Foreign Direct Investment in Retail in India: A Boon or a Bain for Indian Economy

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One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. Infect, FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The 'home' countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the 'host' countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, the paucity of all types of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets- abroad- in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities. Further, the integration of global financial markets paves ways to this explosive growth of FDI around the globe.

Foreign Direct Investment (FDI) refers to the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long-term capital, and short-term capital as shown in the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a *net FDI inflow*, of foreign capital and funds, investment in addition to an increase in the transfer of skills, technology and job opportunities and stock of foreign direct investment.

Historical Background

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. However, researchers could not portray the complete history of FDI pouring in India due to lack of abundant and authentic data. Before independence major amount of FDI came from the British companies. British companies setup their units in mining sector and in those sectors that suits their own economic and business interest.

After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India.

Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. The first Prime Minister of India considered foreign investment as “necessary” not only to supplement domestic capital but also to secure scientific, technical, and industrial knowledge and capital equipments. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. However, the country faced two severe crisis in the form of foreign exchange and financial resource mobilization during the second five year plan (1956 -61). Therefore, the government adopted a liberal attitude by allowing more frequent equity participation to foreign enterprises, and to accept equity capital in technical collaborations. The government also provides many incentives such as tax concessions,FDI is a measure of the ownership of productive assets, such as factories, mines and land and water. Increasing foreign investment can be used as the measure of growing economic globalization. Most countries of the world which embarked on the road to economic development had to depend on foreign capital to some extent.

Meaning of Foreign Direct Investment:-

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign Direct Investment is investment of foreign assets into domestic structures, equipment and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is though to be more useful to a country than investments in the equity of its companies because equity investment are potentially "**hot money**" which can leave at the first sign of trouble, where as FDI is durable and generally useful whether things go well or badly.

FDI as defined in Dictionary of Economics (Grahm Bannock et. al) is investment is a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site.

International Monetary Organization (IMF) and Organization for Economic Cooperation and Development (OECD) define FDI as a category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprises (the direct investment enterprise) that is resident in an economy other than that of the direct investor.

In a simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

FDI in Retail:

Foreign Direct Investment under the Industrial Policy, 2011 and there under different Foreign Trade Policies is being allowed in different sectors of the economy in different proportion under either the government route or Automatic Route. In **retailing** currently Government notified 100 per cent FDI in "**single brand retail**" through the **Government approval route** while 100 percent FDI is already allowed in the **cash and carry** (wholesale) formats under the automatic route.

Meaning 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. whole sale) a sale to the ultimate consumer.

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. Relating 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.

Retail consists of the sale of physical goods or merchandise from a fixed location, such as a department store, boutique or kiosk, or by mall, in small or individual lots for direct consumption by the purchaser.[1] Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses. In commerce, a "retailer" buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user. Retail establishments are often called shops or stores. Retailers are at the end of the supply chain. Manufacturing marketers see the process of retailing as a necessary part of their overall distribution strategy. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility, like electric power.

Shops may be on residential streets, shopping streets with few or no houses or in a shopping mall. Shopping streets may be for pedestrians only. Sometimes a shopping street has a partial or full roof to protect customers from precipitation. Online retailing, a type of electronic commerce used for business-to-consumer (B2C) transactions and mail order, are forms of non-shop retailing.

Shopping generally refers to the act of buying products. Sometimes this is done to obtain necessities such as food and clothing; sometimes it is done as a recreational activity. Recreational shopping often involves window shopping (just looking, not buying) and browsing and does not always result in a purchase.

FDI in Retail in India: Organized and Unorganized Retailing

Retailing in India is one of the pillars of its economy and accounts. India's retailing industry is essentially owner managed small shops. Most Indian shops takes place in open markets or millions of small, independent grocery and retail shops. Shoppers typically stand outside the retail shop, ask for what they want, and can not pick or examine a product from the shelf. Access to the shelf or product storage area is limited. Once the shopper requests the food staple or household product they are looking for the shopkeeper goes the container or shelf or to the back of the store, brings it out and offers it for sale to the shopper. Often the shopkeeper may substitute the product, claiming that it is similar or equivalent to the product the consumer is asking for. The product typically has no price label in these small retail shops; although some products do have a manufactured suggested retail price (MSRP) pre-printed on the packaging. The shopkeeper prices the food staple and household products arbitrarily, and two consumers may pay different prices for the same product on the same day. price is sometimes negotiated between the shopper and shopkeeper. The shoppers do not have time to examine the product label, and do not have a choice to make an in formed decision between competitive products.

Retailing in India as also elsewhere in **the world** is divided into **organized** and **unorganized retailing**. Organized relating, in India, 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 **hypermarket**, publicly traded **supermarkets**, retail chains and also the privately owned large retail businesses.

Unrecognized retailing on the other hand, refers to the traditional formats of low costing retailing, for example, the local mom and pop store (kirana shops), owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors etc.

Unorganized retailing is the most prolific and visible form of retailing in India while the organized retailing constitutes only a very small percentage i.e. 3-4% in India, because of the reason that a large number of educated unemployed and superfluous labour takes refuge in retailing in the face of joblessness and glassing poverty, retailing in unorganized sector in thus not a profit oriented vocation but a mere source of livelihood. The capital investment is very low and the infrastructure is rudimentary.

FDI in Retail: A Death Knell

Foreign Direct Investment through unorganized retailing in India, create serious apprehensions that the flow of organized foreign capital with its associated baggage of humungous infrastructure, bulging financial power professional managerial staff etc. would sound the **death knell for the Indian retailing industry**. The international retailing giants will resort to **predatory pricing** to acquire monopolies. These international retailing giants with their sprawling business are in a position for cutting across different continents and deep packets will be able to sustain loss till their competitors are wiped out.

FDI is retailing may also **widen the rural urban divide** in the sense that most of the retailing centers would be set up in the cities where both the density of population and level of income of the people are high. These retail centers would also attract cheap labor from the rural areas and thereby deplete the hinterland of its workforce.

FDI in retailing will lead to large scale job losses. International experience shows supermarkets invariably displace small retailers. Small retail has virtually been wiped out in developed countries like the U.S. and in Europe.

Jobs in the manufacturing sector will be lost because structured international retail makes purchases internationally and not from domestic sources. This has been the experience of most countries which have allowed FDI in retail.

FDI in retail will shrink employment opportunities, completely alter the retail distributional structure and deal a death blow to the corner shop structure. Independent stores will close, few thousand jobs may be created but millions will be lost. FDI in retailing will lower prices to dump goods, get competition out of the way, become a monopoly, and then raise prices. For example, soft drinks industry like Pepsi and Coke came in and wiped out all the domestic brands.

In retailing after FDI, work will be done by Indians, profits will go to foreigners, similarly, like East India Company, entered in India as a trader and then took over politically.

Apart from it following may be the drawbacks if FDI allowed in the retail sector in India

- Would give rise to cut-throat competition rather than promoting incremental business.
- Promoting cartels and creating monopoly.
- Increase in the real estate prices.
- Marginalize domestic entrepreneurs.
- The financial strength of foreign players would displace the unorganized players.
- Absence of proper regulatory guidelines would induce unfair trade practices like Predatory pricing.

Recent political decision taken by the Central Government PM Manmhan Singh allowed 51% stake FDI in multi brand retail which affect "*Unorganised sector*" . Here unorganised sector will have lose their jobs and in place infringing their right to livelihood which is an extension of "*right to life*" which says, if right to livelihood is not treated at par with constitutional *"right to life",* the easiest way of depriving a person of his right to life would be to deprive him of his *"means to livelihood"* to the point of abrogation, as due to their policy any giant organisation such as Wal-Mart and Tesco that will displace several mom & pop shops.

FDI in Retail: A Pleasant Dawn

The preamble of the Constitution resolves to constitute India into a Sovereign, Socialist, Secular, Democratic, Republic and to secure to all citizens *Justice* Social, economic and political, Equality of status and opportunity. Directive principles of state policy similarly exhort to establish just and equitable and fair order. Article 39(c) states that the State should ensure that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. Though both these features are not enforceable, the executive and the Apex Court in particular have time and again reiterated the sacrosanct nature of these features,

If FDI in front and retailing in allowed constitutionally, the international retailing giants will be motivated to invest capital, as a result **a world class back end infrastructure** would be built. It would help in expanding the economy, generate employment and result in more tax income. FDI in retail would help the middlemen, as well as the key beneficiaries farmers and consumers.

Huge FDI in the retail sector will provide gainful employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail. FDI in retail will help farmer's secure remunerative prices by eliminating exploitative middlemen. Through FDI in retail more then 10 millions jobs will be created in retail sector. FDI in retail ensures efficiencies in supply chain because food, which perishes due to inadequate infrastructure, will not be wasted.

FDI in retail create multiplier effect for employment but also exports, technology up gradation and income generation. Through FDI in retail, the consumer will get access to some of the major global brands. By this entry of foreign brands would also improve the quality and variety of products, increase competition and expand manufacturing.

Organized retailing holds the promise at lowering the prices of foreign goods sold through these large stores. It means that some of these retail chains will eventually have to start manufacturing locally or out source from domestic manufacturers in order to be in the competition.

Organized retailers will reduce waste by improving logistics, creating cold storage to prevent food spoilage, improve hygiene and product safety, reduce counterfeit trade and tax evasion on expensive item purchases, and create dependable supply chains for secure supply of food staples, fruits and vegetables. FDI in retail will increase choice and reduce India's rampant inflation by reducing waste, spoilage and cutting out middlemen.

FDI in organized retail will offer the small Indian farmer more competing venues to sell his or her products, and increase income from less spoilage and waste.

Monopoly of middlemen buyer, retail reforms offer farmers access to more buyers from organized retail. More buyers will compete for farmers produce leading to better support for farmers and to better bids. Global retail companies can find and provide additional markets to Indian farmers.

FDI in retail will also not effect on unorganized retailing, unorganized small shopkeepers will continue to exist alongside large organized supermarkets, because for many Indian unorganized small shops will remain the most accessible and most convenient place to shop.

So following benefits definitely will be occur by the implementation of FDI in Indian Retail

- Inflow of investment and funds.
- Improvement in the quality of employment.
- Generating more employment.
- Increased local sourcing.
- Provide better value to end consumers.
- Investments and improvement in the supply chains and warehousing.
- Franchising opportunities for local entrepreneurs.
- Growth of infrastructure.

- Increased efficiency.
- Cost reduction.
- Implementation of Information Technology in retail.
- Stimulate infant industries and other supporting industries.

With the above discussion we can say that by the foreign Direct Investment in retail, stability of the vital pillars of the economy – retailing, agriculture and manufacturing. In short, the **socio-economic equilibrium of the entire country will sustain**.

Recently in mid of the year, 2012 PM Manmohan Singh allowed 51% stake in multi brand retail. Prime Minister pushed governments' decision on economic reforms. Giving and justifying reason for allowing FDI in retail, PM had given his statement that the decision were taken in national interest. Government proposes the FDI policy as a necessity for the nation in the times where its GDP is dwindling and inflation is one rises. But the same policy was criticised by all the other political party by playing "*negative politics*" against ruling Central Government decision. In this context it has been also decided by the hon'ble apex court in its latest judgment of *Manohar Lal Sharma's* case that mere difference in views of efficacy of a government policy and objectives such policy seeks to achieve, held, are not grounds for judicial interference unless policy is unconstitutional or contrary to statutory provisions or arbitrary or irrational or in abuse of powers, so court do not interfere in policy matters. Policy allowing FDI upto 51% in multi brand retail trading does not suffer from any of these vices. Government after due reflection , consideration and delibration allowed FDI up to 51% in multi brand retail trading as it felt that it would facilitate better access to market for producers og good and enhance employment potential and country's economy will grow, thus it is not open for cort to go into merits and demerits of such policy.

Suggestions and Reforms: Government Policy on FDI in Retail

The mere existence of resources in a country is no guarantee that they will contribute to output. Whereas FDI can be defined as a cross border investment, where foreign assets/resources are invested into the organizations of the domestic market. It brings private funds from overseas into products or services. In the past decades, FDI was concerned only with highly industrialized countries. US was the worlds largest recipient of FDI during 2006, thereafter France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in FDI investment. Now during the course of time, FDI has become a vital part in every country more particularly with the developing countries like India. This is because of the following reasons.

- Availability of cheap labour.
- Uninterrupted availability of raw material.
- Less production cost compared with other developed countries.
- Quick and easy market penetration.

In India, the Hon'ble Department Related Parliamentary Standing Committee on Commerce, in its 90th Report on "Foreign and Domestic Investment in Retail Sector', laid in the Lok Sabha and the Rajya Sabha on 8th June, 2009 had made an in depth study on the subject and identified a number of issues related to FDI in the retail sector but the same was oppose on various grounds, like, that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers and asymmetrical growth in cities, causing discontent and social tension.

Up till 2011, Indian Central Government denied foreign direct investment (FDI) in multi-brand Indian retail, but the Government of Manmohan Singh, Prime Minister, announced on 24th November, 2011 the following, (Recently now in June-2012 it was allowed):-

- India will allow foreign groups to own up to 51 percent in "multi-brand retailers", as super markets are known in India, in the most radical pro-liberalization 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;
- 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;
- 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;
- 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.

By this announcement of Hon'ble Prime Minister, the opening of retail industry to global competition is expected to spur a retail rush to India.

After going through the reforms made by the Government in its various policies regarding FDI in retail including the new consolidated Foreign Direct Investment Policy, 2011 it has been suggested that :-

1. The Indian Companies is permitted to issue shares to foreign investors but only against cash remittances received through normal banking channels.
2. If there is any other transaction involving an issue of shares to foreign investors other than cash, then it requires mandatory approval of the Government of India through the Foreign Investment Promotion Board (FIPB).
3. An independent separate cell required to be constituted to look and watch into the impact of investment of **BIG** capital in the retail sector by foreign investors.
4. Foreign Direct Investment in India shall be permitted in liberalized manner in the form at limited liability partnerships.
5. Involvement of the Industrial organizations, Retail Association, shopping centers Association of our country, prior to give permission for FDI in retail sectors.
6. FDI policy should be change continuously as per change in sectoral policy and sectoral equity capital so that maximum benefit should be given to the stakeholders of retail sector.

Recommendation and Conclusion:-

- The retail sector in India is severely constrained **by limited availability of bank finance**. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organized and unorganized sectors to expand and improve efficiencies. Policies that encourage unorganized sector retailers to migrate to the organized sector by investing in space and equipment should be encouraged.
- A **National Commission** must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI as and when it comes.
- The proposed National Commission should evolve a clear set of **conditionality's on giant foreign retailers** on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionality must be aimed at encouraging the purchase of goods in the domestic market, state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc. Giant shopping centers must not add to our existing urban snarl.
- Entry of foreign players must be **gradual and with social safeguards** so that the effects of the labour dislocation can be analyzed & policy fine-tuned. Initially allow them to set up supermarkets only in metros. Make the costs of entry high and according to specific norms and regulations so that the retailer cannot immediately indulge in 'predatory' pricing.
- In order to address the dislocation issue, it becomes imperative to develop and **improve the manufacturing sector** in India. There has been a substantial fall in

employment by the manufacturing sector, to the extent of 4.06 lakhs over the period 1998 to 2001, while its contribution to the GDP has grown at an average rate of only 3.7%17. If this sector is given due attention, and allowed to take wings, then it could be a source of great compensation to the displaced workforce from the retail industry.

- The government must actively encourage setting up of **co-operative stores** to procure and stock their consumer goods and commodities from small producers. This will address the dual problem of limited promotion and marketing ability, as well as market penetration for the retailer. The government can also facilitate the setting up of warehousing units and cold chains, thereby lowering the capital costs for the small retailers.

Policy of allowing 100% FDI in single brand retail can benefit both the foreign retailer and the Indian partner-foreign players get local market knowledge, while Indian companies can access global best management practices, design and technology. By allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumers expectations. Allowing foreign Investment in retail ensure adequate flow of capital into the country and its productive use, in a manner likely to promote the welfare of all sectors of society, particularly farmers and consumers.

In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would ***interalia***, also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment.

Thus it can be said that this investment boom (Foreign Direct Investment) could change the face of Indian retail by offering quality goods at lower prices to the consumers. In addition to this, the presence of global retailers in Indian retail industry will further enhance exports from India as they would also source Indian goods for their international outlets in a big way leading to a remarkable increase in Indian exports.

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