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RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

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FOREIGN DIRECT INVESTMENT IN RETAIL: HOW IS IT IMPORTANT FOR THE GROWTH OF ECONOMY?

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ABSTRACT

FDI is an important tool in the economic development of a country. FDI increases overall productivity of different sectors of an economy through new technology, skilled labor and financial resources. The remarkable increase in FDI in the developing countries over the last decade focuses attention that whether this source of investment increases overall economic growth. Retail sector is one of the most important pillars of Indian economy. Growing Indian market has attracted various foreign investors as well as domestic corporates to invest in retail sector. Government of India has opened up retail business to FDI by allowing 100% FDI in single brand retailing and 51% FDI in multi-brand retailing. FDI in retail sector plays an important role in economic growth. FDI in multi-brand retail can be seen an important step towards revival of economy and to ease supply side pressures especially in unorganized sector. The study will be beneficial for the different stakeholders, policy makers and also be a valuable contribution to the existing literature and academia.

KEYWORDS

Foreign Direct Investment (FDI), Organized Retail, Unorganized Retail, Multi-brand Retail, Growth.

INTRODUCTION

Indian Retail industry is one of the largest industries having a huge investment potential for the foreign players. Indian organized retail sector accounts for only around 7% of the total retail sector which is too low as compared to other countries such as 80% in USA, 40% in Thailand and 20% in China. India has a small share of organized retail sector which is quickly growing and is expected to reach 20% by 2020 (Kearney Report, 2011). One of the key indicators of the growth of an economy is the employment. Government of India by allowing FDI in multi brand retail visualizes creating around 10 million employments in retail sector and on November 24, 2011, the Union Cabinet of Government of India approved a proposal of allowing 51% FDI in multi-brand retailing in India and 100% FDI in single brand retailing with subject to certain conditions. Although Government is of the view that allowing FDI in multi brand retailing will create more employment opportunities and lead to the growth of economy but the debate still continues as it will also result in the loss of jobs to the people specially forming the part of the unorganized retail sector. Commerce minister Anand Sharma dismissed the opposition charge that the move would hurt small traders and farmers and that the government has rushed the decision. He said "the decision was not taken overnight and deliberations were held with chief ministers and other stake holders like association of farmers, consumer organizations and representatives of the food processing industry". In the light of such a dilemma regarding the policy framework with reference to opening of the retail sector for international giants, presents study seeks to provide recommendations for the policy makers to achieve potential growth in a manner safeguarding the interest of the different stakeholders in retail sector.

FOREIGN DIRECT INVESTMENT: CONCEPTUAL FRAMEWORK

International Monetary Fund (IMF) defined FDI as an "Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor's purpose being to have effective voice in the management of the enterprise".

RETAIL: CONCEPTUAL FRAMEWORK

Retail is the sale of the goods and services from the manufacturers or businesses to the end users. Retailing is an integral element in the supply chain. Generally, retailers are the middlemen which purchase goods and commodities in the large quantities from the manufacturers or farmers either directly or through a wholesale, and sell them in small quantities to the consumers at a profit. Also retailers may be organized retailers and unorganized retailers. Organized retailers include big brands having licenses and subject to income tax and sales tax which includes supermarkets, corporate backed hypermarkets whereas unorganized retailers are small 'Kirana' shops, paan/beedi shops, and convenience stores etc. Retailing can be of following two types:

- Single brand retailing: in which a single item is sold across all outlets.
- Multi brand retailing: in which marketing of similar and competing products by the same firm under different and unrelated brands. Figure 1 depicts the evolution of Retailing in India from historic/rural reach to the modern formats and also having grasp to the international markets.

FIGURE 1: EVOLUTION OF INDIAN RETAIL

Source: <http://emartplan.wordpress.com>

Following table depicts that food and grocery segment in the retail market is dominating other segments of the industry having an estimate of 325 (in US \$Bn).

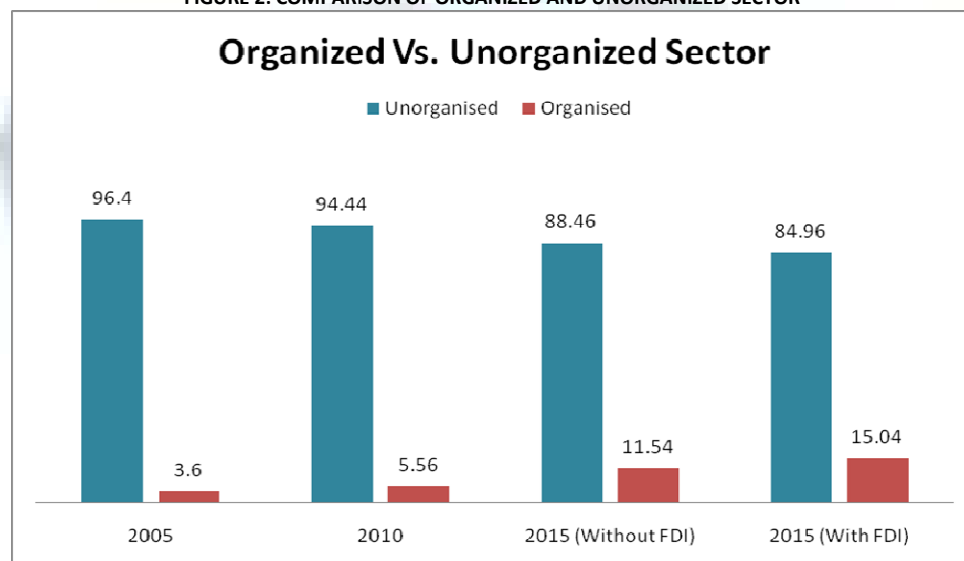
TABLE 1: RETAIL MARKET CATEGORIES

Category	2011 Estimates (in US \$Bn)
Food and Grocery	325
Apparel	35
Jewelry and Watches	25.6
Consumer Electronics & IT	22.7
Pharmacy	13.9
Furnishings and Furniture	9.1
Restaurants & Food Joints	8.8
Footwear	4.5
Beauty Services	1.3
Health/Fitness Services	1
Others	23
Total (US \$Bn)	470

Source: Kalyanasundaram (2012)

In India, unorganized sector better known as 'Kirana' or Mom-&-Pop stores are dominating the retail sector. According to an estimate, over 14 million outlets operate in the country. In 2005, these stores controlled over 96% of the retail market. In 2010, their share was marginally reduced to just below 94.5%. (Bhasin, 2012). The following figure shows that organized retail sector is expected to grow to 11.54% in 2015 from 5.56% in 2005 and also by allowing FDI it is showing a rapid growth up to 15.04% by 2015.

FIGURE 2: COMPARISON OF ORGANIZED AND UNORGANIZED SECTOR



Source: Bhasin (2012)

TABLE 2: STATUS OF ORGANIZED FOOD RETAILING IN INDIA

Organised Food Retailers	Started in the year
Nilgiris	1905
Trinethra Super Retail Limited	1986
Foodworld	1994
RPG Enterprises-Foodworld (in 2005 Spencers)	1994
Pantaloon Retail India Limited (PRIL)- Food Bazar	2001
Tata Trent Ltd.- Star Bazaar	2004
Wadhwan Group formed Retail Food & Grocery Business	2005
Reliance industries Ltd	2006
Aditya birla, Group's foray into the retail sector	2006
Landmark group formed SPAR	2008
Bharti Retail Pvt Ltd launched Easy day	2008

Source: Baskaran (2012)

REVIEW OF LITERATURE

To study the implications of FDI in retail a number of studies have been reviewed and summarized as below:

FDI AND GROWTH

Kalyanasundaram (2012) discussed about opening up the retail sector to the FDI and rationale for permitting FDI in retail, concerns of the stakeholders with FDI in retail and discussed the experiences of the counterparts. Study concluded that retail has a promising future in India because of the large share of the middle class in the total domestic market, a large young market share which is well educated and highly economically active and rising per capita income.

Rajput et al. (2012) analyzed the impact of the present retail FDI policy on Indian consumers and economy using SWOT analysis. The analysis revealed that FDI will have a positive impact on the growth of Indian economy as a whole.

Jain and Sukhlecha (2012) tried to establish the need of the retail community to invite FDI in multi brand retailing by specifying the issues that to be addressed such as consumers 'rights to be saved, for the employment opportunities to be generated, for the regularization of the different retailers working in different areas, etc. and also by taking the examples of several other developing countries who initially restricted the entry for the foreign players in the retail sector but when they allowed FDI in retail sector that proved to be most important decision towards the growth of their economy.

Fernandes et.al (2012) discussed the issues and implications of FDI in Multi-brand Retail on Indian Economy. To revive the Indian economy, FDI policy in multi-brand retail is an important reform that would ease supply side pressures and mitigate inflation. Implications of FDI in multi-brand retail sector discussed outweigh the issues related to the new FDI policy reforms. FDI in multi-brand retail can go a long way in improving the efficiency of supply chain, Infrastructure facilities, technological advancement and other relevant areas of growth in retail sector.

Chandu (2012) attempted at outlining the government's policy on FDI in retailing and tried to examine it pros and cons while examining the perceptions of small retailers on the government's decision through a self-constructed questionnaire. It had been found that small retailers oppose FDI policy of the Government with respect to the retail sector may be just because they are not much aware about the pros and cons of allowing FDI in multiband retailing. But this policy of the government must be seen as an important policy decision having impact on overall growth of the economy, but before implementing the policy a countrywide study must be conducted to assess the perceptions of the different groups in the society towards FDI in retail sector.

Bisaria (2012) conducted a study to investigate the impact of Government Policy of allowing FDI in retail by conducting a questionnaire survey on a sample of 100 respondents from Uttar Pradesh. Majority of the respondents supported the policy decision of the Government that FDI will benefit different stakeholders in the retail sector.

FDI IN RETAIL: NOT A GOOD CHOICE

UNI Global Union (2012) conducted a study to investigate the potential effects of globalized modern retail on four groups of stakeholders; modern retail workers, small retailers (Kiranans and hawkers), supply chain intermediaries (wholesalers) and producers by examining the track record of Walmart, largest retailer in the world. Walmart has a record of violating laws protecting workers' rights and aggressive anti- union conduct in North America and elsewhere. In America, Walmart had a negative impact on retail worker wages and total retail employment and also existence of a Walmart store in an area had a devastating impact on the small industries in that area. In the long run Walmart pushed down the prices paid to the farmers instead of raising them, as a result of which many farmers got out of the business and also being a big organization it has power to dictate the terms of the supplier's contracts. Market middlemen such as wholesalers were also negatively impacted by Walmart. Study concluded that the conditions and experiences with FDI in retail may vary from country to country depending upon the policy framework of the Government of the country but India should allow FDI in retail in a more regulated manner so that the interests of the various stakeholders will not be hampered.

Baskaran (2012) investigated the myths and realities related to the entry of big giants in the retail sector in India, challenges and key success factors and also the impact of FDI in retail on the unorganized sector. The study suggested that to achieve the objective of modernization in the retail sector, the Government has to proactively assist local retailers in competing with foreign players by modernizing themselves, removing domestic restrictions on retail and allowing FDI in multi brand retail. If the Government is allowing FDI in multi brand retail then it has to allow FDI in a more stringent and regulated way because if Government allows these big giants to enter Indian retail sector without any control and let them work freely then the potential social cost of the growth and consolidation of organized retail, in term of displacement of unorganized retailers and loss of livelihoods will be huge.

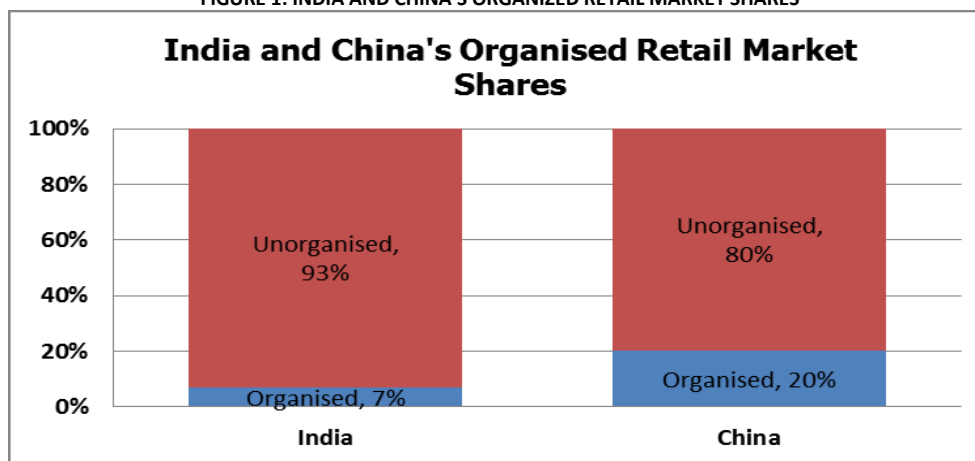
Pareek and Prakash (2011) analyzed the current retail scenario in India, investigated the controversial views of various stakeholders and also evaluated the impact of FDI in multi brand economy on all the stakeholders. The study suggested that FDI is not only one factor contributing to the growth of the economy and the policy of the government regarding opening up retail sector for FDI may result in disruption in the smooth flow of economy and would lead to external dominance.

Gupta (2012) analyzed the potential implications of FDI in multi brand retail by taking the evidence from other developing countries like China who have allowed FDI in multi brand retailing. There are policy issues relating to the multi brand retailing in India that needs to be addressed such as no restrictions on acquiring the goods from the farmers or producers if the Government will not put any kind of restrictions that will lead to the exploitation of the interest of the farmers or producers and also Government should adopt the process of FDI in multi brand retailing gradually by giving enough time to local retailers to adapt the change like China. Also the factors crucial for the success of the big players are totally absent in countries like India and China such as implausible logistics and supply chains; physical infrastructure like roads and ports.

LEARNING FROM THE EXPERIENCE OF OTHERS

China opened up for FDI in retail up to 49% in 1992 and following China's accession to WTO, effective December, 2004, there are no equity restrictions which resulted in an increase of employment from 4% in 1992 to 7% in 2001 also increasing the number of unorganized retailers by 30% between 1996 and 2001. In 2006, total retail sale in China amounted to USD 785 billion, of which the share of organized retail amounted to 20%. So, we can learn from the experience of China that allowing FDI in multi brand retail is not resulting to the erosion of local 'Kirana' stores or Moms/ Pops shops. Following figure depicts that the share of organized retail sector in China (20%) is much higher as compared to India which is having only 7% in the organized form.

FIGURE 1: INDIA AND CHINA'S ORGANIZED RETAIL MARKET SHARES



Source: Devonshire-Ellis et al.(2012)

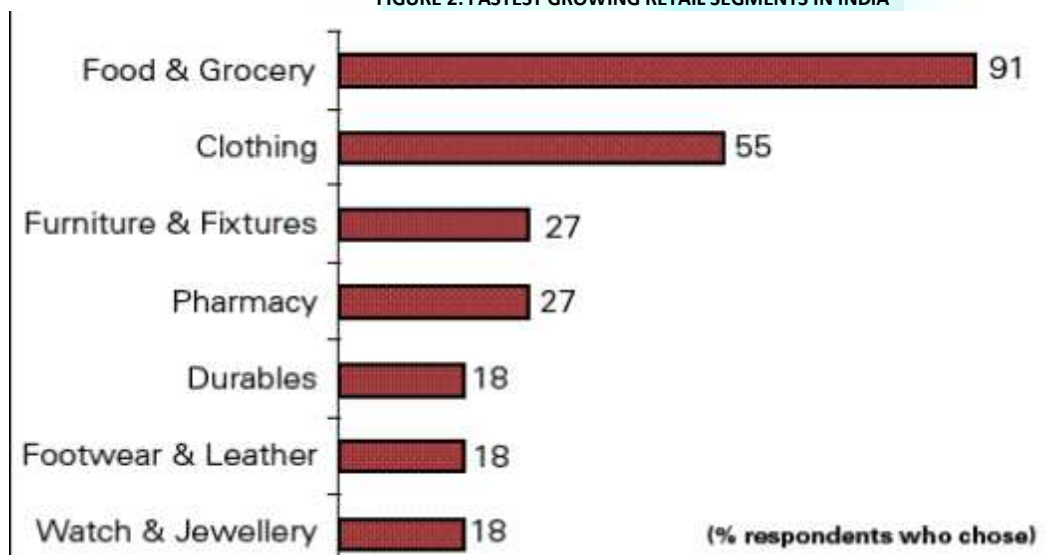
POLICY OF INDIA TOWARDS FDI IN RETAIL SECTOR

Being a participant of the World Trade Organization's General Agreement on trade in Services (GATS) India opened to the retail sector for FDI and also due to the fear of job losses, high cost associated with the procurement from the international market, competition etc. however, Government has gradually opened the retail sector to the foreign players in different stages. Government approved 100% FDI in "cash and carry" wholesale stores under the automatic route in 1997 and also in 2006 permitted 51% FDI in single brand retail followed by 100% approval in single brand retail in 2011. Also Government decided to allow FDI in multi brand retail towards the end of 2012 and modified its policy in April, 2013. A number of big brands like IKEA and Carrefour were very excited to enter the Indian retail market and planned to talk to the concerned ministries. However only 51% FDI was approved in the parliament in December, 2012.

RETAIL AND GROWTH

India's retail industry accounted for around 22% of GDP in 2011 with about 9.4% of the employed labor force. Currently organized retail sector in India constitutes around 6-7% of total retail trade and expected to grow to 10% by 2016-17. Also number of studies suggested that it is expected to lead economic growth of about 7% in the next 10 years, rapid urbanization, brand consciousness among the young generation, changing life style of the people are leading to the success story of growth in the country but high cost of the real estate, shortage of good quality retail properties, inconsistency in the policy making are some of the factors limiting the growth of the country. Being one of the largest markets, India always attract foreign players to enter Indian market but retail estate industry in India is still not much developed. By allowing FDI in multi brand retail Government has ended a long waiting period of International players of entering Indian market. This decision of the Government will benefit the small farmers and manufacturers as they will be able to get a large number of buyers and also big buyers for their products and also to the consumers as they will be able to get all products under one roof. But on the other hand, it will be a big challenge for small retailers or middlemen because now they have to face competition from the international players. Also FDI in multi brand retailing was allowed only by the Central Government, state Governments still had to take their stand on FDI, and most of the State Governments delayed implementation of FDI policy keeping in mind the upcoming elections in 2014.

FIGURE 2: FASTEST GROWING RETAIL SEGMENTS IN INDIA



Source: Johree et.al

It can be seen from the above table that food and grocery is one of the fastest mounting retail segments in India, only 8% of the food and grocery is in organized retail segment so there is a big opportunity for the international players to exploit.

CONCLUSION

After the above discussion it can be concluded that FDI in retail sector lead to the growth of the economy as retail industry of the India is one of the biggest markets in the world but there can be some hindrances in achieving the potential growth as like other developing countries, India is also having some infrastructural limitations as roads, ports and implausible logistics also Global experience shows that FDI in retail can sometimes negatively impact consumers if corporate retailers adopt anti-competitive practices such as predatory pricing. In such a situation, Government should regulate the entry of the international giants in a manner that local players may get sufficient time to adapt the change and in the ease of the increasing competition, consumers will be able to get goods and services at competitive prices. Also as the policy regarding the opening up to FDI in multi brand retail was approved by the central government only and liberty was given to the state governments regarding the implementation of the policy in the respective states which is not a good decision as it is not a move to be made at regional level but it's an issue having national importance.

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