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HOW IMPORTANT IS "FOREIGN DIRECT INVESTMENT" IN RETAIL SECTOR? A STUDY OF INDIA

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ABSTRACT

India is rapidly gaining importance world-wide as the country has become an investment hub over the last decade. Global investors have retained their faith in the flexible Indian economy even during the toughest of the times. As a result, India enjoyed high foreign inflows and investments when rest of the world was struggling to even survive. 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. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world. Former Government supported FDI in retailing sector to enhance its growth. This paper will analyze both the advantages & disadvantages of FDI in Indian Retail sector.

KEYWORDS: Retail, FDI, Growth, Investment

INTRODUCTION

Retailing is one of the world's largest private industries. Liberalizations in FDI have 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, organized retail stores, availability of quality products at a better and cheaper price. It enables a countries product or service to enter into the global market. India is Asia's third largest retail market after China and Japan. It provides immense growth opportunity. Only 5% of the total sales are being done by organized retailer. Currently Indian Retail sector have sales of around $500 billion. Retail sector is expected to have sales of $900 billion by 2014.

It still far behind China, whose retail sales by 2014 is expected to cross $4500 billion mark. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Retail has played a major role in improving the productivity of the whole economy at large. The positive impact of organized retailing could be seen in USA, UK, and Mexico and also in China. Retail is the second largest industry in US. It is also one of the largest employment generators. It is also important to understand that Argentina, China, Brazil, Chile, Indonesia, Malaysia, Russia, Singapore and Thailand have allowed 100% FDI in multi brand retail.

These countries benefited immensely from it. Also small retailers co-exist. The quality of the services has increased. China permitted FDI in retail in 1992 and has seen huge investment flowing into the sector. It has not affected the small or domestic retail chains on the contrary small retailers have increased since 2004 from 1.9 million to over 2.5 million. Now FDI in Multi-Brand retailing is permitted in 2012. Before this move the Indian households have traditionally enjoyed the convenience of calling up the corner grocery "kirana" store. Earlier the retail trade continued in the unorganized sector. Afterwards with the entry of big players like Reliance, Tata's, Bharati, Big Bazzar, organized retail sector came in to existence. And the competition started becoming intense. The permission to FDI had shown great impact on the structure of retail industry in India, its implications on customers, small retailers and the general public. On this backdrop an attempt is made in this Paper to analyze the impact of FDI in Indian retail sector.

OBJECTIVES

- Analyzing the impact of FDI in retailing.
- Analyzing the growth of various sectors.
- To study present regulatory framework for FDI in general and in retail sector.

FDI IN RETAIL PRESENT STATUS

The retail sector is one of the fastest growing in India over the last few years. The Indian retail industry, which comprises organised and unorganised retail, is currently estimated at US$ 490 billion. It has experienced high growth over the last decade with a noticeable shift towards organised retailing formats. The industry is moving towards a modern concept of retailing.

“Demand from international and domestic brands as well as retailers continued to strengthen throughout 2013; with the second half of the year witnessing an increase in demand for quality retail space in Delhi NCR, Pune and Chennai,”. 51% FDI in multi brand Retail and 100% in single brand is put hold till the time consensus is reached between the political parties.

Per Capita Income in India

Per capita income in India is expected to cross US$ 1,600 mark by 2018.

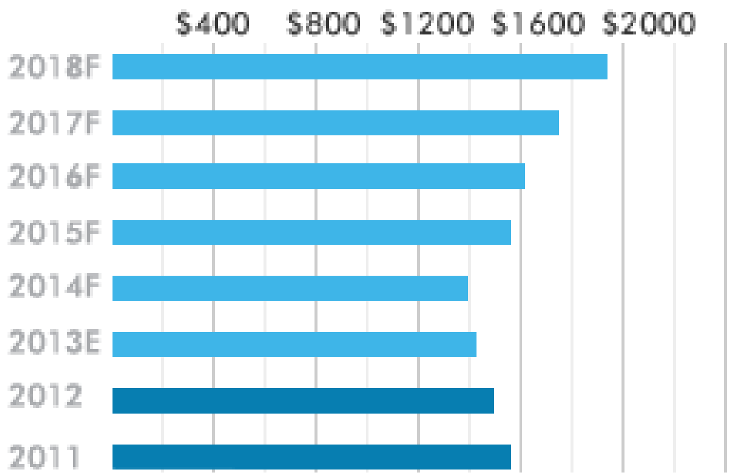

Figure 1

Market Break-up of Retail Industry in India by Revenues

In 2012, ‘Food and Grocery’ accounted for nearly 60 per cent of total revenues in the retail sector followed by Apparel (8 per cent).

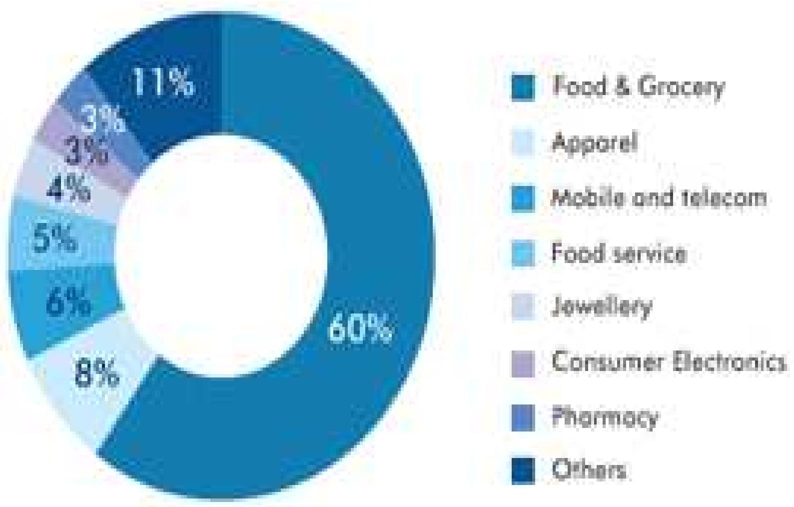

Figure 2

Introduction

Further, easy availability of debit/credit cards has contributed significantly to a strong and growing online consumer culture in India. With the online medium of retail gaining more and more acceptance, there is a tremendous growth opportunity for retail companies, both domestic and international. Favourable demographics, increasing urbanisation, nuclear families, purchasing power of consumers, preference for branded products and higher aspirations are some factors which will drive retail consumption in the country.

Market Size

India's retail market is expected to touch a whopping Rs 47 trillion (US$ 782.23 billion) by 2016–17, expanding at a compounded annual growth rate (CAGR) of 15 per cent, according to a study by a leading industrial body. The total organised retail supply in 2013 stood at approximately 4.7 million square feet (sq ft), witnessing a strong year-on-year (y-o-y) growth of about 78 per cent over the total mall supply of 2.5 million sq ft in 2012.

The foreign direct investment (FDI) inflows in single-brand retail trading during the period April 2000–January 2014 stood at US$ 98.66 million, as per data released by Department of Industrial Policy and Promotion (DIPP).

Key Developments and Investments

- Reliance Industries Ltd (RIL) plans to take its cash-and-carry, or wholesale business to Jaipur, Rajasthan, becoming the largest organised wholesale player in the country.
- Ezeego1.com has launched a new franchise store in Gurgaon, Haryana to reach out to a wider mass of audience who prefers the conventional method of travel booking.
- Galderma, a Switzerland-based pharmaceutical company, owned by food and beverage giant Nestle, plans to tap the Rs 30,000 crore (US$ 4.99 billion) skincare and beauty market in India.
- Fast-food brand Subway plans to expand its presence across IT parks, highways, hospitals and food courts. "We plan to have about 650 outlets by 2015," said Mr Gurpreet Gulri, Country Head, Subway India.

- Big Bazaar plans to use a Rs 100 crore (US$ 16.64 million) marketing campaign, which will play on mass media as well as social media, to reposition itself as a change agent rather than a player who provides the deepest discounts in the business.
- Tanishq has celebrated another landmark in jewellery retailing by opening its new showroom in Bengaluru. It is the 162nd showroom in Tanishq's network.

GROWTH DRIVERS OF INDIAN RETAIL SECTOR

Rising Income and increase in convergence of consumer taste and preferences. Dual family Income. Knowledge about different product through different medium like Internet, Television etc. Also knowledge about the latest trend and fashion.47% of the India's population is under the age of 30.

- This category is driving the consumption story.
- Emergence of new retailing format.
- Availability of Credit Facilities.

Positive Effects

- FDI in retail will create 80 lakhs jobs.
- It will bring growth and prosperity.
- Prices of products will come down. This will tame inflationary pressure in the economy.
- More investments in the end to end supply chain and world class cold storage facilities.
- Better options and offers to the consumer.
- Increase in economic growth by dealing in various international products.
- According to the UPA Government 1 million (10 lakh) employment will be created in next three years.
- Billion dollars will be invested in Indian retailmarket

Negative Effects

- Govt does not have any clear stands on the FDI in Retail. They have not done any survey and cost benefit analysis of this issue.
- As claimed by the Govt that it will create Jobs, opposition does not buy it. They claim million of retailers have to shut their shops.
- As claimed by former Govt that it will bring down price, opposition thinks otherwise.
- Will affect 50 million small merchants in India.
- An economically backward class person may suffer from price raise in future.
- Retailer faces heavy loss of employment and profit.

- Inflation may be increased.
- The rural India will remain deprived of the services of foreign players.

SIDE EFFECTS OF THE FDI AND SOLUTION

Nevertheless much said about good things that FDI in retail will bring but argument will not be justified if we do not take into account the grey areas. Some of the grey areas are: Predatory pricing could strangulate the domestic retailers. It has been seen MNCs retailers uses there big size to kill competitors, in order to bring goods at lowest possible price for customers, they squeeze the margins of their suppliers. So as claimed by thousand that suppliers will benefit, it is still doubted.

In order to correct these anomalies, India need to have strong regulator for the sector. And at the same time strengthen the Competition Commission of India before these Big Retailers creep into the Indian Territory.

CONCLUSIONS

FDI is a debt inflow or liability foreign exchange. Why? Simple, because the profits or returns it generates will have to be repatriated in foreign exchange. Secondly, all the men, material and merchandise imported in the years to come will have to be paid in foreign exchange. Finally, at the time of winding up/selling off, the proceeds will flow out of the country in foreign exchange. And, it is noteworthy here, all this will end up in the outflow of foreign exchange, many times more than the initial inflow. So, every FDI is a clear-cut case of liability foreign exchange. Instead of allowing foreign capital to set up shop here, the country should have used foreign exchange to just import technology, if needed; and set up the same industries with domestic capital. No liability foreign exchange; no profits going out of the country; domestic consumers getting the same products; and the fruits of exports being reaped by domestic firms and not foreign — all the way a win-win situation for us.

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