FDI IN INDIAN RETAIL SECTOR: AN EVALUATION

K. ADINARAYANA REDDY
Lecturer in Economics, SKSC Degree College Proddatur Town, YSR Dist, A.P. India, 516360

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ABSTRACT: *India being a signatory to World Trade Organization's General Agreement on Trade-in Services, which includes wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towards this issue arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities to locals. However, the government in a series of moves opened up the retail sector slowly to Foreign Direct Investment (.FDI.). In 1997, FDI in cash and carry (wholesale) with 100% ownership was allowed under the government approval route. Subsequently It was brought under the automatic route in 2006.Then 51% investment in a single brand retail was permitted in 2006.*

Key Words*:*

INTRODUCTION:

Now FDI in Multi-Brand retailing is permitted in 2012. Prior to this move the Indian households have traditionally enjoyed the convenience of calling up the corner grocery 'kirana' store. Till 1980 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 of FDI will impact the structure of retail industry in India. Its implications will be on customers, small retailers, farmers and the general public. On this backdrop an attempt is made in this Paper to analyze the impact of FDI on various parties involved.

OBJECTIVES

1. To analyze the structure of retail industry in India.
2. To assess the impact of FDI on various parties related to the retail sector
3. To provide some suggestions to protect and promote the interest of small, unorganized retailers and farmers in the country.

RESEARCH METHODOLOGY

The researchers have adopted analytical, descriptive and comparative methodology for this study. Reliance has been placed on secondary data sources such as books, journals, newspapers and online database. However, the interpretation of the data and suggestions made assume importance for the healthy growth if the retail sector in the country.

INDIAN RETAIL SECTOR: AN OVERVIEW

Retailing contributes about 15% of India's gross domestic product (GDP) and 8% of employment (Patibandla 2012). The size of India's retail sector is currently estimated at around $450 billion and organised retail accounts for around 5% of the total market share. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

PRESENT FDI POLICY FOR RETAIL SECTOR IN INDIA

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sect oral policy/ sect oral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (=FIPB') would be required.

1. India will allow FDI of up to 51% in .multi-brand. sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap

of 51%.

3. FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

4. The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.

5.. All retail stores can open up their operations in population having over 1million.Out of approximately 7935 towns and cities in India, 55 suffice such criteria.

6. Multi-brand retailers must bring minimum investment of US$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.

7. The opening of retail competition (policy) will be within parameters of state laws and regulations.

STRUCTURE OF INDIAN RETAIL SECTOR

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), a sale to the ultimate consumer. Thus, 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. The retail industry in India is mainly divided into: -1) Organised and 2) Unorganised Retailing. Organised 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. Unorganised 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. The Indian retail sector is highly fragmented with 97 per cent of its business being run by Mom and Pop stores.

GLOBAL RETAIL SCENERAIO:

Figure 3

Asia: Retail sales growth by volume (% pa)

Territory	2007	2008	2009	2010	2011	2012	2013	2014
Australia	5.5	0.7	1.4	-0.8	0.2	2.0	2.0	2.0
China	11.4	14.7	16.8	14.8	14.6	12.4	11.6	11.7
Hong Kong	9.0	-0.4	-2.2	5.6	1.3	1.5	2.6	2.4
India	4.6	1.7	3.4	1.5	3.9	5.6	5.6	5.8
Indonesia	11.3	7.8	2.7	4.4	4.2	4.6	4.8	4.8
Japan	-0.2	-0.5	-0.9	1.3	0.8	0.5	0.4	0.4
Malaysia	10.1	7.0	-1.5	2.3	3.3	5.0	3.7	3.8
New Zealand	2.1	-1.7	-1.3	1.3	2.3	2.4	2.5	2.4
Philippines	5.3	3.0	0.9	7.0	3.2	4.3	4.5	4.7
Singapore	7.8	1.2	-2.0	1.6	3.2	2.9	4.4	5.1
South Korea	4.8	0.5	-0.2	0.8	2.0	2.4	2.7	2.2
Taiwan	4.6	0.3	-1.4	9.4	2.3	1.5	0.6	0.6
Thailand	7.5	-2.5	-2.7	3.3	4.8	5.2	5.5	6.1
Vietnam	9.9	3.6	3.9	13.1	10.6	9.2	8.6	9.8

Source: Economist Intelligence Unit — Actual — Estimates — Forecasts

Leading global retail players by revenue

Sr. No.	Company name	Country	Banner sales 2007E (In (US$ million)	No. of outlets, 2007
1	Wal-Mart Stores	US	395,305	7,331
2	Carrefour	France	142,229	13,419
3	Tesco	UK	103,573	3,750
4	Metro Group	Germany	102,942	2,541
5	Seven & I (ii)	Japan	84,375	22,590
6	Kroger	US	73,633	3,672
7	AEON (i)	Japan	73,416	14,803
8	Target	US	71,125	1,591
9	Schwarz Group	Germany	70,969	8,575
10	Costco	US	69,704	518

Note: Banner consists of food and non-food sales
Source: Planet Retail

LIMITATIONS IN INDIAN RETAIL TRADE

1. Infrastructure

Lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism is main limitation in Indian retail trade. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 standalone cold storages, having a total capacity of23.6 million MT., 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general.

2. Intermediaries dominate the value chain

Intermediaries dominate value chain, often break mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have also not benefited the agricultural producers. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail.

POSITIVE ASPECTS OF FDI IN RETAIL

1. More investments in the end to end supply chain and world class cold storage facilities.
2. Low spillage and wastage of farm produce during the transportation.
3. Better options and offers to the consumer
4. Increase in economic growth by dealing in various international products
5. According to the UPA Government 1 million (10 lakh) employment will be created in next three years
6. Billion dollars will be invested in Indian retail market
7. Agriculture related people will get good price for their goods

NEGATIVE ASPECTS OF FDI IN RETAIL

1. Will affect 50 million small merchants in India
2. Profit distribution and investment ratios are not fixed
3. An economically backward class person may suffer from price raise in future.
4. Retailer faces heavy loss of employment and profit
5. Workers safety and policies are not mentioned clearly
6. Inflation may be increased
7. Small farmers will not benefit by FDI policy
8. The rural India will remain deprived of the services of foreign players.

SUGGESTIONS

On the backdrop of permission to FDI in multinational retail the scenario of Indian retail industry is going to change drastically. It is likely to impact not only the unorganized sector but also the domestic organized sector considerably under these circumstances the following suggestions are made for the benefit of Kirana stores, farmers, employees and other stakeholders of retail industry.

1. The traditional the Mom and Pop Kirana stores should change their appearance, attitude and affairs. They should modernized their shops, store, more branded goods, provide home delivery service.
2. These traditional Kirana stores should form a consortium and make bulk purchases. This measure will help to procure the goods at lower price
3. The banks in the country and the state government should formulate a scheme of modernization loan. Under this scheme credit should be made
4. Available at of concessional rate and all priority basis to the small unorganized kirana stores.
5. The small farming community should undertake joint supply of fruits and vegetables directly to the small retailers and / or customers. This will benefit all of them.
6.There should be a monitoring agency established at the state level to keep watch on the operations of foreign players in retail sector .This agency should see that necessary investment is made by the foreign players in cold storages, transportation & logistics. It should also ensure that the foreign player's required quota of goods from SME sector.
7. The possibility of starting mails of small retailers should be explored & a group of small retailers in a locality should came together & open such mall.
8. The educational institutions should constitute degree, diploma coerces in detailing management where both the theoretical & practical aspects of retail trade are taught to the candidates. The wholesalers will be

affected by the entry of foreign player & the organizational domestic players, because they will purchase the goods directly for the manufactures dispensing the need of wholesalers. Hence, the wholesalers should also go in together to make collective purchases.

9. There is also a need to strengthen small farmer organizations and provide them with technical assistance to increase productivity for the cost competitive market, provide help to improve the quality of produce, and encourage them to participate more actively in marketing their produce in order to capture value added in the supply chain.

CONCLUSION

1. Small retailers will not be crowded out, but would strengthen their market positions by modernizing their working.
2. Growing economy and increasing purchasing power would compensate the loss of market share of the unorganized sector retailers.
3. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they would be absorbed by increase in the food processing sector induced by organized retailing.
4. Innovative government measures could mitigate adverse effects on small retailers
5. Farmers will get an opportunity of direct marketing and hence get better price for their produce.
6. Consumers would certainly gain from enhanced competition, better quality, variety of branded goods and attractive discount offers.
7. The state revenues will rise on account of larger business as well as recorded sales.
8. The Competition Commission of India would need to play a proactive role to avoid unfair competition in retail industry.
9. The displaced retailers and employees in unorganized sector should be provided necessary training of modern trade and absorbed in the modern trade on priority basis.

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