



FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR – AN OVERVIEW

Dr.T.Gopi,* Dr.B.Venkanna**

*Research Scholar in Commerce & Business Management, KakatiyaUniversity.Warangal, Telangana.

**Research Scholar in Economics, Dept of Economics, KakatiyaUniversity.Warangal, Telangana.

Abstract

India's large 'young' population and high domestic consumption, the macro trends for the sector look favorable. The Indian retail sector is highly fragmented with more than ninety per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. During 2005-07 and 2007-10, the share of organized retail increased by 13.9 percent and 21.9 percent respectively. However thereafter organized retail is penetrating the market at a more rapid pace. During the period 2010-12 share of organized retail rose by 60 percent and is expected to increase by 2.6 times during 2012-15. Clothing/Apparel segment is the biggest contributor in organized retailing in India in both the years of study. In 2012 it alone accounted for 33 percent of organized retail followed by Food & Grocery and Mobile and telecom with each having 11 percent share in organized retail. Organized retail had highest penetration in Apparel both in 2007 and 2012. Food and Grocery segment is dominated by traditional retail but in 2012, organized retail penetration in this sector had more than doubled. In view of the recent policy changes, both the existing traditional retailers and modern organized domestic and foreign retailers would have opportunities and face challenges. On one hand, the policy exposes the domestic retailers to competition from foreign retailers; while on the other hand, it seeks to safeguard them through a slew of protective measures. The future prospects of Indian retail market are likely to have some macro-economic impact too. Prospective reduction in supply chain impediments may help in reducing supply side inflationary pressures. Future growth of India's retail sector is also expected to increase employment. The nuances of FDI in retail are still to be worked out. Present study covers FDI inflows in India and structure of FDI's in India.

Key words: Indian retail sector, Foreign Direct Investment, Employment.

Introduction

The word "retail" means the sale of goods or commodities in small quantities directly to consumers Retailing can be defined as a distribution channel function, where an organization, buying the products from supplying firms or manufacturing the products themselves, sells these directly to consumers. According to a definition the word "Retail" had originates from a French-Italian word. Retailer is a person who cuts off or sheds a small piece from something. Retailing is the set of activities that markets products or services to final consumers for their own personal or household use. Retailing is the interface between the producers an individual consumer for personal consumption. This excludes direct interface between the manufacture and institutional buyers such as the government and other bulk customer. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer with the manufacturing and distribution chain. The retail industry in India is of late often being hailed as one of the sunrise sectors in the economy, AT Kearney, the will – Known international management constancy , recently indentified India as the second most attractive retail destination globally form among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 14% to the national GDP and, employing 7% of the total workforce (only agriculture employees more) in the country, the retail industry is definitely one of the pillars of the Indian economy.

Objectives of the Study

The main purpose of the study is to investigate FDI on Retail sector in India scenario.

- 1) To understand FDI scenario in India.
- 2) To explain structure of FDI in India.
- 3) To exhibit the FDI Inflows and segment analysis.
- 4) To carry out conclusion.

Methodology of the study

This research is a descriptive study in nature. The present study is based on secondary data and information collected from a variety of sources. An attempt has been made in the present study to make a systematic analysis of changes in the size and structure of Indian retail market over last few years. And data collected from various journals, magazines, and websites particularly Government, Ministry of Commerce and Industry. Journals like related with FDI, books, related reports and other publications.

Review of literature

According to **Haritima Negi Rawat** Retail industry is the most growing sector in current scenario of Indian market. It will



provide more opportunities for retailers and investors in near future. The growth of the organized retail industry in the country will generate thousands of new jobs, which increases the income levels and living standards of people and make better products, and services, a better shopping experience, 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. On the other hand unorganized retailing refers 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. and more social activities. Indian retail sector has opening new doors for the foreign retailers. Indian Government also allowing foreign investors in retail sector which makes threat for Indian retailers.

According to **Sunita sikri and Dipti wadhwa** the Indian Retail sector having the fifth largest place in the world retailing sector. There are mainly two types of retail sector organized and unorganized. Indian retail industry is growing rapidly over the last few years. Though the retail market in India is mostly captured by unorganized retail sector, however with the change of taste and preferences of consumers, the organized Industry is getting more popular in these days and the share of this sector is growing.

Sanjay Manocha and Anoop Pandey states that the retail market is changing rapidly in India and a large scale investments made by foreign and domestic players in India. Market liberalization and changing consumer taste, preferences and behavior have shown the retail transformation. India is witnessing changing life styles, increased incomes, the demographic variability's and energetic democracy. Indian retailing is expanding the area and is expected to reach at US\$637 billion by 2015. Finally he concluded that Retailing provides a important link between producers and consumers in modern market economy. Retailing in India is most dynamic industry and provide a huge opportunity for domestic and international retailers.

According to **Pawan kumar** in the era of globalization economy has changes rapidly in which retail sector also changing from traditional or unorganized to organized retailing. Due to changing in the scenario of world's economy the retail sector attracts attention of scholars to make some efforts relating to study of opportunities and challenges. The changes in the retail sector make the contribution in the growth of GDP of the country. On the basis of above review literature many challenges and problem comes out. Retail sector is growing rapidly but in comparison of organized and unorganized retail sector the most of the market is captured by unorganized retailing. Organized retailing is growing but not according to expectation of the retailers.

The Indian Scenario

The Government initiative to allow 51 per cent foreign direct investment (FDI) in multi-brand retail Trade of retailing in the single largest component of the services sector in terms of contribution to GDP. Its massive share of 44% is double the figure of the next largest broad economic activity in the sector.

The retail industry is divided into organized and unorganized sectors. Organized retailing 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 hypermarkets and retail chains , and also the privately owned large retail businesses. Unorganized retailing , on the other hand, refers to the traditional formats of low-cost retailing, for example, the local Kirana shops, owner manned general stores, pan / beedi shops, convenience stores, hand cart and pavement vendors, etc.

Unorganized retailing is by far the prevalent form of trade in India constituting 98% of total trade, while organized trade accounts only for the remaining 2% Estimates vary widely about the true size of the retail business in India. At Keamey estimated it to be Rs 4, 00,000/- cores and poised in 2005 on the other hand. If one used the government 's figures the retails trade in 2002-03 amounted size of the corporate owned retail business was Rs 15,000/- cores in 1999 and poised to grow Rs 35,000/-crores by 2005 and keep growing it a rate of 40% per annum. In a recent presentation. FICCI has estimated the total retail business to be Rs 11, 00,000/-croress of 44% of GDP. According to this report Dated Nov, 2003, sales now account for 4% of the total GDP and food sales account per 63% of the total retail sales, increasing to Rs 100 billion from Just Rs 38.1billion in 1996. Food retail trade is very large segment of the total economic activity of our country and due to its vast employment potential: it deserves very special focused attention. Efficiency enhancements and increase in the food retail sales activity would have a cascading effect on employment and economic activity in the rural areas for the marginalized workers. Thus even without FDI driving it, the corporate owned sector is expending at a furious rate. The question then that arises is that since there is obviously no dearth of indigenous capital, what is the need for FDI? It is not that retailing in India is in the need of any technology special to foreign chains.



Inflows in Foreign direct investment in India

Table-01 shows the total FDI inflows during the time period 20011 to 2012. The FDI inflow shows a fluctuating trend in different months.

Table -01, Financial Year- Wise FDI Equity Inflows

(As per DIPP's FDI data base- equity components only)

1) including amount remitted through RBI's-NRI Schemes (2000-2002).

S. Nos	S. No.	Financial Year (April – March)	Amount of FDI Inflows		%age growth over previous year (in terms of US \$)
FINANCIAL YEARS 2000-01 to 2013-14 (up to January, 2014)			In Rs crores	In US\$ million	
1.		2000-01	10,733	2,463	-
2.		2001-02	18,654	4,065	(+) 65 %
3.		2002-03	12,871	2,705	(-) 33 %
4.		2003-04	10,064	2,188	(-) 19 %
5.		2004-05	14,653	3,219	(+) 47 %
6.		2005-06	24,584	5,540	(+) 72 %
7.		2006-07	56,390	12,492	(+) 125 %
8.		2007-08	98,642	24,575	(+) 97 %
9.		2008-09 ^{‘**’}	142,829	31,396	(+) 28 %
10.		2009-10 #	123,120	25,834	(-) 18 %
11.		2010-11 #	97,320	21,383	(-) 17 %
12.		2011-12 # ^	165,146	35,121	(+) 64 %
13.		2012-13 #	121,907	22,423	(-) 36 %
14.		2013-14 (Apr-Jan, 2014)	113,401	18,749	
		CUMULATIVE TOTAL (from April, 2000 to January, 2014)	1,010,314	212,153	-

(ii) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied,

On the basis of monthly average rate provided by RBI (DEPR), Mumbai.

Figures for the years 2009-10, 2010-11, 2011-12 & 2012-13 (from April, 2012 to September, 2012) are Provisional subject to reconciliation with RBI.

As shown in the Table -02, the share of organized retail is very high in US (85 percent). In Thailand also it is more than eighty percent. India is far behind so far as organized retail is concerned. In India the share of organized retail is currently eight percent.

Table: 02, Relative Share of Organized and Traditional retail in Selected Countries, 2009

S. No.	Country	Total Retail Sales (US\$ bn)	Share of Organized Retail	Share of Traditional Retail*
01.	USA	2983	85	15
02.	Japan	1182	66	34
03.	China	785	20	80
04.	United Kingdom	475	80	20
05.	France	436	80	20
06.	Germany	421	80	20
07.	India	322	4	96
08.	Brazil	284	36	64
09.	Russia	276	33	67
10.	Korea (South)	201	15	85
11.	Indonesia	150	30	70
12.	Poland	120	20	80



13.	Thailand	68	40	60
14.	Pakistan	67	1	99
15.	Argentina	53	40	60
16.	Philippines	51	35	65
17.	Malaysia	34	55	45
18.	Czech Republic	34	30	70
19.	Vietnam	26	22	78
20				

The Indian retail sector is highly fragmented. More than ninety per cent of its business is being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail in India is at a very nascent stage. However, in order to increase its share in total retail, attempts are being made so as to bring in a huge opportunity for prospective new players. India's retail sector is heading towards modernization. New formats such as departmental stores, supermarkets and speciality stores, Westernised malls are fast appearing in metros and tier-II cities [16]. Table 2 presents the figures for relative shares of organized and traditional retail in Indian retail market.

Table, 03, Indian Retail Market (Organized & Traditional) percentage share

Year	Organized	Traditional
2005	3.6	96.4
2007	4.1	95.9
2010	5.0	95.0
2012	8.0	92.0
2015E	21.0	79.0
2020E	24.0	76.0

Source:

1. Deloitte (2011), "Indian Retail Market: Embracing a new trajectory", September, [12] (For 2005 and 2015)
2. FICCI (2011), "Sector Profile", 2 December,[7] (For 2010 and 2020)
3. Deloitte (2013), "Indian Retail Market Opening more doors", January,[13] (For 2012)
4. ASA (2012), "A Brief Report on Retail Sector in India", August, ASA and Associates chartered accountants, [15] (For 2007)

The Table 2 reflects that during the periods 2005-07 and 2007-10, the increase in share of organized retail was not much. During these periods it increased by 13.9 percent and 21.9 percent respectively. However thereafter organized retail is penetrating the market at a more rapid pace. During the period 2010-12 share of organized retail rose by 60 percent, its share in total retail had just doubled and is expected to increase by 2.6 times during 2012-15. As mentioned in FICCI (2011), over the next 10 years India's retail market is expected to grow at 7% and by 2020 it is expected to reach a size of US\$ 850 billion. The expected growth in traditional retail is estimated to be at 5% while organized retail is expected to grow at 25%.The traditional and organized retail are expected to reach a size of US\$ 650 billion(76% of total) and US\$ 200 (24% of total)billion respectively by 2020[7].

Retail as a 'Forced Employment 'Sector

It is important to understand how retailing works in our economy, and what role it plays in the lives of its citizens. From a social as well as an economic perspective India still predominately house the traditional formats of retailing that is the local kirana shop, pan / beady shop, hardware stores, weekly hats convenience stores and bazaars, which together form the bulk. Most importantly Indian retail is highly fragmented, with about 11 million outlets operation in the country and only 4% of them being larger than 500 square feet in size. Compare this with the figures of just 0.9 million in the US, yet catering to more than 13 times of the India retail market size.

The India retail industry was high fragmented. According to the global constancy firms AC Nielsen and KSA Technopak , India has the highest shop density in the world . in 200 they estimated there were 11 outlets for every 1,00people. Further, a report prepared by McKinsey &Company and the Confederation of India Industry (CII) Predicted that global retail giants such as Tesco Kingfisher, Carrefour and A hold were waiting in the wings to enter the retail arena this report also states that the Indian Retail Market holds the potential of becoming a \$300 billion per year market by 2010 provided the sector is opened up significantly. It does not talk about creating additional jobs however, which should be the prime concern of the policy market.



One of the principal reasons behind the explosion and retail and its fragmented nature in the country is the fact that retailing is probably the primary form of disguised unemployment / underemployment in the county. Given the already overcrowded agriculture sector, and the stagnating manufacturing sector, and the hard nature and relatively low wages of jobs in both , many million Indians are virtually forced into the services sector, Here , given the lack of opportunities , it's almost a natural decision for an individual to set up a small shop or store depending on his or her mans and capital, and thus, a retailer is born, seemingly out lets in the more busy streets of Indian Villages and town is a visible testimony of this.

The presence of more than one retailer for every hundred persons in indicative of the lack of economic opportunities that is forcing people into this form of self employment even though much of it is marginal. Because of this fragmentation the Indian retail sector typically suffers from limited access to capital, labour and real estate options. The typical traditional retailer follows the low –cost – and –size format functioning at a small – scale level, rarely eligible for tax and following cheap model of operation.

As on January 1st of this year there were 413.88 lakhs job seekers registered the Employment Exchange. They register at the exchange, to enjoy in the benefits, and security that a job in the organized sector provides – life time employment, pension and union membership .etc.. But over the period 1992-93 to 2001-02, only a total of 30,000 jobs have been added in the organized sector in the whole country.A vast majority is aware of what these figures signify – that they are most unlikely to get such jobs. Therefore, they find jobs in the informal sector, mostly in retail. Retailing is by far the easiest business to enter , with low capital and infrastructure needs and as such performs a vital function in the economy as a provides its people with this cushion of being able to make a living for oneself through – self –employment , as opposed to an economy like China, where employment is regulated. Yet even this does not annul the fact that a multitude of these so called “self- employed “ retailers are simply trying to scrape together a living , in the face of limited opportunities of reemployment . In this light one could brand this sector as one of “forced employment “where the retailer is pushed into it purely because of the paucity of opportunities in other sectors.

The Question of Foreign Direct Investment (FDI) in Retail

Given this backdrop , the recent calmour about opening up the retail sector to Foreign Direct Investment (FDI) Becomes a very sensitive issue, with arguments to support both sides of the debate. It is widely acknowledged that FDI can have some positive results on the economy, triggering a series of reactions that in the along run can lead to greater efficiency and improvement of living standards apart from greater integration into the global economy Supporters of FDI in retail Trade talk of how ultimately the consumer is benefited by both price reduction and improved selection, brought about by the technology and know –how of foreign players in the market. This in turn can lead to greater output and domestic consumption.

But the most important factor against FDI driven “ modern retailing “ is that it is labour displacing to the extent that it can only expand by destroying the traditional retail sector , till such time we are in a position to create jobs on a large scale in manufacturing any policy that results in the elimination of jobs in the unorganized retail sector should be kept on hold .

Though most of the high decibel arguments in favor of FDI in the retail sector are not without some merit , it is not fully applicable to retailing sector in India , or at least not yet this is because the primary task of government in India is still to provide livelihoods and not crate so called efficiencies of scale by creating redundancies, As per present regulation ; no FDI is permitted in retail trade in India Allowing 49% or 26 % FDI (which have been the proposed figures till date will have immediate and dire consequences. Entry of foreign players. Now will most definitely disrupt the current balance of the economy, will render millions of small retailers jobless by closing the small slit of opportunity available to them.

Imagine if Wal-Mart, the world’s biggest retailer sets up operation in India at prime location in the 35 large cities” and towns that house more than million peopled. The supermarket will typically sell everything, from vegetables to the latest electronic gadgets, at extremely low Policies that will most likely undercut those in nearby local stores selling similar goods. Wal-Mart would be more likely to source its raw materials abroad, and procure goods, like vegetables and fruits directly from farmers at pre ordained quantities and specifications. This means a foreign company will buy big from India and abroad and be able to sell low-severely undercutting the small retailers, once a monopoly situation is created this will then turn into buying low and selling high.

Such reorientation of sourcing of materials will completely disintegrate the already established supply chain. The neighboring traditional outlets are also likely to fold and perish, given the ‘predatory’ pricing power that a foreign player is able to exert. As nick Robbins wrote in the context of the East India Company, “By controlling both ends of the chain, the company could



buy cheap and sell dear. The producers and traders at the lowest level of operations will never find place in this sector, which would now have demand mostly only for fluent English – speaking helpers. Having been uprooted from their traditional form of business, these persons are unlikely to be suitable for other areas of work either.

It is easy to visualize from the discussion above, how the entry of just one big retailer is capable of destroying whole local economy and send it hurtling down a spiral. One must also not forget how countries like China, Malaysia and Thailand who opened their retail sector to FDI in the recent past have been forced to enact new laws to check the prolific expansion of the new foreign malls and hypermarkets.

Given their economies of scale and huge resources, a big domestic retailer or any new foreign player will be able to provide their merchandise at cheaper rates than a smaller retailer. But, stopping an Indian retailer from growing bigger is something current public policy cannot do, whereas the state does have the prerogative in whether foreign any in the retail sector should be stalled or not.

It is true that it is the consumer's best interest to obtain his goods and services at the lowest possible price. But this is a privilege for the individual consumer and it cannot in any circumstance, override. The responsibility of nay society to provide security for its population. Clearly collective well being must take precedence over individual benefits.

Conclusions

1. 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.
2. The proposed national commission should evolve a clear set of conditionality 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 to floor space to parking space. Giant shopping centers must not add to our existing urban snarl.
3. 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.
4. In order to address the dislocation issue, it becomes imperative to develop and improve the manufacturing sector in India.
5. 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 tacitly take the setting up of warehousing units and cold chains, there by lowering the capital costs for the small retailers.
6. Set up an Agricultural perishable produce commission (APPC) , to ensure that procurement prices for perishable commodities are fair to farmers and that they are not distorted with relation to market prices.

References

1. Government of India (2012). Permitting FDI in multi-brand product retail trading. Press Information Bureau, Government of India. Retrieved April, 5 2013.
2. Mitra, Amit (2012). FDI in multi-brand retail can strengthen supply chain links. 18 November. Retrieved March 27, 2013
3. Joshi Sandeep (2010). FDI in multi-brand retail would impact the unorganized sector. The Hindu, August 22. Retrieved August 5, 2013.
4. Tondon Suneera (2013): Govt notifies changes in FDI norms for multi-brand retail, Live Mint and The Wall Street Journal, 23 August Retrieved November 7, 2013.
5. KPMG (2009). Indian Retail: Time to change lanes. Retrieved April 5, 2013.
6. Menon Bindu D. (2013). Multi-Brand Retail: Has India fallen off global players' radar The Hindu Business Line. Retrieved November 7, 2013.
7. The Hindu (2012). Organised retail out-competes Kirana. 21 September. Hyderabad. Retrieved April 9, 2013.
8. Review hints at FDI in retail , pp 1-15, times of India , 14 Dec 2004.
9. Figures quoted from Anil Sasi's article "Indian Retail Most Fragmentized " (Aug 18, 2004) the Hindu business line.

Web biography

www.Legalserviceindia.com , www.Manupatra.com , www.Scribd.com , www.cci.in , www.rbi.org.in.