Study on Foreign Direct Investment in Retail-
A Conceptual Framework

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ABSTRACT

The Concept of Foreign Direct Investment is now a part of India's economic future. After globalization of the Indian economy, there is a great need of foreign capital or investment in our country. Indian economy is growing at a rapid pace with consumers having high purchasing power. With a robust economy experiencing unrelenting growth, India has exerted a pull to the companies looking to expand their scope of operations especially in potentially viable sector i.e. retail sector. Retailing in India is the largest private sector and second to agriculture in employment. India has highest retail outlet density– Around 1.5 Cr. retail outlet. The retail sector contributes about 10-11% to Indian GDP and it is valued at estimated Rs.93000 crores out of which organized retailing industry around Rs.35000 Cr. Even though organized retail sector in India is at the infant stage, India has today become a budding target for FDI. Against this background the present paper makes an attempt to study the current scenario of FDI in Indian retail highlighting the positive and negative impacts of it in the Indian Economy. The research approach is exploratory in nature, where in various research papers were explored to develop understanding on the topic. It has major implications for retailers who need to bring about structural changes to reap the benefits of FDI as well as Government who need to evolve suitable policies to make the domestic retail sector efficient and competitive.

Keywords: Foreign Capital Investment, Retailing, GDP, Organized Retail, Indian Economy

INTRODUCTION:

There is hardly a facet of the Indian psyche where the concept of 'foreign' has not permeated. This term, connoting modernization, international brands and acquisitions by MNCs, has acquired renewed significance after the reforms initiated by the Indian Government in 1991.

In Indian retail sector there is a paradigm shift from unorganized to organized sector and Indian retail sector has suddenly become active. Some major players are trying to move in retail market. Reliance Industries has launched its retail operations branded "Reliance retail" in the country by opening outlets in different parts of the country. These outlets sell that sells fruits vegetables and grocery. Aditya Birla group is also going to spend Rs.15000 Cr. to set up 6000 outlets in 3 years. Aditya Birla group is expected to open its first store by the middle of next year. Bharti Enterprises is planning to tie up for his field fresh foods pvt. Ltd. with the U.K based Tesco to set up chain stores in India. Wal-Mart has initiated talks with Indian companies for franchised or cash and carry transaction. Wal Mart is also planning to tie up with Bharti Enterprises. Large FMCG players like HLL, ITC, Dabur and Marico are putting systems in place to enter the retail sector. World second largest retail chains the 74.5 billion. Carrefour is also set to enter India along with Dubai based Landmark group which operates the lifestyle chain of stores in India. Carrefour's plans include opening 200 hypermarkets throughout India in the next 10 Years. A recent study by "Real estate services provider Frank Knight India" revealed that the Indian retail sector is worth $210 billion and is expected to grow at between 5 to 7% per year.

OBJECTIVES:

1. To study the present scenario of the Indian retail market in context of FDI.
2. To study what makes India attractive to foreign investors?
3. To analyze the favorable and unfavorable impact of FDI on retail sector.

RESEARCH METHODOLOGY:

The kind of Research being conducted here is EXPLORATORY RESEARCH, as it most suits the purpose of the Research Project. The information was collected from various secondary sources to explore the inflow of FDI and its impact on the Retail Sector.

PRESENT SCENARIO OF THE INDIAN RETAIL MARKET:

Trade or retailing is the single largest component of the

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services sector in terms of contribution to GDP. The retail industry is divided into organized and unorganized sectors. 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 hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, 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 and pavement vendors, etc. (see Table 1).

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

Outlets	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, Lalith Achoth, Arpita Mukherjee, B. M. Ramachandra Reddy and P. C. Ravi, Evolution of Food Retail Chains: The Indian Context, 5-6th Nov. 2003, www.ficci.com

The share of organised retail market in india is vey low compared to the unorganised retail market which dominates the indian retail market

Table 2: Indian Retail Market

India retail market (at current market prices)

Segments	Total retail market (Rs billion)			Organised retail market (Rs billion)		
	2006	2007	Share in 2007	2006	2007	Share in 2007
Clothing & accessories	1,135	1,313	9.5%	214	298	38.1%
Food and grocery	7439	7,920	62.0%	58	90	11.5%
Footwear	137.5	160	1.1%	52	77.5	9.9%
Electronics	481	575	4.0%	50	71	9.1%
Catering services (F&B)	570	713	4.8%	39.4	57	7.3%
Home & office improvement	406.5	455	3.4%	37	50	6.4%
Telecom	216.5	272	1.8%	17.4	27	3.4%
Entertainment	380	456	3.2%	15.6	24	3.1%
Jewellery	602	694	5.0%	16.8	23	2.9%
Books, music & gifts	133	164	1.1%	16.8	22	2.8%
Watches	39.5	44	0.3%	18	21.5	2.7%
Pharmaceuticals	422	488	3.5%	11	15.4	2.0%
Beauty & wellness	38	46	0.3%	4	6.6	0.8%
Total	12,000	13,300		550	783	

Source: Images India Retail Report

LOCAL COMPANIES:

Pantaloon Retail is the country’s largest-listed retailer, with hypermarkets, supermarkets, and department stores.

Other prominent players are Tata Group’s Trent and Shoppers Stop, Reliance Retail, a unit of Reliance Industries, Aditya Birla Retail and RPG Group which runs the Spencer hypermarkets.

MAJOR FOREIGN PLAYERS:

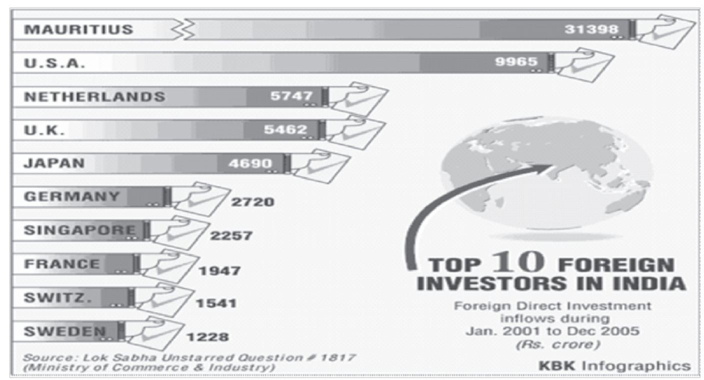
Wal-Mart has a joint venture with Bharti Enterprises, the parent of leading mobile services provider Bharti Airtel. It has launched two wholesale stores and plans to open another 10-12 over two-three years.

Tesco, UK’s largest retailer has a tie-up with Trent for a franchise agreement for its hypermarket chain.

Germany’s Metro AG has its own cash-and-carry business, which operates under its own brand name.

UK’s Marks & Spencer operates an apparel retail chain and has a joint venture with Reliance Retail.

Table 3: Top 10 Foreign Investors in India



Why Global Retailers are Interested in India?

The concept and material significance of FDI has evolved from the shadows of shallow understanding to a proud show of force. The government while serious in its efforts to induce growth in the economy, country started with foreign investment in a haphazard manner. However there has been a continuous increase in inflow of foreign direct investment.

Table 4: FDI Inflow in India

Year [1st Apr to 31st Mar]	FDI in Rs.	FDI in US$
2000-01	7,841.59	177.69
2001-02	39,384.61	873.23
2002-03	9,077.31	191.60
2003-04	5,139.21	111.72
2004-05	5,695.38	124.53
2005-06	27,759.53	623.55
2006-07	21,550.77	477.74
2007-08	51,026.09	1,261.46
2008-09	14,568.22	357.74
2009-10	182,042.72	4,199.27

India today offers the most persuasive investment opportunity for mass merchants and food retailers looking to expand overseas More specifically the global players are interested in India due to following reasons:

❖ Strategic Location & Geography: India enjoys unique geographical advantage. It is strategically located in Asia with access to all leading markets of the World. With total area of 32, 87,590 Sq. Km, Coastline of 7000 Km and borders with six countries India becomes most promising destination for the foreign direct investment.

❖ Versatile Demographics: Demographically with a population of more than 1.1 billion and diverse culture, India is a land of all seasons. India presents a real cosmopolitan population with diverse religions and culture. Hinduism, Buddhism, Jainism, Sikhism, Christianity and Islam are the main religions of India. This variety of religions provides India with a diverse culture. Besides, India has versatile population of urban and rural nature. This versatility of population makes India a readymade market for foreign retailers.

❖ Vast growing Economy: On economic front, India the largest democracy of the world, have a stable Govt. with robust programme of economic reforms. India with a foreign exchange reserve of more than US $120 billion, FDI of more than US $9.9 billion ,average GDP growth of more than 7% per annum, rupee appreciation Vs U.S dollar of more than 2% in last two years and with a rapidly growing investment in infrastructure has all the ingredients of a emerging economic super power. India is tipped to be third largest economy in terms of GDP by the year 2050.

❖ Retailing, The Emerging Revolution: Retailing is the largest private industry in India and second largest employer after agriculture. The sector contributes to around 10 percent of GDP. With over 12 million retail outlets, India has the highest retail outlets density in the world. This sector witnessed significant development in the past 10 years from small unorganized family owned retail formats to organized retailing. Liberalization of the economy, rise in per capita income and growing consumerism has encouraged large business and venture capitalist in investing in retail infrastructure. The importance of retail sector in India can be judged from following facts (a) Retail sector is the largest contributor to the Indian GDP (b) The retail Sector provides 15% employment (c) India has world largest retail network with 12 million outlets (d) Total market size of retailing in India Is U.S $ 180 billion (e) Current Share of Organized Retailing is just 2% which comes around to $3.6 trillion (f) Organized retail sector is growing @ 28% per annum.

❖ Indian Retailing: Opportunities Unexplored: India is sometimes referred to as the nation of shopkeepers. This is because the country has the highest density of retail outlets– over 12 million. However, unlike most developed and developing countries, Indian retail sector is highly fragmented and bulk of the business is in the unorganized sector. As compared to China (Table 2) the presence of global players in India is very less.

ADVANTAGES OF FDI IN RETAILING:

FDI in retailing is favored on following grounds-

❖ The global retailers have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing.

❖ Entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices.

❖ FDI in retailing can easily assure the quality of product, better shopping experience and customer services.

❖ They promote the linkage of local suppliers, farmers and manufacturers, no doubt only those who can meet the quality and safety standards, to global market and this will ensure a reliable and profitable market to these local players.

❖ As multinational players are spreading their operation, regional players are also developing their supply chain differentiating their strategies and improving their operations to counter the size of international players. This all will encourage the investment and employment in supply chain management.

❖ Joint ventures would ease capital constraints of existing organized retailers and .FDI would lead to development of different retail formats and modernization of the sector.

DISADVANTAGES OF FDI IN RETAILING:

Many trading associations, political parties and industrial associations have argued against FDI in retailing due to following reasons-

❖ Indian retailers have yet to consolidate their position. The existing retailing scenario is characterized by the presence of a large number of fragmented family owned businesses, who would not be able to survive the competition from global players.

❖ The examples of South East Asian Countries show that after allowing FDI, the domestic retailers were marginalized and this led to unemployment.

❖ FDI in retailing can upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in local products.

❖ Global retailers might resort to predatory pricing. Due to their financial clout, they often sell below cost in the new markets. Once the domestic players are wiped out of the market foreign players enjoy a monopoly position which allows them to increase prices and earn profits.

❖ Indian retailers have argued that since lending rates are much higher in India, Indian retailers, especially small retailers, are at a disadvantageous position compared to foreign retailers who have access to International funds at lower interest rates. High cost of borrowing forces the domestic players to charge higher prices for the products.

❖ FDI in retail trade would not attract large inflows of foreign investment since very little investment is required to conduct retail business. Goods are bought on credit and sales are made on cash basis. Hence, the working capital requirement is negligible. On the contrary; after making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

CONCLUSION:

The above analysis shows that FDI has positive and negative effects on India economy. It can be concluded that to keep pace with the forecast of Indian GDP, government should encourage foreign investment. To avoid its negative impact on local player's regulatory framework should be redesigned. Government should encourage FDI on gradual basis like currently it is allowed for single brand. Before evaluating any apprehensions, it should be recognized that even the government is not against all kinds of FDI in retail. It is in favour of selectively allowing FDI in food, dairy and grocery segments of retail trade. In other areas such as readymade garments and various industrial consumer goods, it would allow only big domestic retailers to compete with small local kiranas. Even when FDI is to be allowed in retail food and grocery sectors, it would like to put a cap on foreign ownership. In other words, foreigners- if they want to enter- will have to take local partners to start with. Once the local partners and other local players learn by doing, the FDI cap can be raised gradually. Foreigners can be allowed to set up 100 per cent foreign-owned retail chains only after the local players are able to muster enough capital, experience and expertise to compete with established global giants. It is interesting to note that the government approach to the allow FDI broadly follows the Chinese model. China first allowed FDI in retail in 1992. The initial FDI cap was 26 per cent. It took China 10 years to raise the limit to 49 per cent. The 100 per cent foreign-owned retail stores were allowed only from 2004. Of course, some lead time can be provided to the local players to consolidate their position before they face full-fledged competition from established global players. But, then, temporary protection should be really temporary. The Government must make a clear commitment to the time-frame over which protection from foreign competition would be removed gradually.

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