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ISSUES AND PROSPECTS OF FDI IN RETAIL SECTOR IN INDIA

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ABSTRACT

The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors Indian retail industry is one of the fastest growing industries in Indian, Indian Retail Industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the Retail sector is expected to grow almost three times its current levels to \$660 billion by 2015. In this context, the present paper attempts to analyze the issues concerning the influx of foreign direct investment in the Indian retail industry. Moreover, with the latest move of the government to allow FDI in the multi-brand retailing sector, the paper analyzes the reason why foreign retailers are interested in India, the strategies they are adopting to enter India and their prospects in India. The finding of this study point out that FDI in retail would undoubtedly enable India Inc to integrate its economy with that of the global economy. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged. It analyses the reasons why foreign retailers are interested in India and their prospects in India and also find out the suggestions for the future growth of the retail industry.

KEYWORDS

organized retail, retail, economic growth, sunrise sector, foreign direct investment, issues and prospects.

INTRODUCTION

The Indian retail industry is the fifth largest in the world. Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US\$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. Until 2011, Indian central government denied foreign direct investment (FDI) in single and multi brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single brand retail was limited to 51 percent ownership and a bureaucratic process. Companies are likely to combine expansion with innovative measures as they look to ensure profitability in difficult times. One such initiative includes assessing the prospects of foreign players in this sector through foreign direct investment. In November 2011, India's central government announced retail reforms for both multi brand stores and single brand stores. These market reforms paved the way for retail innovation and competition with multi brand retailers such as Wal-Mart, as well single brand majors such as IKEA. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, India approved reforms for single brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its good from India. Indian government continues the hold on retail reforms for multi brand stores. In June 2012, IKEA announced it has applied for permission to invest \$1.9 billion in India and set out 25 retail stores. On September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law. FDI inflow to the retail sector in the 20 largest developing countries. In this context, the present paper attempts to analyze the strategic issues concerning the influx of foreign direct investment in the Indian retail industry. On 7 December 2012, the federal government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states will allow foreign supermarkets like Wal-Mart, Tesco and Carrefour to open while other states will not.

REVIEW OF LITERATURE

Dornbusch and Park (1995) observe that foreign investors pursue a positive feedback strategy, which markets stocks to overreact to change in fundamentals. **Borensztein et al (1998)** examine absorptive capacity of recipient country, which is measured by stock of human capital required for technological progress, it take place through 'capital is Deeping' associated with new capital goods brought into an economy by FDI. **Kumar and Ritankar (2007)** in their work made an attempt to study the foreign direct investment in India with a special focus on the retail trade. This paper uses the argument that FDI is allowed in multiple sector and the effects have been quite good without harming the domestic economy. **Rupali gupta (2012)** conclude that there will be initial and desirable displacement of middleman involved in the supply chain of farm produce.

OBJECTIVES

1. To analyze the impact of FDI on retail sector.
2. To understand the evolution of retail sector in India
3. To study the growth of Indian retail sector
4. To study the issues and prospects of FDI in retail sector in India.

RESEARCH METHODOLOGY

The study is based on secondary sources of data. The main source of data is various journals websites newspapers books government publications etc.

MEANING OF RETAILING

The word 'retail' is derived from the French word *retailier*, meaning 'to cut a piece off' or 'to break bulk'. The distribution of finished products begins with the producer and ends at the ultimate consumer. Between the two of them there is a middle person-the retailer.

Retailing is defined as a set of activities or steps used to sell a product or a service to consumers for their personal or family use. This is divided in two parts:

1. Organized retailing
2. Unorganized retailing

ORGANIZED RETAILING: organized retailing, 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 publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

UNORGANIZED RETAILING: unorganized retailing, on the other hand, refer to the traditional formats of low-cost retailing, for example, the local corner shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

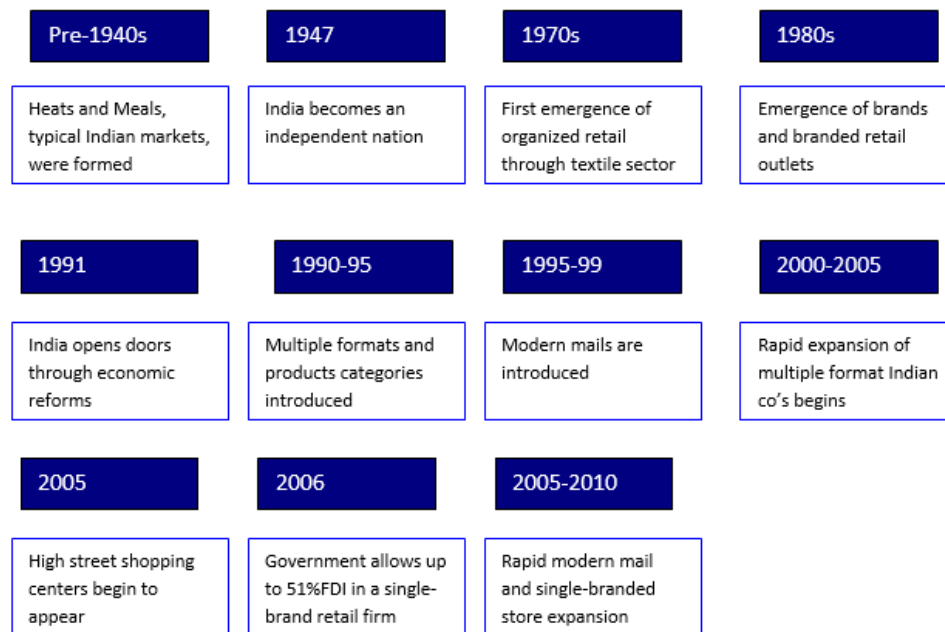
Organized retailing was absent in most rural and small town of India in 2010. Supermarkets and similar organized retail accounted for just 4% of the market.

RETAIL SECTOR IN INDIA: AN OVERVIEW

The world 'Retailing refers to any activity that involves the indirect sale to an individual customer or end user. Retailing has been the most active and attractive sector of the last decade. Indian Retail industry is ranked among the largest retail market in the world. Retail is India's largest industry for over 10 percent of the country's GDP and around eight percent of the employment. It is one of the most dynamic and fast pacing industries with several players entering the market not only in India but all over the world. Retail is clearly the sector that is poised to show the highest growth in next five years "Most predictions say that the sector might reach to US\$ 400- 600 billion by the year 2010."

TIMELINE OF RETAILING IN INDIA

FIG. 1

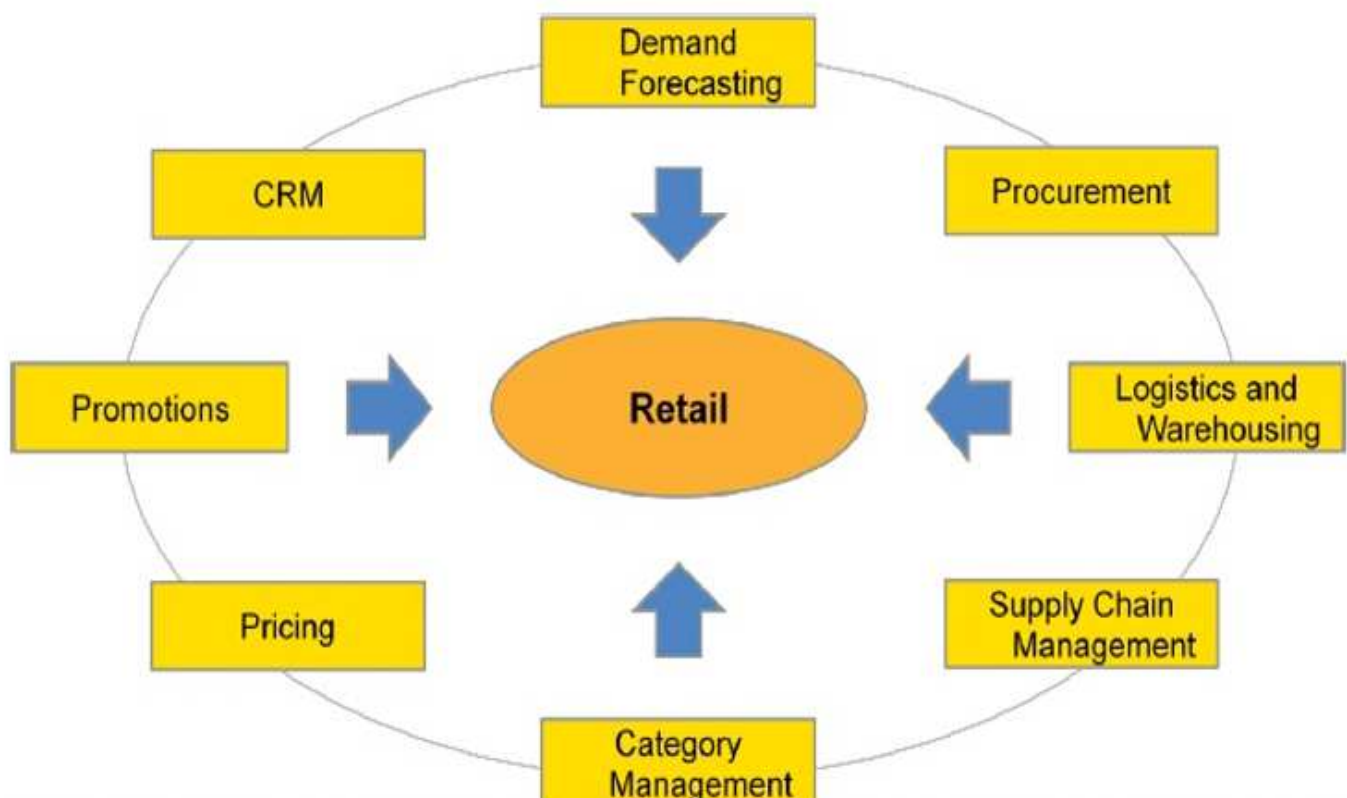


The retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailer, that is, those who are registered for sales TAX, Income Tax, Income Tax etc. These include the corporate- backed hypermarkets and retail chains, and also the privately come, owned large retail businesses unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for examples the local kirana shope, Owner CRM website) [3] Due to limitation we can measure only the organized retail sector.

RETAIL FUNCTION

The following illustration gives an overview of the retail function.

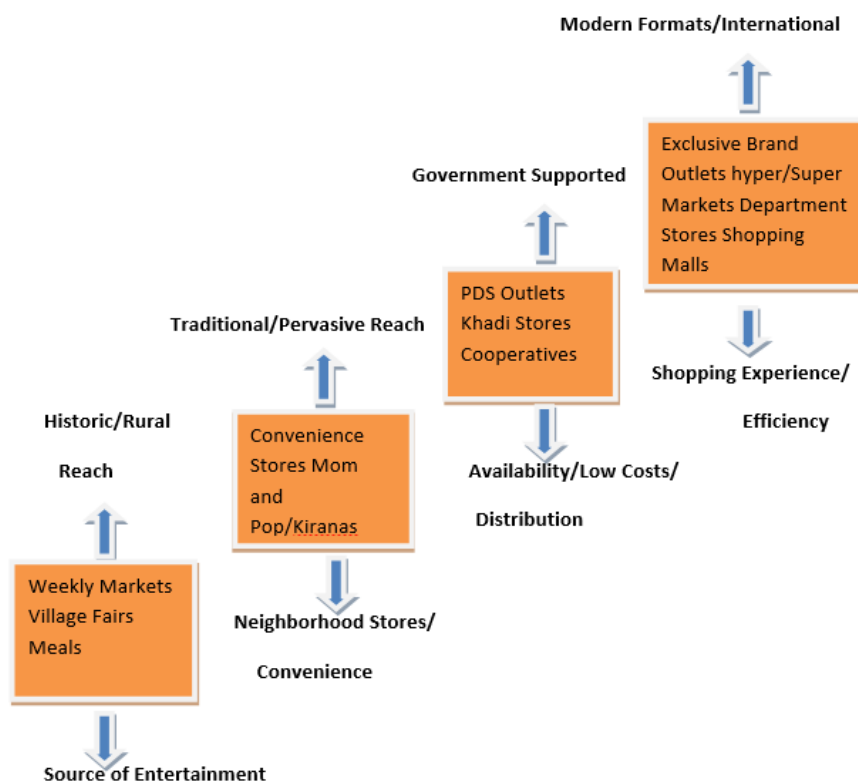
FIG. 2



EVOLUTION OF RETAILING

History of retailing is very old. Small retailing plays a key role in the nation's economy. Generally, most of the retailers are small-one man or proprietary stores. Retailing is a dynamic form of marketing. In some developed countries one-man or small stores are disappearing and have been replaced by other forms such as department and discount stores and they are found in abundance in urban markets. But in India such stores are sometimes found in urban areas only. In rural areas, only general stores are existing in India. Most of the retailers in Indian suburban and rural markets are of the form of general stores. For explaining the continuous evolution in retailing, several theories have been proposed, including the wheel of retailing and life cycle.

FIG. 3



Source: Technopak Research

FDI IN RETAIL SECTOR

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country, & its productive use in a manner likely to promote the welfare of all sections of society, particularly farmers and consumer. It would also help bring about improvements in farmer's income & agriculture growth and assist in lowering consumer prices inflation 10 apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is obvious that we should not only permit but encourage FDI in retail trade.

Indian council of research in International Economic Relations (ICRIER) has projected the worth of Indian retail sector to reach \$496 billion by 2011-12 and ICRIER has also come to the conclusion that investment of 'big' money (large corporate and FDI) in the retail sector would in the long run not harm interests of small traditional retailers.

The Economic survey of 2010-11 mentioned that phased opening of FDI in multi-brand retail is likely to benefit the consumer, but did not state the exact benefits. In July 2011, a committee of secretaries (CoS) had cleared the proposal to allow up to 51% FDI in multi-brand retail, which has been approved by the Union Cabinet in November 2011, albeit with a few riders to set up the supply chain and reduce inflation. The union cabinet has also approved increasing the FDI limit in single brand retail to 100% with government approval.

As a part of Economic Liberalization process set in place by the industrial policy of 1991, the government of Indian opened up the Retail sectors to FDI through a series of effect:

TABLE 1

1995	World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.
1997	FDI in cash and carry (wholesale) with 100% right allowed under government approval route.
2006	FDI in cash and carry (wholesale) brought under the automatic route. Up to 51% investment in a single brand retail permitted, subject to press Note 3 (2006 Series)
2011	100% FDI in single brand retail permitted.
2012	51% FDI in multi- brand retail permitted.

GROWTH OF INDIAN RETAIL INDUSTRY IN INDIA

1. According to the tenth report of GRDI of AT Kearney, India is having a very favorable retail environment and it is placed at 4th spot in the GRDI. The main reason behind that is the 9% real GDP growth in 2010, forecasted yearly growth of 8.7% through 2016, high saving and investment rate and increased consumer spending.
2. According to department of industry Policy and Promotion Cumulative, FDI inflows in single brand retail trading stood at US\$ 44.45 million during April 2000 to September 2011.
3. According to the 8th Annual Global Retail Development Index of A T Kearney, India retail industry is the most promising emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP of the country. In 2009, it rose to 12%, 22% in 2010 and is expected to reach 35% by 2011-12.

4. According to the ICRIER report, the retail business in India is estimated to grow at 13% from \$322 billion in 2006-07 to \$590 billion in 2011-12. The unorganized retail sector expected to grow at about 10% per annum with sales expected to rise from \$309 billion in 2006-07 to \$496 billion in 2011-12.

MAJOR ISSUES ON FDI IN RETAIL SECTOR

1. FDI up to 51% only through government approval mode.
2. Retail sales outlets may be set up only in cities with a population of more than 10 lakh as per 2011 census and may also cover an area of 10 kms around the urban agglomeration limits of such cities.
3. Mandatory sourcing of a minimum of 30% from Indian small industries with a total investment in plant and machinery not exceeding US \$ 1 million
4. Expected gains from FDI in retail from stakeholders:

*FARMERS

- a) FDI in retail will encourage direct procurement from farmer to enable them secure higher price.
- b) At least 50% of total FDI brought in shall be invested in 'backend infrastructure' which will largely be in villages.

*RURAL YOUTH

- a) Imparting necessary skill sets in a whole new range of activities.
- b) Employment opportunities in front end stores for manning the counters.

*CONSUMER

- a) Lower prices and more choice for consumers.
- b) Strengthening of supply chain infrastructure for all products ranging from storage to processing and manufacturing infrastructure.

*SMALL INDUSTRY

- a) Fillip to local value addition and domestic manufacturing by SMEs.
- b) Technology up gradation of SMEs.

*SMALL RETAILER

- a) The entry of FDI into the sector will also incentivize existing traders and retail outlets to upgrade and become more efficient, thereby providing better services to the consumers as also better remuneration to the producers from whom they source their products.
- b) Opportunity of sourcing high quality produce at low price from wholesale cash and carry point.

FUTURE PROSPECTS OF FDI IN RETAIL SECTOR IN INDIA

India has been ranked as the third most attractive nation for retail among 30 emerging markets by the US-based global management consulting firm. AT Kearney's study on Global Retailing Trends Found that India is the least competitive as well as least saturated of major Global markets. The report further stated that Global Retailer such as Wal-Mart, Carrefour, Tesco and Casino would take advantage of more favorable FDI rules that are likely to be introduced in India.

- the world's second largest retailer, has opened its first cash and carry store in India in New Delhi.
- Jewellery retail store chain Tanishq plan to open 15 new retail stores in various parts of the country in the 2011-12 fiscal.
- future value retail, a future group venture, will take its hypermarket chain Big Bazaar to smaller cities of Andhra Pradesh, with an investment of around US\$ 1.54 million to US\$ 4.41 million depending on the size and format.

CONCLUSION

The performance of foreign direct investment till date round about the satisfactory level baring the certain issues and prospects. Today we have more than \$303.48 billion as a foreign exchange reserves and above foreign debts are around about \$297.5 billion which we can further improves though export promotions for foreign investors. It has been observed from the above analysis that FDI approval given by the government will benefit almost all the sectors of the economy. There are some people who are trying to mislead people for their own benefit and are opposing the entry of foreign retailers into India. FDI in retail sector not benefit the society but also helps in the economic growth of the country. The India retail industry is gradually incing its way towards becoming the next boom industry. Allowing FDI may not be as bad as some of us feel. But the policy must be well drafted for which a country wide perceptual study of the stakeholders of retailing is solicited.

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