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‘FDI IN INDIA’S RETAIL SECTOR

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Abstract:

India is ranked as the third most attractive nation for retail investment among 30 emerging markets the unorganized retail sector in India occupies 97 per cent of the retail business and the rest 3 per cent is contributed by the organized sector. The unorganized retail sector contributes about 13 per cent to the GDP and absorbs 6 per cent of our labour force. Indian retail industry is one of the sunrise sectors with huge growth potential. The FDI in retail sector would definitely be a mixed blessing for domestic retailers. Even though this new reform is expected to have adverse impact on the domestic retail sectors for short run, it will weaken overtime. FDI will help to overcome the problem of lack of experience and trained manpower. FDI is extremely beneficial to customers as it would help in reducing the problem of adulteration, short weighing and substandard goods. The gradual and step wise admission of MNCs in retail would bring about three pivotal changes-modern technology, better transparency in dealings and sharing best practices in long run. This article presents an overview of retail trade in India in the wake of the country’s new policy that will allow foreign capital in multi-brand retailing and single brand retailing. It discusses various advantages and disadvantages of foreign direct investment (FDI) in the retail sector.

Key words: FDI , Retail Sector , Labour Force , Modern Technology .

INTRODUCTION

India is second largest populated country in the world and is acknowledged as the biggest market in the world next to China. Any customer would develop brand loyalty based on the personal experience and satisfaction. Brands help the customers to identify pacific products from among identical commodities. Brands have significant impact on enveloping customer perception and expectations. India is the founder member of World Trade Organization and signatory to its General Agreement on Trade in Services (GATS). This agreement includes wholesale and retailing services and all member countries are required to open up the retail trade sector to foreign investment. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to Foreign Direct Investment (FDI) in India.

India's retail sector encompassing food & grocery, apparels & accessories, footwear, electronics, beauty products, jewellery, furniture & furnishings segments is primarily unorganized with only a marginal percentage of the sector being organized. The unorganized retail sector comprises of small 'mom & pop' stores (Kirana shops) and general stores. Given India's growing per capita income and disposable income in the middle class in the last decade, domestic industry invested huge amounts of money in organized retail ventures under various models such as hypermarket, supermarket, department stores, and modernized retail stores. The domestic players engaged in organized retail include Reliance Fresh, Big Bazaar, Spencers in food & grocery segment; Croma, Reliance Digital in electronics segment; Pantaloon, Shoppers Stop, Provogue, Wills Lifestyle in apparels segment.

FOREIGN DIRECT INVESTMENT (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 per cent or more of the voting stock or ordinary shares of the investee company.

FDI (Foreign Direct Investment) is a process which enables the residents of one country to directly invest their funds in another country and acquire ownership of assets and exercise control over the investment in terms of production, management, distribution, effective decision making, employment etc."FDI is an international financial flow with the intension of controlling or participating in the management of an enterprise in a foreign country." Foreign investment is a means of making foreign resources available to a developing country. Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country.

RETAIL SECTOR

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. 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. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

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). A sale to the ultimate consumer. Thus, retailing can be said to be the 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.

OBJECTIVE OF PERMITTING FDI IN INDIAN RETAIL SECTOR

The Government of India (Central Government) is opening the retail sector to foreign direct investment (FDI) to provide a boost to the retail trade, which has the potential of being a major growth engine for the country’s economy. FDI in single brand retail trade primarily caters to the needs of brand conscious consumers with a pre-disposition for high-end products and focuses on front–end retailing. FDI in multi brand retail trade, on the other hand, will serve the needs of vast and varied consumers across India and would bring the investment and international expertise necessary to develop the backend infrastructure and supply chain management.

FDI & INDIAN RETAIL SECTOR

Retailing is one of the most important sectors of India economy. It provides 9% employment to the total workforce and contributes around 15% to the Indian GDP. It could have been a welcome step in strengthening India‘s FDI regime with making it in tune with country‘s needs. The FDI policy has been moving away from the license mentality of protection against imagined foreign dictators towards a more open, healthy and competitive environment. This policy would have provided a window for the world class retailer Hermes, Tiffany & Co and Wal- Mart, etc. to set their foot in the booming Indian retail sector. The Indian Government believe that the opportunity of FDI in multiband retail and further liberalization of single-brand retail trade will facilitate greater FDI inflows providing new opportunities and benefits besides quality improvement. At a time when declining investments have led to slower GDP growth, however, a healthy competition, between the large domestic retailers and those with FDI, should be maintained. Imposing socially desirable constraints on FDI funded retailers would lead into unfair competition.

CONCLUSION

India's retail sector remains off-limits to large international chains especially in multi-brand retailing. A number of concerns have been raised about opening up the retail sector to FDI in India. The first concern is the potential impact of large foreign firms on employment in the retail sector. A second related concern raised in the DIPP's report is that opening up FDI would lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business. A third concern raised by domestic incumbent firms in the organized retail sector is that this sector is under-developed and in a nascent stage.

Small retailers will not be crowded out, but would strengthen market positions by turning innovative/ contemporary. Growing economy and increasing purchasing power would more than compensate for the loss of market share of the unorganized sector retailers. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they are likely to be absorbed by increase in the food processing sector induced by organized retailing. Innovative government measures could further mitigate adverse effects on small retailers and traders. Farmers will get another window of direct marketing and hence get better remuneration, but this would require affirmative action and creation of adequate safety nets. Consumers would certainly gain from enhanced competition, better quality, assured weights and cash memos. The government revenues will rise on account of larger business as well as recorded sales.

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