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FDI in Retail Sector- Monster or Angel?

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ABSTRACT

This paper discuss about foreign direct investment in retail sector of India. FDI is an investment outside one's own country. It also talks about the current scenario of Retail sector in India. AT Kearney's Global Retail Development Index 2006 also shows India on top of emerging retail markets with highest potential. A discussion paper on the issue of 'FDI in multi brand retail' released to generate a healthy debate is also included in the paper. Benefits of FDI in India like the increased competition will prove a boon for the consumers, containing inflation, standard of living of people shall improve etc are discussed along with its negative effect on the small stores.

I.CHANGING FACE OF RETAIL IN INDIA

The weekend plans of most families in urban India are no more about watching television and visiting relatives. There has been a change in the demand, earning capacity and exposure of the Indian consumer. From traditional low cost retailing format of kirana shops, convenience stores, owner manned general stores, hand cart and pavement vendors etc in the unorganized market, we have progressed towards a more sophisticated organized market of malls, hypermarkets and supermarkets. Companies like Reliance, the Bharti-Wal-Mart, AV Birla Group, Future group etc have brought into India what can be aptly called as the retail revolution.

The picture, however, is not as rosy as it appears. The country is still lagging far behind as compared to the other developed nations of the world in the retail scenario. Retail revolution gained momentum only in the last decade in our country. There are miles to go before coming at par with other nations of the world. The challenges have to be taken and the opportunities are to be exploited.

The importance of the retail sector can be judged from the fact that it is the second largest employing sector of the economy. It contributes almost an 8% to the total economic output of India.

This sector has two kinds of retailers-organized and unorganized. The former category includes big players owning retail chain stores, supermarkets, hypermarkets or big retail businesses set up by private owners. They have legal permission to operate. They are registered under the Sales Tax Act, VAT Act etc. The latter is the category that represents all small and scattered general stores, kirana stores, street vendors etc catering to the needs of consumers in their respective areas. The unorganized retailers dominate in our country. Only around five per cent of the retail market of India of over $450 billion falls under the organized segment.

With the entry of big and sophisticated domestic players under the organized category, who give consumers an excellent shopping experience along with the products required, the small kirana shop owners are facing a challenge of survival. But the problem with these big outlets is that the huge investment they require makes their survival questionable. The recent failure of Subhiksha Stores is evidence good enough to understand the seriousness of the issue. Currently, the biggest threat that is causing clouds of danger to hover on all our existing retailers is the entry of foreign players in our markets. Investment by these foreign players comes under foreign direct investment.

II.FDI IN RETAIL

Foreign direct investment, popularly called FDI, is an investment outside one's own country. These investors acquire stakes or set up companies on foreign lands such that they have a say in the management of such companies. Thus, they are known to bring about good management and governance practices, technology transfer and on the whole, economic development of the country. Ever since the introduction of free market reforms in 1991, India has moved in the direction of greater liberalization. At present, our country is one of the most favored destinations for foreign direct investment. The following is the AT Kearney's **Global Retail Development Index 2006** which clearly shows India on top of emerging retail markets with highest potential with Rank 1.

Country	Rank
India	1
Russia	2
Vietnam	3
Ukraine	4
China	5
Chile	6
Latvia	7
Slovenia	8
Croatia	9
Turkey	10

Sources: Euro money, World Bank, Global Competitiveness Report 2005 and A.T. Kearney Analysis

Foreign direct investment is a necessary evil. If on one hand, it brings state of art infrastructure, upgraded technology, world class management and governance practices, on the other hand, it serves as a big threat to the survival of the domestic industry. India allowed 100% FDI in cash and carry business in 1997. This includes the wholesale segment where the set up would cater only to the needs of retailers or big institutional buyers. Nine years later, in 2006, the retail sector was opened up for foreign direct investment in single brand products up to the extent of 51%. Since then, total 94 proposals related to retail trading of sportswear, fashion clothing, jewellery, hand bags, lifestyle products, luxury goods, apparels etc. have been received till May, 2010. Out of these, only 57 were approved**.** This move was taken with a view to benefit consumers. Though, certain conditions were imposed. There was a pre-requisitely a need of getting approval from the Government of India. Moreover, FDI was allowed only in case of products that were branded at the time of manufacturing. It was further a compulsion that only the products which are being marketed internationally under the same brand name will be allowed. The target market of the single brand retail outlets is very different from that of small, unorganized retailers. The former caters to the needs of more brand conscious buyers having favoritism towards a certain brand. Moreover, the products those come under the single brand retail category are not fast moving consumer goods or items of basic necessity. They fall more or less in the luxury goods category. Thus, they don't have much impact on the unorganized retail segment.
The scope of competition shall widen with the advent of foreign direct investment in the multi brand retail segment. All players shall vie for the same set of customers. It may give a fatal blow to the domestic industry, especially the unorganized retailers. Hence, it is a burning issue in today's times that whether or not government should open the gateway for FDI in multi brand retail. The decision has remained to be a political hot potato for the government for quite some time now. The sensitiveness of the subject calls for great caution. Wal-Mart and Carrefour are asking the Indian government to allow up to 51 per cent foreign investment in multi-brand retail as they foresee great potential and vibrancy in the Indian markets. Metro, the first multinational company to start operating in the cash and carry sector, has suggested gradual opening up of the markets to FDI. In the first step, FDI should be allowed only up to 49%. The major political parties especially the left parties strongly oppose the move as according to them it would sweep off the small retailers and deprive them of their source of modest living.

III. DISCUSSION PAPER BY DIPP

The Department of Industrial Policy and Promotion under the Ministry of Commerce and Industry took an appreciable step by giving an opportunity to the people of this country to voice their opinion. It released a discussion paper on the issue of 'FDI in multi brand retail' to generate a healthy debate. Views and suggestions were invited specifically on section 7 of the paper. This section was titled 'Issues for Resolution'. Thus, the entire general public including the business world experts, educationists as well as retailers in both the organized and unorganized segments had an option to put before the government their point of view. It was further mentioned that all views should be backed by proper evidence, facts and figures and submitted latest by the 31st of July, 2010.

The big issues that were brought up for people to comment on were:

- Should FDI be allowed in multi-brand retail at all? If so, should the government adopt a cautious, calibrated approach of opening up slowly?
- Should the government fix a proportion of the investments brought in by foreigners to be invested into creating backend infrastructure?

- Should jobs in retail chains be reserved for rural youth?
- Should FDI in retail be restricted to cities with population above 10 lac?
- How can small retailers be integrated into modern retailing models?

The aim of the government was to generate an informed discussion. The response was commendable. But as expected, there were two big groups divided on the issue. One, comprising multinational retail chain owners, foreign companies, consumers and even organizations like Retail Association of India supported FDI. The other, comprising small and unorganized retailers, their organizations and groups, was in absolute opposition. So, even if the government was successful in collecting diverse viewpoints, it could not gather clear cut support in favor of FDI participation in multi brand retail.

The American Chamber of Commerce in India, along expected lines, stood for the idea of FDI in multi brand retail up to the extent of 100%. But keeping in mind the opposition that the government might have to face, they supported the consideration of a cautious approach of first giving permission up to the extent of 49%. The chamber also mentioned that FDI will bring into India much upgraded technology and huge investment in back end infrastructure.

On similar lines was the feedback of Carrefour, a French international hypermarket chain, which has already announced opening its first wholesale outlet in India 2011. According to it, FDI shall help in controlling inflation by offering more competitive and rationalized prices, shall create employment opportunities and shall give to the Indian customer a unique retail experience. To improve the back end infrastructure, Carrefour mentioned different plans it has already worked upon like contract farming model, location of distribution centre in strategic locations, local sourcing, logistics support etc. It also expressed a desire of keeping the employment open for rural youth and giving them requisite training depending on their abilities.

Another noteworthy feedback was on the basis of a survey conducted by the students of Birla Institute of Management Technology of the customers in the malls of Gurgaon, Delhi, Noida and Ghaziabad. The total number of respondents was 660. Majority respondents were in favor of FDI investment in multi brand retail. About 91% of them were confident that this would benefit the consumers. As per the recommendation of BIMTEC, the approval for the introduction of FDI in multi brand should be postponed to at least 2015. This would give the domestic and small players enough time to prepare themselves for the new challenges.

IV. THE BIG DECISION

The feedback of groups and associations of small and unorganized retailers was more or less similar and along predictable lines. They expressed their fears and strongly opposed the move. They emphasized that the probable benefit are nothing but illusions. According to them, it is a monster in disguise as it would threaten the livelihood of four crore people. Studies from the US gave evidence that the farmers would be forced to sell their produce at lower prices and not get any lucrative returns; the dreams of which are being used as a bait by the foreign players. Bhartiya Mazdoor Sangh, Kisan Jagriti Manch and Swadeshi Jagran Manch appealed the Ministry of Commerce and Industry to prevent this economic chaos from inflicting upon the country.

No doubt, there shall be a negative effect on the small stores but it is being exaggerated. Indians by culture value relations. It shall take a lot of effort to surpass the trust they have in the shopkeeper next door, who always greets them with a smile or a Namaste, provides credit and free home delivery. Many of the consumers resort to only window shopping in the big retail outlets and end up buying products from the vendors next door. Moreover, if on one hand, they will displace small retailers and intermediaries, on the other, they will create ample job opportunities at managerial, shop floor level and the supply chain shall become more efficient. Progress has always had a cost associated with it. Whenever India has stressed upon industrialization, emphasized on capital intensity rather than labor intensity, there has been opposition. But the results are crystal clear before us. With time, the displaced ones, have found for them some or the other opportunities and efficiency has crept into the system. Had India been a pure agrarian economy, it would have lagged behind.

The arguments of small retailers are not baseless, but we cannot turn a blind eye to the benefits of FDI. The increased competition will prove a boon for the consumers. It will help in containing inflation. The standard of living of people shall improve. They shall witness world class retail practices. Moreover, the kind of investment it shall bring in logistics and distribution is a dire need for developing the Indian retail industry. According to the industry analysts, such an investment would reduce the wastage from farmers to consumers by about 50%. The foreign players also promise to benefit the farmers. According to some, this is doubtful. But then there is always a ray of hope. The consumers and producers in our country are much more than the traders. For their benefit and for the benefit of the economy as a whole, we cannot ignore FDI.

Talking on a more practical note, in today's times of liberalization and globalization, restricting the economy is unavoidable. The basic logic of having an open economy is that money or investment should reach the place where it will get the best returns and only companies which are able to give the best to the consumers in terms of prices, quality and service should survive. By this logic, we will drive out the inefficiencies in the system and lead to better overall growth. So, in the present context, even if we lose out on the employment in terms of small retailer jobs, it will be compensated some where else in the economy. The overall system will be more efficient. The sum total will be more than what we had earlier. So, allowing FDI would be like inviting an angel and not a monster.

A 'breathing space' of five years as suggested by BIMTEC would be a wise decision in this regard. It would give the domestic industry ample time to prepare itself for the challenges that lie ahead. Kishore Biyani said, "We don't need Wal-Mart, Carrefour and Tesco. In turn they need us. We have started organized retail by big incorporation just five years ago. Give us time, and then let foreign players enter the Indian market so that we can sustain their competition and that will give a fair competitive environment."

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