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FDI IN INDIAN RETAIL SECTOR - AN ANALYSIS

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ABSTRACT

Foreign Direct Investment (FDI) has always been a matter of controversy in India. Whether FDI in Retail sector in India will be beneficial or harmful in the long run is a matter of strong debate among the economists and political thinkers. It is uncertain to predict the actual long run effects of FDI in the retail sector as well as the whole economy of India. At present, the advantages and disadvantages of FDI can be contemplated and only the views can be given which are perceived differently by different section of intellectuals. From one point of view FDI is an instrument of exploitation by the capitalist countries and on the other hand, others think that without inflow of foreign capital, underdeveloped countries cannot hope for rapid economic development and hence capitally poor countries should welcome FDI. Foreign Investment is always accompanied with new technology and idea and leads to skill formation. This fact cannot be denied while weighing the disadvantages of FDI.This paper examines the present scenario of FDI in Retail sector of India and the relative advantages and disadvantages as perceived by different social and political thinkers

1.INTRODUCTION

Foreign Direct Investment (FDI) is one of the most important sources of non-debt foreign investment flows in developing countries like India. After the announcement of new industrial policy, 1991 and the current policies of liberalization, India has been experiencing an accelerating growth in the flow of foreign investment into the country.
During 1992-93, several additional measures were taken by the government to encourage investment flows: direct foreign investment, portfolio investment, NRI investment and deposit and investment in global depository receipts. Some of these measures are given as follows:

1. The dividend balancing condition earlier applicable to foreign investments upto 51% equity is no longer applied except for consumer goods industries.
2. Existing companies with foreign equity can raise it to 51% subject to certain prescribed guidelines. Foreign direct investment has also been allowed in exploration, production and refining of oil and marketing of gas. Captive coal mines can also be owned and run by private investors in power.
3. India has signed the multilateral investment guarantee agency protocol for foreign investment on 13thApril 1992.
4. Foreign companies have been allowed to use their trademarks on domestic sales from 14th may, 1992.

Foreign direct investment is nowadays considered as an important source of investible resources. Developing countries, emerging economies and countries in transition increasingly see FDI as a source of economic development, modernization and employment generation.

2.DEFINITION OF RETAIL

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, 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.

3.FDI IN RETAIL SECTOR

Until 2011, Foreign Direct Investment (FDI) was not allowed in multi-brand retail, forbidding foreign companies from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51 per cent ownership. In January 2012, India allowed 100 per cent FDI investment in single-brand stores, but imposed the requirement that the single brand retailer would have to source 30 percent of its goods from India. On 7 December 2012, India allowed 51 per cent FDI in multi-brand retail. Manmohan Singh, the then prime minister ofIndia, felt that this would bebeneficial for both consumers and farmers. Agricultural marketing was also expected to be benefited with the introduction of new technologies.

Dr. Manmohan Singh was credited with bringing about this policy change aimed at making India friendlier for businessmen. With this decision, international companies, especially the supermarkets, were able to increase their presence in the multi-brand retail sector of India. However, they were not allowed to own more than 51 per cent stakes in these establishments. This step was regarded as the most important one in the last two decades, especially with regard to reforms in India.

4.RETAIL SECTOR GROWTH AFTER 2011

Before 2011, India had prevented innovation and organized competition in its consumer retail industry. Several studies claim that the lack of infrastructure and competitive retail industry is a key cause of India's persistently high inflation. Furthermore, because of unorganized retail, in a nation where malnutrition remains a serious problem, food waste is rife. Well over 30% of food staples and perishable goods produced in India spoils because poor infrastructure and small retail outlets prevent hygienic storage and movement of the goods from the farmer to the consumer.
One report estimates the 2011 Indian retail market as generating sales of about $470 billion a year, of which a minuscule $27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 25% share. A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers.
The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020. The projected increase alone is equivalent to the current retail market size of France.
In 2011, food accounted for 70% of Indian retail, but was under-represented by organized retail. A.T. Kearney estimates India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30% per year. These data correspond to retail prospects prior to November announcement of the retail reform.
It might be true that India has the largest number of shops per inhabitant. However there are detailed figures for Belgium, the Netherlands and Luxemburg. In Belgium, the number of outlets is approximately 8 per 1,000 and in the Netherlands it is 6. So the Indian number must be far higher.

5.INDIA RETAIL REFORMS WITH FDI

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.
The government of Manmohan Singh, prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalisation reform passed by an Indian cabinet in years;
- Single brand retailers, such as Apple and IKEA, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- Both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- All multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
- Multi-brand retailers must have a minimum investment of US$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;
- The opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure.

A Wall Street Journal article claims that fresh investments in Indian organized retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.

6.INDIAN RETAIL REFORMS ON HOLD

According to Bloomberg, on 3 December 2011, the Chief Minister of the Indian state of West Bengal, Mamata Banerjee, who is against the policy and whose Trinamool Congress brings 19 votes to the ruling Congress party-led coalition, claimed that India's government may put the FDI retail reforms on hold until it reaches consensus within the ruling coalition. Reuters reports that this risked a possible dilution of the policy rather than a change of heart.

Several newspapers claimed on 6 December 2011 that India parliament is expected to shelve retail reforms while the ruling Congress party seeks consensus from the opposition and the Congress party's own coalition partners. Suspension of retail reforms on 7 December 2011 would be, the reports claimed, an embarrassing defeat for the Indian government, suggesting it is weak and ineffective in implementing its ideas.

Anand Sharma, India's Commerce and Industry Minister, after a meeting of all political parties on 7 December 2011 said, "The decision to allow foreign direct investment in retail is suspended till consensus is reached with all stakeholders."

On 19 Feb 2013 Tamil Nadu became the first state in the country to stoutly resist MNC 'invasion' into the domestic retail sector. In Chennai, Tamil Nadu CMDA authorities placed a seal on the massive warehouse spreading across 7 acres that had reportedly been built for one of the world's leading multinational retail giants, Wal-mart.

In February 2014, Vasundhara Raje led newly elected Rajasthan Government reversed the earlier Government's decision of allowing FDI in retail in the state. It reasoned that the sources of domestic retail are primarily local whereas international retail affects domestic manufacturing activity and hence reduces employment opportunities.

7.SINGLE BRAND RETAIL REFORMS APPROVED

On 11 January 2012, India approved increased competition and innovation in single-brand retail. The reform seeks to attract investments in operations and marketing, improve the availability of goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises through access to global designs, technologies and management practices. In this announcement, India requires single-brand retailer, with greater than 51% foreign ownership, to source at least 30% of the value of products from Indian small industries, village and cottage industries, artisans and craftsmen.

Mikael Ohlsson, Chief executive of IKEA, announced IKEA is postponing its plan to open stores in India. He claimed that IKEA's decision reflects India's requirements that single-brand retailers such as IKEA source 30 percent of their goods from local small and medium-sized companies. This was an obstacle to IKEA's investment in India, and that it will take IKEA some time to source goods and develop reliable supply chains inside India. IKEA announced that it plans to double what it sources from India already for its global product range, to over $1 billion a year, within three years. IKEA in the near term, plans to focus expansion instead in China and Russia, where such restrictions do not exist.

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8.ADVANTAGES OF FDI IN RETAIL

India's retail industry is one of the biggest around the world when it comes to the privately owned ones. The industry has seen some major restructuring thanks to the FDI structure becoming more liberal than before. The benefits of FDI in retail, as per experts, carry greater weightage than the cost related implications.
With FDI in retail, operations in distribution and production cycles are expected to become better. Owing to factors such as economic operations, the cost of production facilities will come down as well. This will mean a greater choice of products at lesser and justifiable prices for the customers.
As a result of FDI, companies will be able to bring in technology and skills from other countries and this will help in infrastructural development of India. This will also help in creating more value for money for the buyers.
After FDI in retail, it is possible to set up a properly organized chain of retail stores as the capital to do is readily available. The investment can be regarded as a long term one as the physical capital put into a domestic company is not liquidated easily. This is its main difference from equity capital.

ICRIER had also predicted that if FDI in retail was introduced in India during 2011-12, the Indian economy could have grown by 13 percent; the unorganized sector could have seen a 10 per cent growth and the organized sector could have increased by 45 per cent.

9.DISADVANTAGES OF FDI IN RETAIL

Experts say that while analyzing the positives and drawbacks of FDI in retail, both the government and the opposition did not refer to the Parliament Committee report where its effects had been studied in great detail. The committee had taken into cognizance many witnesses, NGOs, individuals, and trade associations to come up with the said report. The Committee visited various corners of India and also went through reports and gathered knowledge about the experience of similar decisions in other countries. It also enquired from several government departments regarding the matter.

The Committee had surmised in its report that the number of people getting jobs will be lesser than the amount of people losing the same as a substantial amount of marginal and small farmers will be wiped out. Some other problems expected out of this were aggressive pricing and prevalence of monopoly.

As per the Committee's report almost 8 percent of India's workforce is employed in the unorganized retail sector. This comes up to roughly 40 million people. It has been stated that FDI in retail will generate 2 million jobs. However, the Committee had stated that it is not a proper indication as it does not take into account the number of people who already work in the retail sector.

ICRIER had executed a second study on the effects of FDI in retail during 2011 and in that it had stated that FDI will bring about a fantastic shopping experience for the consumers. It had actually interviewed 300 people from the middle and high income groups. Thus, in effect, the efforts of the Parliament Committee were overlooked for a private organization.

10.FDI INFLOWS IN INDIA

Economic reforms introduced in India since 1991 has resulted in an acceleration in the flow of foreign investment in the country. Accordingly India has been experiencing a continuous flow of foreign direct investment in recent years. The following table shows a clear picture about the actual inflows of FDI in the retail sector in India since 2001-02.

Sl. no.	Financial year (April-march)	Amount of FDI inflows (in US $ million)	% growth over previous years
1	2000-01	2463	-
2	2001-02	4065	+65%
3	2002-03	2705	-33%
4	2003-04	2188	-19%
5	2004-05	3219	+47%
6	2005-06	5540	+72%
7	2006-07	12492	+125%
8	2007-08	24575	+97%
9	2008-09	31396	+28%
10	2009-10	25834	-18%
11	2010-11	19427	-25%
12	2011-12(till Jan 2012)	26192	-
	Cumulative total	160096	-

Source: http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=25

11.CONCLUSION

As far as the case of FDI in retail sector in India is concerned it has paved the way for a better growth oriented and development oriented markets for Indian consumers. Through FDI the companies are able to bring new skills and expertise and adding it to their core values to increase the efficiency in various forms, which are so important for a developing country like India. As time goes there is support for FDI in multi brand retail as well. It will bring in foreign exchange, which is important in the face of a current account deficit and the falling rupee. Again it will help in bringing down inflation by reducing price of goods, particularly agricultural produce. Thus a conclusion can be made and it can be guessed that a good Foreign exchange policy, FDI, FII and other measures can boost up the Indian economic growth and development in retail sector as well as the other sectors too.

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