International Journal of Information & Computation Technology.
ISSN 0974-2239 Volume 4, Number 10 (2014), pp. 981-984

http://www. irphouse.com

Impact of Foreign Direct Investment on Retail Sector In India

Harishankar Banothu

Dept of Economics, Kakatiya University,
Warangal-506009 Andhra Pradesh, India

Abstract

Foreign Direct Investment (FDI) as a strategic module of investment is required by India to continue economic reforms and to expedite the pace of growth and development of the economy. As a complement to the process of liberalised economic policies, the opening up of the retail sector by removing the cap on FDI in both the single and multi-brand retail is a major leap forward towards the development of the retail sector. Allowing 100 percent and 51 percent FDIs in single and multi-brand retail respectively is a very substantial and affirmative step towards a progressive retail market. In the storm of apprehensions against the efficacy of the government policy of liberalising FDI in retail sector, the tenacity of the government to remove the cap from over the FDI is appreciable. The maximum fruits of the liberalised policy can be reaped with a certain level of social, educational, technological and infrastructural development attained before being able to benefit from a foreign presence in the market.

Foreign Direct Investment (FDI) is an important catalyst for Indian Economic Growth. It stimulates domestic investment, increases human capital formation and facilitates technology transfer. As a complement to the process of liberalised economic policies, the opening up of the retail sector by removing the cap on FDI in both the single and multi-brand retail is a major leap forward towards the development of the retail sector. Allowing 100 percent and 51 percent FDIs in single and multi-brand retail respectively is a very substantial and affirmative step towards a progressive retail market

The Indian retail sector is very vast and varied by its composition. 7.8 percent of India's total workforce is engaged in retail trade. There are two types of retail stores in India viz. Organised Retail stores and Unorganised Retail stores. Unorganised retail stores constitute 95 percent of the total retail sector of India. It is feared the entry of MNCs like Wal-Mart, Tesco, Carrefour in the retail sector would affect adversely to the Indian retail market. Hence, the recent opposition for allowing FDI in retail is fraught with the apprehensions that it would have a deleterious impact on stakeholders such as small suppliers, small retail trade, middlemen and consumers. It is feared that liberalized FDI would create unemployment, upsets the balance of payment, farmers would be put to loss and increases the inflation. But the positive aspects of FDI on the producers, consumers and the economy are too stronger to ignore. It ensures the consumers to be benefitted with good quality of goods at lower prices, a greater variety of product and choice and quality services. The producers are benefitted with low advertising costs and the opportunity to go international. The economy is advanced with the increased flow of foreign investment, latest technology, improved infrastructural facilities and employment opportunities.

The arrival of foreign retail chain has two-fold impact. First, the FDIs spur significant improvement in the infrastructure needed to source, ship, store and deliver the products and develop logistical capabilities. Secondly, the expansion of infrastructure and logistics induce the domestic competitors to invest in infrastructure and logistics and speed up the emergence of product standard. It is a force-multiplier that induces even more investment from competitors. Apart from that FDI is needed for economic growth and to supplement the Domestic Capital. Hence, the government of India responding to the positive sides of the FDI in retail sector has opened it up with some restrictions.

The pace of growth in retail in India is very fast and it is expected that it will grow up to US$ 833 billion by the year 2013 and US$ 1.3 trillion by 2018 at a compound annual growth rate of 10 percent. As the country has got a high growth rate, the consumer spending has also gone up and is also expected to go up further in the future. In the last four years, the consumer spending in India climbed up to 75 percent. As a result, the Indian retail industry is expected to grow further in coming days. The foreign retail chains will have a significant impact on traders that dominate procurement of commodities and perishables, including grains and cereals. The CII-Boston Consulting Group study found that the Indian tomato farmer earns about 30 percent or even less of the final price paid by the consumer, where as in developed countries, that percentage can be as much as 70 percent. For this reason alone, farmers and producers should welcome this development. Indeed, the Indian Farmer and Industrial Alliance (IFIA) and the Consortium of Indian Farmers Associations (CIFA), have recognised the potential benefits of eliminating middlemen and have expressed their support for opening the retail sector to foreign investment.

As stated, FDI leads to the increase in the income levels of the formers by way of increasing the agricultural growth. FDI will support in reducing the dominance of intermediaries. Intermediaries flout business ethics. There is a lack of transparency in prices and the due share of farmer is not paid to him. Indian farmers realize only $1/3^{rd}$ of the final price paid by the consumer. Whereas the farmers of other countries with organized retail realize $2/3^{rd}$ of the final price. In the absence of intermediaries, FDI in retail will keep both the producer and consumer happy.

FDI will improve investment in logistics of the retail chain, leading to an efficient market mechanism. India is one of the biggest producers of fruits and vegetable. However it does not have a strong integrated cold-chain infrastructure. It has only around 5,400 cold storages with a total capacity of about 24 million tonne. But 80 percent of the capacity is used only for the preservation of potatoes. FDI in multi-brand will bring about supply chain improvement, investment in technology, manpower and skill development, up-gradation of agriculture sector.

The two possibilities that may emerge with the entry of multi-brand giants in the retail market are 1) the retail giants are expected to procure 30 percent of goods from the medium scale domestic enterprises. In case, it decides to capture the domestic market, it would create direct contact with small and medium enterprises and get commodities at the lowest possible cost and take benefit of the economies of scale. If this happens, the retail giants would slowly gain hands and monopolize the market and dictate the prices of essential commodities in the domestic market. This would slowly displace small venders who don’t have enough working capital to compete with retail giants. 2) Since multi brand retail stores have the liberty to buy products from anywhere in the world and as they have enough resources to conduct market research, they would explore the world market and invest wherever they would be able to maximize their profits through final sale. In this scenario, small vendors and traders would continue to have access to the products which are produced by the small scale industries but at the same time these enterprises would face severe competition from cheap commodities imported from elsewhere. In the long run, it is speculated that the prices of their commodities would fall in the markets and sooner or later these domestic small enterprises would be forced to quit. Then the multi-brand retail giants would monopolize the market.

The growth of retail sector in Germany and Europe took place over two decades ago. It did result in a swift and major consolidation of stores, weeding out the inefficient, individually-owned and less-adaptive small stores. *Aldi*, the leading group in Germany, efficiently continued with the small-store format. Whereas in Sweden, *IKEA*, a large-format furniture and home store has invested enormously in skill building for small suppliers from all over the world, thus creating employment and exports revenue. These retail players have opened their business in India. Chinese retail major, Yishion has entered the Indian market and plans to have at least 125 sales outlets. The FDIs are coming from all over the world. Among the countries, Mauritius has been the largest direct investor in India. The United States (US) is the second largest investor in India. The United Kingdom (UK) and the Netherlands stand as the third and fourth largest FDI holders in India during the period 1991-2007.

Allaying the apprehensions of the unorganized retailers, customers and farming community it can be appreciated that the FDIs in the retail sector is beneficial both to the producer and consumer. The middlemen or traders would be eliminated or minimized. Employment opportunities would be created. A class of more skilled labour would emerge. Technology transfer and technical know-how would increase.

But it is opined that developing countries need to have reached a certain level of educational, technological and infrastructure development before being able to get maximum benefit of these FDIs and organised retail sector. The defiance may take some time to die and economic enlightenment would definitely dawn for the better to take place**.**