The Impact of FDI on Indian Retail Sector

Chaman Kumar
Faculty, Department of E-Commerce Kumaun University Nainital, Uttarakhand, INDIA

ABSTRACT
Presently in India we are accepting investment from foreign countries in two ways: One in the form of FII – Foreign institutional Investors and other in the form of FDI. Where we know that there is no physical investment in FII, FDI is different. FII can withdraw their investment at any time depending upon the market conditions. So here is the story. On 20th November 2012, the Union Cabinet of the Indian government approved a proposal of allowing 51 percent FDI in the multi-brand retailing in India and 100 percent FDI in the single-brand retailing, subject to certain conditions. FDI in retail can give a greater access of foreign brands to customer but at that time various political parties and people started a debate whether it should be allowed in retail or not. Some people said that FDI in the retail sector in India will lead to economic growth and creation of new employment opportunities along with rural infrastructure development and some people said that mass scale job loss will happen particularly in manufacturing sector with the entry of the big MNCs like Wal-Mart, Metro PLC and IKEA etc. In the present scenario Indian retail sector is growing at a faster rate with new employment opportunities. Although, Indian market is one of the largest market in the world with high purchasing power and it is not possible for Indian government to move towards growth of the economy only with domestic investments. The purpose of this article is to analyse the impact of the present FDI policy on Indian retail.

Keywords---- Foreign Direct Investment, Foreign institutional Investors, retailing

I. FOREIGN DIRECT INVESTMENT (FDI)

Foreign direct investment (FDI) is defined as a long-term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based. Or FDI can be simply defined as an investment made to acquire a lasting interest in an enterprise operating in a country other than that of investor. In this instance the investor has an effective voice or control in the management of the enterprise. What % of shares ownership can afford the parent enterprise control over its foreign affiliate. The United Nations defines control in this case as owning 10 percent or more of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm.

Direct investment is a category of international investment that, based on an equity ownership of at least 10%, reflects a lasting interest by a resident in one economy (the direct investor) in an enterprise resident in another economy (the direct investment enterprise). A direct investment relationship can exist between a number of affiliated enterprises whether the linkage involves a single chain or a number of chains. It can extend to a direct investment enterprises' subsidiaries, sub-subsidiaries and associates. Once the direct investment relationship is established, all subsequent financial flows between the related entities are recorded as direct investment transactions.

In the years after the Second World War global FDI was dominated by the United States, as much of the world recovered from the destruction brought by the conflict. The US accounted for around three-quarters of new FDI (including reinvested profits) between 1945 and 1960. Since that time FDI has spread to become a truly global phenomenon, no longer the exclusive
The preserve of OECD (Organization for economic cooperation development) countries (commission of European community takes part in the work of OECD). FDI has grown in importance in the global economy with FDI stocks now constituting over 20 percent of global GDP. In the last few years, the emerging market countries such as China and India have become the most favored destinations for FDI and investor confidence in these countries has soared. As per the FDI Confidence Index compiled by A.T. Kearney for 2005, China and India hold the first and second position respectively, whereas United States has slipped to the third position.

**Types of FDI:**

1. **Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

2. **Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

3. **Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e. when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

4. **Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

5. **Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

6. **Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

**Importance and barriers to FDI in India:**

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Dr. Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.

Nine from 10 largest foreign companies investing in India (from April 2000- January 2011) are based in Mauritius. List of the ten largest foreign companies investing in India (from April 2000- January 2011) are as follows:

1. TMI Mauritius Ltd. - Rs 7294 crore/$1600 million
2. Cairn UK Holding - Rs6663 crore/$1492 million
3. Oracle Global (Mauritius) Ltd. - Rs 4805 crore/$1083 million
4. Mauritius Debt Management Ltd.- Rs 3800 crore/$956 million
5. Vodafone Mauritius Ltd. - Rs 3268 crore/$801 million
6. Etisalat Mauritius Ltd. - Rs 3228 crore
7. CMP Asia Ltd. - Rs 2638.25 crore/$653.74 million
8. Oracle Global Mauritius Ltd. - Rs 2578.88 crore / $563.94 million
9. Merrill Lynch(Mauritius) Ltd. - Rs 2230.02 crore / $483.55 million
10. Name of the company not given (but the Indian company which got the FDI is Dhabol Power company Ltd.)

In 2015 India emerged as top FDI destination surpassing China and the US. In first half of the 2015 India attracted FDI of $ 31 billion compared to $ 28 billion and $ 27 billion of China and the US respectively.

**Role of Government of India in FDI:**

The Government of India has amended FDI policy to increase FDI inflow. In 2014, the government increased foreign investment upper limit from 26% to 49% in insurance sector. It also launched Make in India initiative in September 2014 under which FDI policy for 25 sectors was liberalised further. As of April 2015, FDI inflow in India increased by 48% since the launch of "Make in India" initiative. India was ranking 15th in the world in 2013 in terms of FDI inflow; it rose up to 9th position in 2014, while in 2015 India became top destination for foreign direct investment.

**II. INDIAN RETAIL INDUSTRY**

Retailing in India is one of the pillars of its economy and accounts for about 22 percent of its GDP. The Indian retail market is estimated to be US$ 500 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.

As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment (FDI) in 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% ownership and a bureaucratic process.

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 Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. 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 goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In June 2012, IKEA announced it had applied for permission to invest $1.9 billion in India and set up 25 retail stores. An analyst from Fitch Group stated that the 30 percent requirement was likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision was welcomed by economists and the markets, but 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.

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 (the NDA and leftist parties). Some states will allow foreign supermarkets like Walmart, Tesco and Carrefour to open while other states will not.

Retail Reforms in India:

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.

The government of Manmohan Singh, prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in “multi-brand retailers”, as supermarkets are known in India, in the most radical pro-liberalisation 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;
- 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;
- 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;
- 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.

The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation’s ailing infrastructure.

A Wall Street Journal article claims that fresh investments in Indian organised retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.

III. RESEARCH AND METHODOLOGY

The information is collected through secondary sources during the research. That information was utilized for evaluation and based on that interpretations were made. The secondary data was collected from journals, books, newspapers and websites etc.

Objective of the Study:

The major objective of the study was to analyse the effect of FDI in Indian retail industry and to evaluate and analyze various facts of the foreign direct investment and retail in India.

IV. FDI POLICY IN INDIA

Limits for FDI in different Sectors:

A. 26% FDI is permitted in:

- Defence (In July 2013, there has been no change in FDI limit but higher investment may be considered in state of the art technology production by CCS)
- Newspaper and media
- Pension sector (allowed in October 2012 as per cabinet decision)
- Courier Services (through automatic route)
- Tea Plantation (upto 49% through automatic route; 49-100% through FIPB route)

B. 49% FDI is permitted in:

- Banking, Cable network, DTH, Infrastructure investment, Telecom, Insurance, Petroleum Refining (49% allowed under automatic route), Power Exchanges (49% allowed under automatic route), Stock Exchanges, Depositories allowed under automatic route up to 49% 49% (FDI & FII) in power exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations 2010 subject to an FDI limit of 26 per cent and an FII limit of 23 per cent of the paid-up
capital is now permissible. [Permitted in September 2012]

C. 51% is Permitted in
Multi-Brand Retail (Since September 2012), Petro-pipelines

D. 74% FDI is permitted in
Atomic minerals, Science Magazines / Journals, Petro marketing, Coal and Lignite mines Credit information companies (raised from 49% to 74% in July, 2013)

E. 100% FDI is permitted in
Single Brand Retail (100% FDI allowed in single brand retail; 49% through automatic route; 49-100% through FIPB), Advertisement, Airports, Cold-storage, BPO/Call centres, E-commerce, Energy (except atomic), export trading house, Films, Hotel, tourism, Metro train, Mines (gold, silver), Petroleum, exploration, Pharmaceuticals, Pollution control, Postal service, Roads, highways, ports, Township Wholesale trading, Telecom (raised from 74% to 100% in July, 2013 by GoI), Asset Reconstruction Companies (increased from 74% to 100 in July, 2013, Out of this up to 49% will be under automatic route)

FDI in Retail Sector:
a) Single Brand
Single brand means a foreign company would be allowed to sell goods sold internationally under a “single brand”, like Reebok, Nokia and Adidas. FDI in “Single brand” retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets. The Government of India has allowed 100 per cent in Single-Brand Retail Trading (SBRT).

b) Multi Brand
FDI in Multi Brand retail means a foreign store with a foreign investment who can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous "kirana" store. The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

V. FDI IN RETAIL AND ITS EFFECT ON VARIOUS STAKEHOLDERS

FDI is one of the major sources of investment for a country like India, which would assist in improving country’s growth rate, create employment opportunities, sharing of technical know-how, development of infrastructure and R&D in the host country. The FDI in retail sector will also help in,

- increasing foreign exchange reserves
- Reducing the balance of trade deficit
- Developing agricultural sector etc.

Effects of FDI in Retail Sector:

i. Loss of jobs: Retail sector offers huge growth potential and is the second largest employer in India. Any changes by bringing major foreign retailers will not only result in unemployment on the front end retail but also make the middlemen unemployed who have been working in this industry.

ii. Financial instability: Once the overseas investors are established in Indian retail sector, they may transfer funds and profits earned to their home country. This might lead to financial instability.

Effect on Traditional Mom and Pop Stores:

Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations. Because of this, such businesses are usually very low-margin, are owner-operated, and have mostly negligible real estate and labour costs. Such small shops develop strong networks with local neighbourhoods. The informal system of credit adds to their attractiveness. Moreover, low labour costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighbourhood shops and towards large-scale retailers may be a major challenge. The experience of large Indian retailers such as Big Bazaar shows that it is indeed possible. The oppositions, on the other hand, believe that local kirana shops will not be affected. The kirana stores operate in a different environment catering to a certain set of customers and they will continue to find new ways to retain them.

Effect on Farmers:

In all probability, with the onset of FDI in multi-brand retailing, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-storage infrastructure. Due to lack of adequate storage facilities farmers incur heavy losses, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization of FDI norms in retail sector, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully rectify structural flaws. Also, farmers can benefit with the “farm-to-fork” (from farm to table) ventures with retailers which helps in

- Cutting down intermediaries
- Giving better prices to farmers
- Providing stability and economies of scale which will benefit both the farmers and consumers.
Effect on Consumers:

In the LPG era consumers have got the choice of selecting products from available options and also the sellers. In India it is observed that, those who purchase at modern outlets have found products having better quality, lower prices, one-stop shopping, choice of more brands and products, better shopping experiences with family as some of the reasons for their choice of outlet. On the other hand, proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery, etc. are some of the benefits of traditional outlets that attracts consumers to such outlets. Consumers are the major beneficiaries of the retail boom as organized retailers are initiating measures such as tracking of consumer behaviour and consumer loyalty programmes to retain their market share (Mukherjee and Patel (2005)). Authors of ICRIER Policy series paper (August, 2011) and various other surveys have pointed out that most consumers are willing to experiment to different brands and so they are in favor of allowing FDI in retail. Apart from providing Indian consumers more choices in the form of reputed, good quality brands, liberalizing multi-brand retailing in India is likely to facilitate much greater inflows of investments. This, in turn, will lead to the development of more efficient and lower cost supply chains, resulting in better quality as well as lower-priced products for Indian consumers. This will increase consumer spending, which in turn, will drive growth in all sectors of the economy in a virtuous cycle.

Effect on Existing Indian Organized Retail Firms:

The existing Indian organized retail firms (such as Food-world Supermarkets Ltd, Nilgiri's, ShopRite etc.) support retail reforms and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management.

VI. CONCLUSION

A major argument given by opponents of FDI in retail is that there will be major job losses. In my view, the jury is out on whether this is the case or not, with different studies claiming different findings. Big retail chains are actually going to hire a lot of people. So, in the short run, there will be a spurt in jobs. Eventually, there is likely to be a redistribution of jobs with some drying up (like that of middlemen) and some new ones sprouting up. Fears of small shopkeepers getting displaced are vastly exaggerated. When domestic majors were allowed to invest in retail, both supermarket chains and neighborhood pop-and-mom stores coexisted. Its not going to be any different when FDI in retail is allowed. Who, after all, will give home delivery? The local kirana. Why would anyone shun them? If anything, the entry of retail big boys is likely to hot up competition, giving consumers a better deal, both in prices and choices. Mega retail chains need to keep price points low and attractive – that is the USP of their business. This is done by smart procurement and inventory management: Good practices from which Indian retail can also learn. The argument that farmers will suffer once global retail has developed a virtual monopoly is also weak. To begin with, its very unlikely that global retail will ever become monopolies. Stores like Wal-Mart or Tesco are by definition few, on the outskirts of cities (to keep real estate costs low), and cannot intrude into the territory of local kiranas. So, how will they gobble up the local guy? Secondly, it can’t be anyone’s case that farmers are getting a good deal right now. The fact is that farmers barely subsist while middlemen take the cream.

REFERENCES