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# GROWTH OF FDI IN RETAILING-A VIEW

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## ABSTRACT

The winds of globalization sweeping across has taken the Indian economic environment in its fold and the proposals for further integration has gained momentum, The transformation has also changed the Indian consumer from a state of conserving resources, he's now ready to accept the shopping culture. The government encouraged by the outcome of economic policy of 1991 in India, has proposed retail reforms mainly as 100% FDI in the retail sector in India. It may benefit by bringing in investment into development of complete backend infrastructure like cold chain & supply chain enhancing efficiency from farm to fork, as well as eliminating the exploitative system of middlemen which bleeds the farmers and squeezes the consumers. The paper scrutinizes the relationship of Foreign Direct Investments with the Indian Retail Sector. However, the Indian government must take decision to contain this revolution & safeguard the health of the Indian retail sector to stabilize themselves against competition from the giant players of the global economy in the present state of slowing growth, stubborn inflation & widening fiscal deficit in the country.

**KEYWORDS:** Economic Environment, FDI, Liberalizations

## INTRODUCTION

Retailing includes the business activities involved in selling goods and services to their customers for their family or household use.

## FOREIGN DIRECT INVESTMENT

FDI as a 'cross border investment' where foreign assets are invested into the organization of the domestic market excluding the investment in stock. It gives private funds from overseas into products or services. FDI inflows have shifted from infrastructure, natural resources and export driven manufacturing to other areas such as retailing, tourism, construction and off shore services. A World Bank showed that cumulative FDI inflows to the retailing sector in the 20 largest developing countries amounted to 45 (US Dolor) billion in 1998-2002 (about 7% of the total of these countries).

## FDI RETAILING

In India the foreign retail giants were initially restricted from making investments. But now FDI of 51% is permitted in India only through single branded retail outlets. Multi brand outlets are still beyond their reach. The government allows 100 % FDI in cash and carry through the automatic route. Foreign retailers have already started their operations in India through joint venture where the Indian firm was an export house.

- Franchising (KFC,Nike)
- Sourcing from small-scale sector
- Cash and carry operation

- Non-store formats-direct marketing

## BENEFITS/GROWTH

Liberalizations in FDI have caused a massive restructuring in retail industry in India. The benefits of FDI in retail industry in retail industry superimpose its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of employment organized retails stores, availability of quality products at better and cheaper price. Permitting Foreign Direct Investment in the retailing sector can have immense benefits such as:

**Efficient Supply chain**

The case of FDI in retail is often made on the basis of the need to develop modern supply chains in India, in terms of development of storage and warehousing, transportation and logistics and supports services, especially in order to meet the requirements of agriculture and food processing industries. If the multination retailers are allowed to operate in India they would develop an “Efficient” supply chain, not only to cater to the Indian consumers but also the international market and therefore our manufacturing and agriculture sector would benefits from their entry. Secondly the indirect benefits like better roads, online marketing, expansion of telecom sector etc.Will give a ‘big push’ to other sector including the rural one itself

**Increase the Market Share of Organized Retailing**

FDI retailing leads to retail consolidation and increase in the share of the organized retail sector. Joint ventures would ease capital constraints of existing organized retailers. Organized domestic retailers can collaborate with the world leaders to expand their existing business.

**Increase in Employment in Retail**

FDI in retailing can be generate huge employment for the semi-skilled as well as illiterate population which otherwise can’t be employed in the already confined rural and organized sector. The retail sector is highly dependent on the rural sector. Thus it can facilitate the improvement of the standard of living farmers by purchasing commodities at reasonable cost. It also stems out an indirect employment generating channel by training and employing and employing people in the transportation and distribution sector. For retail sector between 2008 to 2010 with the modern format retailers (e.g. supermarkets) accounting for 8 Lakhs jobs.

**Technical Know-How**

Enhanced opportunity for domestic operators to join hand with global retail player to bring in Technical know-how and global practices. The global retailer have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing. Greater managerial talent inflow from other countries is made possible. FDI would lead to development of different retail format and modernization of the sector.

**International Market**

FDI in retailing encouraged the Indian farmers and manufacturers to enjoy access to international markets by supplying commodities to this multinational retailer. India is an emerging procurement hub for global retailer especially for handicraft product (including textiles) and semi-processed local food items. It enables a country’s product.

### Lead Driver for the Country's Economic Growth

FDI would create a competition among the global inventors. This would ultimately ensure better and lower prices thus benefiting people in all sections of the society. There would be an increase in the market growth and expansion. Higher wages will be paid by the international companies. Urban consumer will be exposed to international lifestyle. Making shoppers feel international shopping experience. The huge tax revenue generated from these retail biggies and collected by the government coffers will be gradually wipe out the ugly looking fiscal and revenue deficits. Besides the transaction in foreign currencies by these MNCs will create a balance in exchange rate and will bring in stable funds in the economy as opposed to FII's hot money. This will in turn act as a boost to the developing (or 'transforming', as suggested by the USAID) economy of India.

### Cheaper Production in Facilities

FDI will ensure better operation in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price. Increase supply chain efficiency which would lead to lower prices, superior quality to the consumers. The larger supermarkets, which tend to become regional and national chains, negotiate prices more aggressively with manufacture of consumer goods and pass on the benefits of consumers.

### Quality

FDI in retailing promote the linkage of the 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 player. They can lay down better and tighter quality standards and ensure that manufacture adhere to them.

### Wide Range of Product

FDI in retailing offers a wide range of products and services, so the consumer can enjoy single-point shopping. The consumer gains from the wide variety of choices and more diversified basket of prices available under one roof. Domestic consumers will benefits getting great variety and more diversified basket of prices available under one roof. Domestic consumers will benefits getting great variety and quality products at all price point. FDI in retailing can easily assure the quality of product, better shopping experience and customer services.

## ARGUMENTS AGAINTS FDI IN RETAILING

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

Indian retailer has yet to consolidate their position. The existing retailing scenario is characterized by the presence of large number of fragments family owned business, who would not to able to survive the competitions from the global player.

- FDI in retailing can upset the import balance, as large international retailers may prefer to source majority of the 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, 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 player to charge higher product for the products.
- FDI in retail trade would not attract large inflow of foreign investment since very little investment is required to contact retail business. Goods are bought on credit and sales are made on cash basis. Hence the working capital requirement in negligible. On the contrary; after making initial investment on the basic structure, the multinational retailers may remit the higher amount of profits earned to their own country.

## RECOMMENDATIONS

FDI in retailing would surely an advantage to India and it would also help India in becoming ‘developed country’. As the people also accept the retailing it will be an advantage to them also. So the government should also open to the retail sector to the foreign investment with some restriction.

- Since the Indian retail sector is highly fragmented and domestic retailers are in the process of consolidating their position, the opening up of FDI regime should me in phased manner over 5 to 10 years’ time frame so as to give the domestic retailers enough to adjust changes.
- FDI should not be allowed for multi brand stores in near future, as Indian retailers will not be able to face competition with this store immediately.
- At present it is also not desirable to increase the FDI ceiling to more than 51% even a single premium brands store. It will help us to ensure check and control on business operation of global retailers and to protect the interests of domestic players. However, the limit of equity participation can be increased in due course of time as we did in telecom, banking and insurance sector.

## CONCLUSIONS

India represents an unprecedented and vast unexplored opportunity for retailing to all types of formats. Initially there may be certain reservations and apprehensions in allowing global players in India’s retailing but if they are allowed in phased manner on the basis of a well-conceived and checked out policy, they are likely to lead to more investment in organized retailing and allied sectors. And also India does not have any prior commitments the WTO to open up the retail sector. Although at this point in time FDI in retailing is receiving mixed reaction, but is that FDI would bring a lot of positive changes both for the operators and the consumers.

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