of farmers. However, the story is not very straight and bright.

Dr. Brajaballav Pal[5] in his paper FDI in Multi-Brand Retailing: Opportunities And Threats For Rural India has stated that the share of retail employment has risen significantly. But, in India, only 8% of the workforce engaged in retail sector which is half of USA. Moreover, employment in organized retail is only 2% which is far below than South East Asian countries. He shows that the retail sector has provided employments to 41,000 people as compare to 37,000 in 2006 growing at CARG of 2%. He perceived that major benefits of allowing FDI in Indian retail are : (i) Capital; Inflow,(ii) Control of food inflation, (iii) Improved supply chain, (iv) Consumer benefit,(v) Farmer benefit and(vi) Creation of more and better employment opportunities.

Dr. Gaurav Bisaria[6] in his paper FDI in Multi-Brand Retailing: Opportunities And Threats For Rural India has done an empirical study through the sample of the people of Lucknow society. He shows that majority of people are supporting the FDI in retail. There are some who for their own advantage are opposing the entry of foreign retailers into India. They are trying to mislead the people of India for their own profits. There is a point in the agreement between the government and the foreign retailer that any moment of time if the Indian government finds irregularities or any fear then Indian government can break the agreement and the foreign retailer has to leave India.

Introduction

Widespread liberalization and deregulation of financial markets, cross-border mergers and acquisitions (M&As), increasing role of investors willing to invest abroad, rapid advances in modern telecommunication and computer network – have all resulted in a tremendous upsurge of international capital flows in India, particularly private capital flows, as compared to official capital flows over the last two decades. Among the various forms of foreign investment, foreign direct investment (FDI) 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. In fact, FDI provides a win – win situation to both the host and the home countries. The „home‟ countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the „host‟ countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, in order to overcome the deficiencies of all kinds of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets-abroad - in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities. Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space. Retail modernization in India depicts a similar story. According to A.T. Kearney‟s Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. Being encouraged by India‟s growing retail boom many multinational companies also started to enter India‟s retail market. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

Background Of FDI In Retail Sector In India

- During nineties Mr. P V Narsimha Rao lead Govt. allowed limited FDI in retail and as a result "Dairy Farm" a MNC made entry in India.

- In 1997, FDI in cash and carry (wholesale) with 100 percent ownership was allowed under the Government approval route. It was brought under the automatic route in 2006.
- NDA Goverment was willing to introduce FDI in retail sector in May, 2002 but it could not materialize due to unknown reasons.
- 51% Foreign Direct investment in single brand retail was also permitted in 2006.
- In 2011 100% FDI was allowed in Single Brand retail withholding the FDI in Multi Brand Retail due to various political reasons.
- 100 % FDI in Single Brand (with revised guidelines) and 51% in Multi-Brand retailing with some conditions have now been allowed in India w.e.f. 20th Sept., 2012 with an option to the state Governments to allow or not to allow the FDI in retail sector in their states.

Some Parties have opposed the FDI in Retail Sector particularly in the Multi Brand Retail. Agitations and Bandhs have been called. Govt. of India is firm on implementing the FDI policy in retail sector as it feels that FDI is beneficial for the economic growth of country and how the rights of the local retailers have been protected in the FDI Policy.

WHAT IS FDI?

FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. It can be a subsidiary, joint venture or merger or acquisition and includes Greenfield and Brownfield projects. So, Foreign Direct Investment is an investment made by a foreign company or entity into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies. OECD has defined FDI as investment by a foreign investor in at least 10% or more of the voting stock or ordinary shares of the investee company.

What Is Retail?

Retail is a French word which means to "cut it again" and essentially mean a sale to the consumer for direct consumption. In 2004, The High Court of Delhi defined the term „retail" as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). Thus the retail is an interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

Division Of Retail Sector:

The retail industry is mainly divided into:-

1) Organized Retail Sector

2) Unorganized Retail Sector

Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hyper markets and retail chains, and also the privately owned large retail businesses. It covers only 3% of retail Business. **Unorganized retailing** refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart (street sellers) and pavement vendors etc. and covers almost 97% of the retail Business. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 12 per cent of India"s GDP.

FDI Policy In India:

Investments/ developments

Based on the recommendations of Foreign Investment Promotion Board (FIPB), the Government, in a meeting held on September 29, 2015, approved 18 proposals of FDI amounting to approximately Rs 5,000 crore (US$ 770 million).

Some of the recent significant FDI announcements are as follows

- Kellogg Co, world's largest cereal maker, is making large investments in manufacturing and plans to set up its first Research and Development (R&D) facility in India at Taloja, near Mumbai.
- The Government of Karnataka has signed an agreement with the Taiwan Electrical and Electronic Manufacturers Association for the purpose of creating a Taiwanese electronic manufacturing cluster near the Bengaluru airport, with an investment expectation of Rs 3,200 crore (US$ 500 million).

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- Posco Korea, the multinational Korean steel company, has signed an agreement with Shree Uttam Steel and Power (part of Uttam Galva Group) to set up a steel plant at Satarda in Maharashtra.
- Foxconn has signed a Memorandum of Understanding (MoU) with Maharashtra state government to invest US$ 5 billion over the next three years for setting up a manufacturing unit between Mumbai and Pune.
- Global giants such as Bombardier, Hyundai-ROTEM, TALGO and CAF have queued up to manufacture semi high-speed train sets in India, which will be used for faster inter-city travel.
- Germany-based ThyssenKrupp group is aiming to double its revenue from India to US$ 1 billion in next three-four years while the group's elevator unit, ThyssenKrupp Elevator, plans to invest EUR 44 million (US$ 50.5 million) to set up a manufacturing plant in Chakan, Pune.
- Swedish home furnishing brand Ikea has made a long-term plan of opening 25 stores in India by making an investment worth Rs 12,500 crore (US$ 1.9 billion).
- Google plans to invest Rs 1,500 crore (US$ 234.3 million) for a new campus in Hyderabad which will be focused on three key areas — Google Education, Google Fibre broadband services and Street view.

SWOT ANALYSIS:-

1. Strengths:

1. Major contribution to GDP: the retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA.

2. High Growth Rate: the retail sector in India enjoys an extremely high growth rate of approximately 46%.

3. High Potential: since the organised portion of retail sector is only 2-3%, thereby creating lot of potential for future players.

4. High Employment Generator: the retail sector employs 7% of work force in India, which is rite now limited to unorganised sector only. Once the reforms get implemented this percentage is likely to increase substantially.

2. Weaknesses (limitation):

1. Lack of Competitors: AT Kearney's study on global retailing trends found that India is least competitive as well as least saturated markets of the world.

2. Highly Unorganised: The unorganised portion of retail sector is only 97% as compared to US, which is only 20%.

3. Low Productivity: Mckinsey study claims retail productivity in India is very low as compared to its international peers.

4. Shortage of Talented Professionals: the retail trade business in

India is not considered as reputed profession and is mostly carried out by the family members (self-employment and captive business). Such people are not academically and professionally qualified.

3. Opportunities (benefits):

1. There will be more organization in the sector: Organized retail will need more workers. According to findings of KPMG , in China, the employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001, post reforms and innovative competition in retail sector in that country.

2. 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.

3. 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.

4. Intermediaries and mandi system will be evicted, hence directly benefiting the farmers and producers: the prices of commodities will automatically be checked.

5. 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.

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4. Threats:

1. Current Independent Stores will be compelled to close:

This will lead to massive job loss as most of the operations in big stores like Walmart are highly automated requiring less work force.

2. Big players can knock-out competition: they can afford to lower prices in initial stages, become monopoly and then raise prise later.

3. India does not need foreign retailers: as they can satisfy the whole domestic demand.

4. Remember East India Company it entered India as trader and then took over politically.

DATA ANALYSIS :-

Table 1 :- Govt. decision to permit 51% FDI in Multibrand retail.

Will support	**65%**
Will not support	**35%**

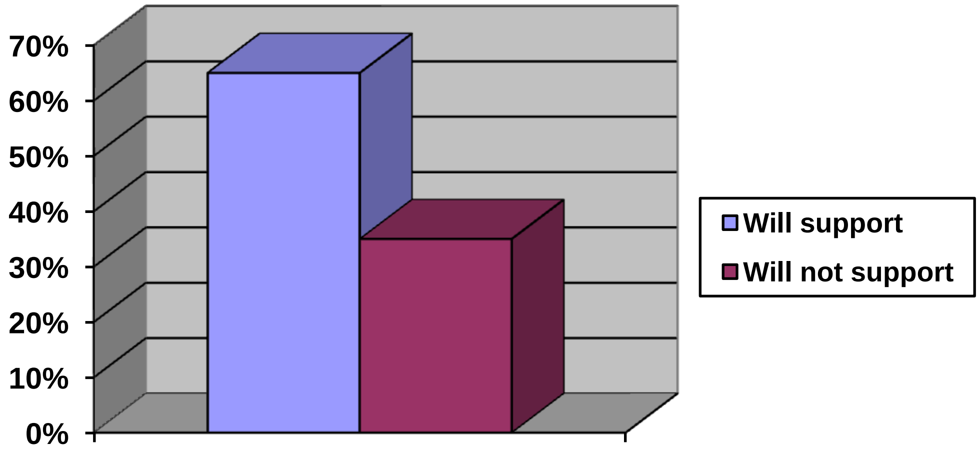


Table 2 :- Foreign big retailers will reduce the purchase from local stores.

Yes	**30%**
No	**60%**
Can't Say	**10%**

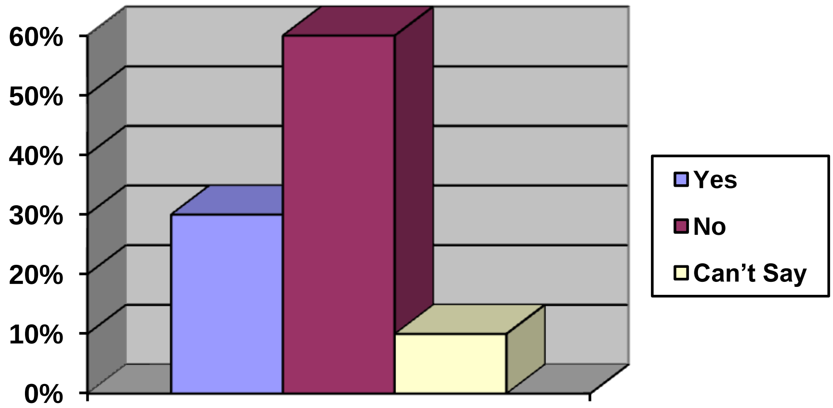


Table 3 :- Impact on farmers over FDI in retail.

Will benefit	**70%**
Will not benefit	**25%**
Can't say	**5%**

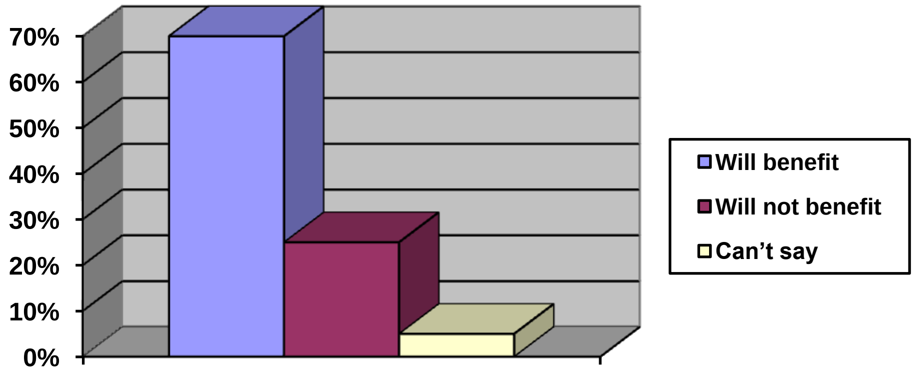


Table 4 :- Impact on Consumers over FDI in retail.

Will benefit	**80%**
Will not benefit	**15%**
Can't say	**5%**

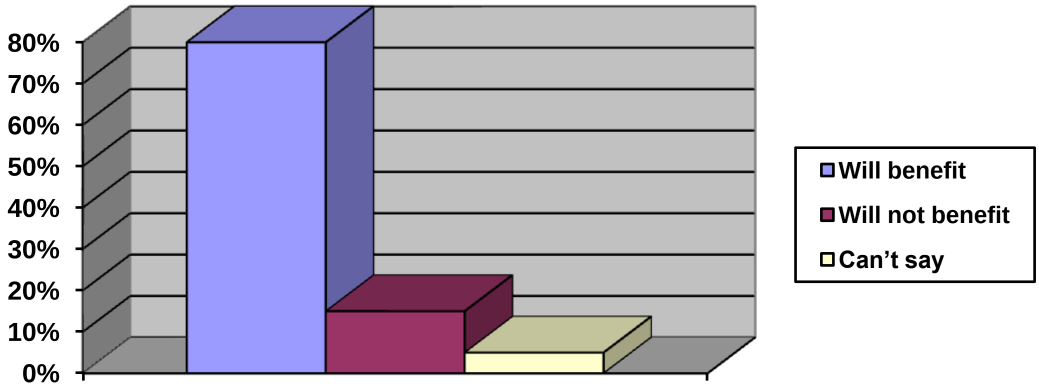


Table 5 :- Impact on Unorganised retail sector over FDI in retail.

Will benefit	**15%**
Will not benefit	**75%**
Can't say	**10%**

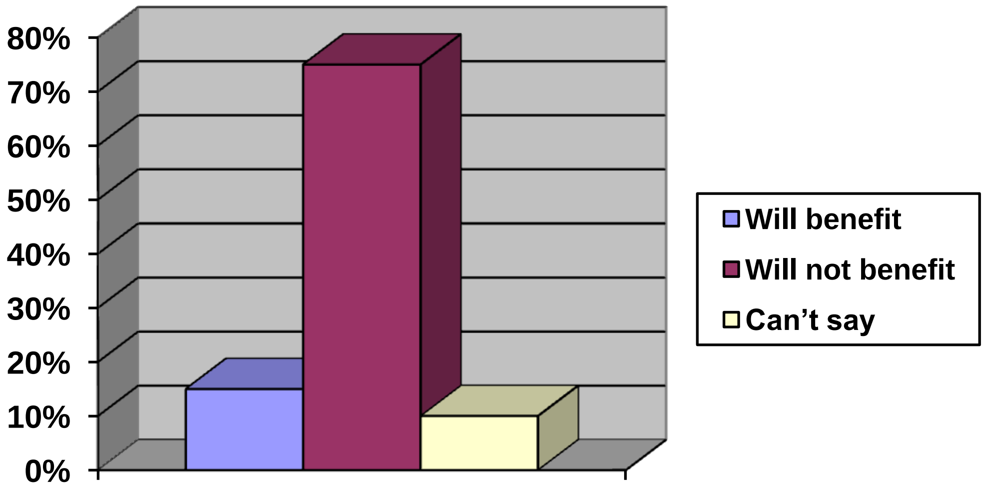
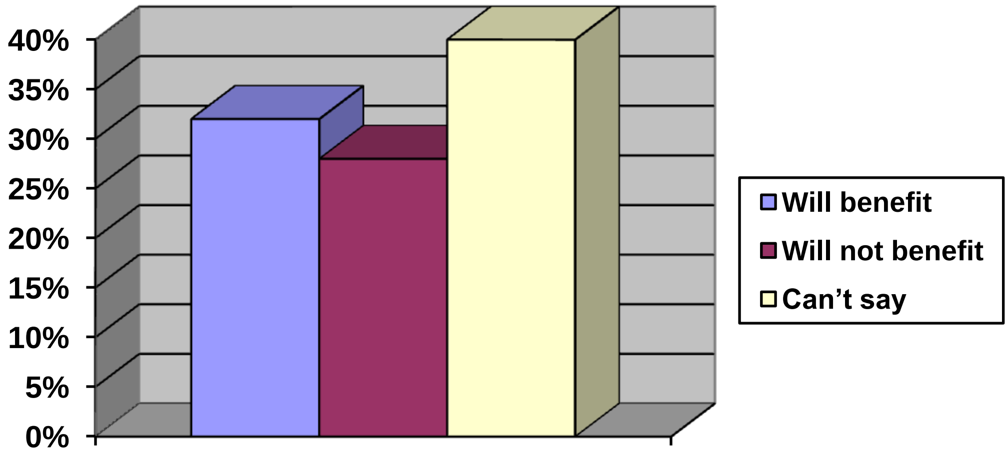


Table 6 :- Impact on Other Indian industries over FDI in retail.

Will benefit	**32%**
Will not benefit	**28%**
Can't say	**40%**



Graph 1: Government decision to permit 51% FDI in multi brand retail The above Graph 1 shows that the 65% of the people of Chandigarh society supported the government decision to permit 51% FDI in multi brand. This means that they liked to have foreign brands in India. The rest 35% people of Chandigarh society were not supporting the government decision to permit 51% FDI in multi brand. This means that they were having the fear of the foreign trade and were of the view that it can repeat the history where East India Company came to India in the past and captured India through the business.

Graph 2: Foreign big retails will reduce the purchase from local stores The above Graph 2 shows that the 60% of the people of Chandigarh society disagree that foreign big retail 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 30% of the people of Chandigarh society were of the view that foreign big retails will reduce the purchase from local stores because the market of local stores will make a switch over to foreign big retails. The left over 10% were not having the adequate information about the recent issue.

Graph 3: Impact on farmers over FDI in retail The above Graph 3 shows that the 70% of the people of Chandigarh society were of the view that the 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 produces, without the agent in between the two parties. There will be good storage techniques and transportation techniques. The rest 25% of the people of Chandigarh society were of the view that the Indian farmers will not be benefitted by the FDI in retail because they were of the view that Indian farmers will not get the advantage as it is a myth. There will be some irregularities. The left over 5% were not having the adequate information about the recent issue.

Graph 4: Impact on consumers over FDI in retail

The above Graph 4 shows that the 80% of the people of Chandigarh society were of the view that the Indian consumers will be benefitted. This means that majority were of the view that Indian consumers will get lot of opportunities in terms of purchasing the products. The rest 15% of the people of Chandigarh city were not of the view that Indian consumers will be benefitted because they were highly satisfied with Chandigarh the swadesh products in terms of price and availability. The left over 5% were not having the adequate information about the recent issue.

Graph 5: Impact on un-organized retail sector over FDI in retail The above Graph 5 shows that the 75% of the people of Chandigarh society were of the view that the un-organized retail sector will not be benefitted by the FDI in retail. This means that majority of the people of Chandigarh society were of the view that the organized retail sector will capture the un-organized retail sector. The rest 15% of the people of Chandigarh city were of the view that there will be no major impact of organized retail sector over the un-organized retail sector in India. The left over 10% were not having the adequate information about the recent issue.

Graph 6: Impact on other Indian industries over FDI in retail The above Graph 6 shows that the 32% of the people of Chandigarh society were of the view that the other industries will be benefitted over FDI in retail. This means that they were of the view that other industries will get good business through partnership, supply of raw material, giving of land or building and other means which will lead them good profits. The rest 28% of the people of Chandigarh city were of the view that the other industries will not be benefitted by this action. They were of the view that it is a false because the foreign big retail will try to depend on their people for business. The left over was in majority with 40% saying it is a very difficult situation to say whether FDI in organized sector will benefit or not. One reason can be as usual that they are not having the adequate information about the recent issue. The other can be that consumers can give information's better about purchasing than business because there can be job holders and house-wives.

Summarized Result

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

Conclusion

It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the following points:-

1.Small retailers will not be crowded out, but would strengthen their market positions by modernizing their working.

2.Growing economy and increasing purchasing power would compensate the loss of market share of the
unorganized sector retailers.

3.Innovative government measures could mitigate adverse effects on small retailers

4.Farmers will get an opportunity of direct marketing and hence get better price for their produce..

5.Consumers would certainly gain from enhanced competition, better quality, variety of branded goods
and attractive discount offers.

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QUESTIONNAIRE:-

Q1: Will you support the govt decision to permit 51% FDI in retail sector?

(a)yes
(b)no

Q2: Will foreign big retails reduce the purchase from local stores?

(a)yes
(b)no

Q3: What will be the impact of FDI in retail on farmers?

(a)will benefit
(b)will not benefit
(c)can't say

Q4: What will be the impact of FDI in retail on consumers?

(a)will benefit
(b)will not benefit
(c)can't say

Q5: What will be the impact of FDI in retail on unorganized sector?

(a)will benefit
(b)will not benefit
(c)can't say

Q6: What will be the impact of FDI in retail on other industries?

(a)will benefit
(b)will not benefit
(c)can't say