



FDI and Retail Sector in India

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Abstract

The retail industry is a major pillar of the Indian economy. Retail and wholesale trade is the single largest component of the service sectors in terms of contribution (about 14 percent) to the national GDP of India and employing nearly 7 percent of the total workforce in the country. Retailing is the last stage in the distribution of commodities from the owners of the products i.e., producers to consumers. Retail industry comprises both organized and unorganized sectors. The entry of Foreign Direct Investment (FDI) in the retail sector seems to have become the next frontier for conquest by the pro-MNC forces of liberalization. All the major trade and industry associations have been actively canvassing for this. According to the Minister of Finance, Mr.Chidambaram, "FDI worked wonders in China and can do so in India". The government in a series of means has opened up the retail sector slowly to Foreign Direct Investment (FDI). In 1997, FDI in Cash and Carry (wholesale) with 100 percent ownership was allowed under the government approved route. 51 percent investment in a single brand retail outlet was also permitted in 2006 from 25 percent previously. The decision to allow FDI in multi-product retail chain stores has become a politically sensitive issue today. This paper examines the impact of FDI on the growth of the retail sector and salient aspects of the India's foreign investment policy.

Keywords: FDI, Retail Sector, FDI Policy.

1. Introduction

Economic development of developing countries depends largely on massive equity and loan capital inflows from the developed countries. FI plays a significant role in economic development of a country by enhancing economic activity and there by generating employment opportunities. It acts as a supplement to domestic investment. Foreign Investment (FI) is of two types. They are Foreign Direct Investment (FDI) and Foreign Institutional Investors (FII).

In India FDI Policy allows for investment through financial alliance, joint schemes and technical alliance, euro issues and private placements. Liberal and investor-friendly policy on FDI by the Indian Government resulted in a vigorous growth in FI.

Today, FDI has become a very sensitive issue with arguments to support both sides of the debate. It is widely acknowledged that FDI can have some positive results on the economy, triggering a series of reactions that in the long run it can lead to greater efficiency and improvement of living standards,



apart from greater integrator into the global economy. Supporters of FDI in retail trade talk of how ultimately the consumers benefited by both price reductions and improved selection, brought about by the technology and know-how of foreign players in the market. This in turn can lead to greater output and domestic consumption. A discussion paper, prepared by the Department of Industrial Policy and Promotion for eliciting public opinion, has made out a strong case for the entry of multinational multi brand retailers into the country. The paper is in favour of allowing 51 per cent Foreign Direct Investment (FDI) in the multi-brand retail sector which would allow the global giants to directly set up shops in the country. "FDI in retail may be an efficient means of addressing the concerns of farmers and consumers. It may, therefore, be an efficient means of addressing the concerns of farmers and consumers," the government draft policy paper has contended.

Further, it argued that FDI in multi-brand retailing "would also assist in lowering consumer prices and inflation." At present, the government policy allows 51 per cent FDI only in the single-brand retailing. The extension of this to the multi-brand segment would mean that the global multi-brand retailers would be able to open their shops in the country to directly sell consumer products ranging from state of-the-art entertainment electronic goods to candy and biscuits of any brand one can think of.

2. Objectives of the Study - Objectives of the present study are:

1. To analyze the retail industry in India.
2. To review the foreign direct investment in retail sector.

3. Growth of Retail Outlets in India -

The origins for retail business in India can be traced with the emergence of Kirana stores and mom-and-pop stores. These stores used to cater the needs of local people. Gradually, the government started supporting the rural retail and many indigenous franchise stores came up with the help of Khadi and Village Industries Commission. The economy began to open up in the 1980's resulting in the changing scenario of retailing. The first few companies to come up with retail chains were in textile sector. Later, Titan launched retail showrooms in the organized retail sector. With the passage of time new entrants moved on from manufacturing to pure retailing.

Today, India is the fifth largest in the world in terms of Retail Industry. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With growing market demand, the industry is



expected to grow at a pace of 25-30 per cent annually.

Indian Retail Industry is the most promising emerging market for investment. According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, the retail trade in India had a share of 8-10 per cent in the GDP (Gross Domestic Product) of the country in the year 2007. In 2009, it rose to 12 per cent in the year 2008 and expected to reach 22 per cent in the next few years. The Indian Retail Industry is expected to grow to US\$ 700 billion in the year 2010 according to a report by North bridge Capital. In the same year the organized sector will be 20per cent of the total market share as compared to the share of organized sector in 2007 was 7.5 per cent of the total retail market. Retail is

India's largest industry and for over 10 per cent of the India's GDP and around 8per cent of the employment. Retail sector is one of India's fastest growing sectors with a 5 per cent compounded annual growth rate. As India has a huge middle class base and its untapped retail industry are key attractions for global retail giants planning to enter newer markets. Due to the changing lifestyles, strong income growth in the middle class population and favourable demographic patterns, Indian retail is expected to grow 25 percent annually and expected that retail business in India could be worth US\$ 175-200 billion by 2006. Table-I clearly reflects the growth of retail industry in India.

Table-1: Growth of Retail Outlets in India (000)

Outlets /Year	1996	1997	1998	1999	2000	2001
Food Retailers	2769.0	2943.9	3123.4	3300.2	3480.0	3682.9
Non-Food Retailers	5773.6	6040.0	6332.2	6666.3	7055.5	7482.1
Total Retailers	8542.6	8983.6	9455.6	9966.5	10534.4	11165.0

Source: P.G Chengappa et al, *Evaluation of Food Retail Chains: The Indian Contest*, 5-6, Nov 2003, www.ficci.com

4. Retailing in India Retail outlets in India are in the form of: Malls: This is the largest form of organized retailing today. Located mainly in metro cities. They lend an ideal shopping experience with an

amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Pyramid, and Pantaloon. Specialty Stores: Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World



and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

Discount Stores: As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or to clear excess stock left over at the season. The product category can range from a variety of perishable/non-perishable goods.

Departmental Stores: These are large stores catering to a variety of consumer needs. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores across India and even has its own in store brand for clothes called Stop.

Hyper markets/Supermarkets

Large self-service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30 per cent of all food and grocery organized retail sales. Super Markets can further be classified in to mini supermarkets and large supermarkets. having a strong focus on food and grocery and personal sales.

Convenience Stores

These are relatively small stores located near residential areas. They stock a limited range of high turnover

convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

MB outlets

Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros.

5. Recent Trends

- Retailing in India is witnessing a huge revamping exercise.
- India is rated the fifth most attractive emerging retail market.
- Multiple drivers are leading to a consumption boom:
 - Favourable demographics
 - Growth in income
 - Increasing population of women
 - Raising aspirations: Value added goods sales
 - growing number of double-income households
- Food and apparel retailing are the key drivers of growth
- Organized retailing in India can be largely seen in urban areas
- Rural markets are emerging as a huge opportunity for retailers reflected in the share of the rural market across most categories of consumption
 - ITC is experimenting with retailing through its e-Chou pal
 - HLL is using its Project Shakti



initiative leveraging women self-help groups to explore the rural market.

– Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets.

- IT is a tool that has been used by retailers ranging from Amazon.com to eBay to radically change buying behaviour across the globe.

6. FDI In Retail Sector in India

In recent years the destination sectors in FDI have become more varied. FDI inflows have shifted from infrastructure, natural resources and export driven manufacturing to other areas such as retailing, tourism, construction and off shore services.

Press Note 4 of 2006 issued by Department of Industrial Policy and Promotion (DIPP) and consolidated FDI Policy issued in October 2010 provide the sector specific guidelines for FDI with regard to the conduct of trading activities. They include:

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of 'Single Brand' products, subject to Press Note 3 (2006 Series).
c) FDI is not permitted in Multi Brand Retailing in India. FDI inflows has evidently proved to be very advantageous for the overall development of the Indian economy and inter alia has resulted in increased capital flow, improved technology, notable management expertise and favourable

access to international markets. Further, FDI in retail sector in India results in benefits like:

- Leads to Growth in economy as a result of infrastructure development
- Creates Job opportunities as result of heavy investments
- Benefit the farmers by providing ready market for their output
- Benefit the consumers by proving quality products at reasonable price

The entry of Foreign Direct Investment (FDI) in the retail sector seems to have become the next frontier for conquest by the pro-MNC forces of liberalization. All the major trade and industry associations have been actively canvassing for this. According to the Minister of Finance, Mr.Chidambaram, "FDI worked wonders in China and can do so in India". The government in a series of means has opened up the retail sector slowly to Foreign Direct Investment (FDI). In 1997, FDI in Cash and Carry (wholesale) with 100 percent ownership was allowed under the government approved route. 51 percent investment in a single brand retail outlet was also permitted in 2006 from 25 percent previously. The decision to allow FDI in multi-product retail chain stores has become a politically sensitive issue today.

One must not forget that the food retail industry comprises of lots of small vendors. Considering that the share of the food retail outlets in total retail outlets is around 33 percent, the



repercussion effects of a sudden displacement of food vendors by the giant chains will affect a huge number of people. When dislodged, they will be rendered jobless at a go. Therefore the displacement should at least be on a slow trajectory so that they can have a soft landing in other sectors¹.

To take care of the concerns of the Government before allowing 100 per cent FDI in Single Brand Retail and Multi-Brand Retail, the following recommendations are being proposed²:

- Preparation of a legal and regulatory framework and enforcement mechanism to ensure that large retailers are not able to dislocate small retailers by unfair means.
- Extension of institutional credit, at lower rates, by public sector banks, to help improve efficiencies of small retailers; undertaking of proactive programme for assisting small retailers to upgrade themselves.
- Enactment of a National Shopping Mall Regulation Act to regulate the fiscal and social aspects of the entire retail sector.
- Formulation of a Model Central Law regarding FDI of Retail Sector.

Duke, Wallmart's CEO opined that FDI in retail would contain inflation by reducing wastage of farm output as 30% to 40% of the produce does not reach the end-consumer. "In India, there is an opportunity to work all the way up to farmers in the back-end chain. Part of inflation is due to the fact that produces do not reach the end-consumer," Duke said, adding, that a similar trend was

noticed when organized retail became popular in the US³. Many of the foreign brands would come to India if FDI in multi brand retail is permitted which can be a blessing in disguise for the economy⁴.

7. Conclusion

At this crucial point where the FDI in multi brand retail sector is to be permitted or not, it is important that the Government should take utmost care as the pillars of our nation i.e the agricultural and manufacturing sectors are at stake. What is important at this moment is the equal development of our nation socially and economically.

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