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FDI in Retail Sector in India: Opportunities and Challenges

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ABSTRACT
The retail industry is one of the sunrise sectors with huge growth potential. It is getting popularity over the world with 1.2bilion people. It is the largest private industry in India and the second largest employer after the agriculture. Due to large population demands of all type of goods is increasing day by day. The US$500 billion Indian retail market is expected to grow at a CAGR of 12% to reach a value of US$ 900 billion by 2017.The relevant organized market, which is currently valued at US$ 35 billion is expected to grow at a CAGR of 21% to reach a size of US$ 90 billion by 2017. FDI plays a vital role in economic development e.g. increasing purchasing power of people, improvement in infrastructure, and brand proliferation with increasing awareness of consumers. In such an environment on 20 September 2012 the Government of India approved 51% FDI in multi-Brand retail and 100% in single brand retail sector through Government route with some riders. FDI in retail sector in India has both advantages as well as disadvantages, it depends only on the way of implementing it in our country. In this paper an effort has been made to highlight definition, division of retail industry along with the opportunities of FDI in retail sector and the major challenges that it faces.
***Keywords**: FDI, Indian retail sector, opportunities, and challenges*

I. INTRODUCTION

Industrialization of underdeveloped and developing countries requires an increase in savings and investment which is generally low due to poverty. Also, there is shortage of private entrepreneurs and usually there is low level of technology. These factors generally slow down the pace of economic development of country and foreign capital serves as a solution to this problem.

Foreign Capital means inflow of capital by a foreign government, Institution, private individuals, international organization in a country. It includes foreign aid, foreign investment, and commercial borrowings. Availability of foreign aid has reduced now and rate of interest on commercial borrowings is very high. So, to make up for the deficiency of domestic saving foreign capital is necessary. So, Government is encouraging foreign capital from foreign investment. Foreign investment is of two types: Foreign direct investment and foreign Portfolio investment.

Retailing is one of the main sectors of an Indian economy. In fact, it is the second largest industry accounting for about 14 to 15% of its GDP and around 8 % of the employment. Nearly 40 million people earn their livelihood from retailing business and majority of them are small traders, kirana shop owners etc.

RESEARCH OBJECTIVE

The aim if this research is to study the concept and need of FDI, division of retail industry, opportunities of FDI in retail sector and major issues in FDI.

RETAILING

Retailing is the final step of any business activity. It means the set of business activities for accomplishing the exchange of goods and services for the purpose of personal, family or household consumption. It may be performed in a store or by some form of non store selling.

Philip Kotler has defined retailing as all the activities involved in selling goods or services to the final consumer for personal, non-business use. Retailing occupies an important place in economy as major share of workforce is employed by it.

Retail industry is basically divided into two types:

- **Organized Retailing:** In this retail trading activities are registered under some act and are guided by the provisions of the act under which the business is registered. The main forms of organized retail are Hypermarkets, Supermarkets, departmental stores/Malls. It is a modern concept and is more customer oriented and makes use of modern technology.

- **Unorganized Retailing:** It was traditionally prevalent in India. It is a kind of retailing which doesn't follow legal provisions. The products here are unbranded and aren't comparable to international products Retailers in unorganized sector includes cobbler, fruit vendor, local cloth merchant etc. Here employment potential is low.

FOREIGN DIRECT INVESTMENT

According to IMF manual on "Balance of Payment" FDI is an investment involving long term relationship and reflecting a lasting interest and control of a residual entity in one economy in an enterprise resident in an economy other than that of direct investment.

Foreign companies make investment to establish wholly owned companies in other countries and to manage such companies. It is an investment in business enterprise of a country other than own country to acquire controlling interest.

FDI is divided into three categories:

- **Horizontal**: When the investors invest in same type of business in other country as it does in home countries
- **Vertical:** If an investor invests in that business in foreign country which is related to its main business in home country
- **Conglomerate:** It is that type where individual/company makes foreign investment that is totally unrelated to its existing business of home country.

FDI RETAIL IN INDIA

Retailing is the largest private industry in India and the second largest employer after the agriculture. With the changing concept of marketing the objective of retailing is also changing from "PROFIT MOTIVE" to "CUSTOMER RETENTION". It is growing at a very fast pace and trends in the retail industry are also changing as the organized sector is flourishing, customer credit facilities is easily available, brand consciousness is increasing. FDI can be a powerful catalyst to stimulate competition in the retail industry which is low at present. Allowing foreign investment in retailing is likely to ensure sufficient flow of capital into the country which will promote welfare of society.

During the last few years, India's attitude towards FDI has changed drastically. Earlier the Government's attitude towards FDI was of fear and it was allowed only where capital was scarce. In 1991 keeping in view the changing scenario and recognizing the importance of foreign investment policy was liberalized. Therefore, amount of FDI in retail increased sharply. There can be two types of FDI in retail sector.

- **Single Brand:** In this foreign company is allowed to sell goods internationally under a single brand e.g. Nike company opens outlets at various places and sells only Nike Products, watches-shirts etc. For this type of retailing id FDI is to exceed 49% application is made to SIA in DIPP which specifically indicates the product to be sold under that brand. Fresh approval is required if addition is to be done.
- **Multi Brand:** In this type of retailing, foreign companies can sell multiple goods under one roof. These offer a wide range of items to consumers e.g Big Bazaars sells T-shirts of multiple brands like adidas, reebok, peter England. It is somewhat like local Kirana stores in unorganized Markets.

Government of India opened retail sector to FDI through a series of steps:

In 1995, the World Trade Organization's (WTO) General Agreement on trade in service (GATS) which included both Wholesale and Retail trade in services came into effect. In 1997, FDI in Cash and Carry (Wholesale) was allowed upto 100% under the Government approval route. In 2006, FDI in single brand retail was permitted to the extent of 51% and FDI in Cash and Carry was brought under Automatic route. In 2012, Government of India approved 51% FDI in multi-Brand retail and 100% in single brand retail sector through Government route with some riders.

TRENDS OF FDI IN INDIA

Sector Specific Inflows in FDI Retail	
Year	**FDI inflows in US**
2006-07	47
2007-08	200
2008-09	294
2009-10	536
2010-11	391

2011-12	567
2012-13	551
2013-14	1139
% Increase	**23.23**
CAGR	**309.4**

Table Data Source: RBI Website

OPPORTUNITIES AND THREATS OF FDI IN INDIA

According to EX- industrial minister, Murasoli Maran, Foreign investment is not considered only as a stock of capital but as something that provides modern technology, managerial expertise, employment opportunities and a new market for products produced in India. Moreover, it is essential as we have a gap between savings and investments which can be filled by FDI.

Following are the main opportunities for allowing FDI in retail sector:

- **Latest Technology**: For development of economy latest technology is required and Indian technology is old. Foreign retail Companies that operate internationally are high Tech and they help in the development of technology in host countries which ultimately helps in reduction of costs.
- **Creation of Job opportunities**: India is still suffering from unemployment. FDI in retail will increase employment opportunities and will help in eradication of poverty and improvement in standard of living of masses.
- **Better Products for customers**: Those in favour of FDI argue that due to the entry of MNC's in retail the competition will increase due to which better products will be offered to customers. Furthermore, modern technology and economies of scale will help in reduction of prices.
- **Inflow of capital:** FDI will provide an opportunity to domestic retailers to fill the gap between capital required and raised. Investment from MNC's will improve the rate of economic growth, which is slow due to lack of capital.
- **Promotes healthy competition:** Due to FDI there will be many retailers selling the products which will boost competition in the market and break the domestic monopoly. As a result, customers will benefit because they will have so many brands of product to choose from and that too at competitive prices.
- **Improvement in supply Chain systems:** FDI in retail sector will improve distribution efficiency, coupled with capacity building and modern technology. It will help to minimize the wastage which is at present around 40% because these foreign retail houses have better techniques to cut wastages.

CHALLENGES

Critics of FDI are of the opinion that it will adversely affect the unorganized retailers and farmers. It will also lead to imbalanced development. Major challenges of FDI in India are

- **Negative effect on development of Indian technology:** When MNC's enter the host country they bring with them the latest technology. Indian firms depend on these MNC's for technical know-how. As a result, they can't develop their own technology.
- **Repatriation of profits:** These MNC's invest capital in retail sector of underdeveloped countries with the aim of earning profits but they take large amount of foreign exchange back to headquarters in the form of profits and dividends which leads to outflow of funds from host country.
- **Harmful effect on Indigenous Producers**: Due to their latest technology and economies of scale, their cost is low. Domestic producers are unable to compete with them which affects them badly.
- **Unemployment:** These Foreign companies entering in retail lay emphasis on Capital Intensive technology, but our country needs Labour intensive technology due to the prevailing problem of unemployment. Mainly Middlemen who have been working in retail sector will be thrown out of their jobs.
- **Bad effect on culture**: FDI in retail will contribute to the increase in tourism, hospitality, and few other industries. As a result, culture of people in India will change gradually. We have a large proportion of the young population who will easily acquire certain negative aspects of foreign culture and lifestyle, contrary to our culture.

II. CONCLUSION

Retail sector is an important pillar of Indian economy and is growing at a fast pace and the changes taking place in this sector are making it attractive for foreign investment. Being a member of WTO, India had to open retail sector to FDI. In such an environment on 20 September 2012 the Government of India approved 51% FDI in multi-Brand retail and 100% in single brand retail sector through Government route with some riders.

Allowing healthy FDI in retail sector wouldn't only lead to substantial surge in the country's GDP and overall economic development Opening retail sector to FDI would be beneficial in terms of price, employment generation, capital infusion. Opponents of FDI in retail argue that it will bring major job losses but frankly it will cause only re-distribution of jobs with drying up (like middlemen) and new ones sprouting up. So, FDI in retail sector in India has both pros and cons ,it depends only on the way of implementing in our country .Thus the priority steps would be according to Industrial environment of retail sector of India.FDI may be promoted but must be kept under control to ensure that big retailers do not dislocate small retailers by unfair means.

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