FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR

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INTRODUCTION

The rapid growth of developing Asia has attracted foreign direct investment (FDI) flows in recent decades. Part of the reason for this is that developing countries, particularly in Asia, have removed restrictions and implemented policies to attract FDI inflows to benefit from the investments and potential spill over effects. Governments throughoutthe region have been striving to find an appropriate policy mix for FDI that will maximize the net benefits for their economies. Consequently there is considerable variation in policies and experiences with FDI across countries, reflecting differing economic, social, and political conditions. Foreign Direct investment has the potential to generate employment, raise productivity, transfer skills and technology, enhance exports and contribute to the long term economic development of the developing countries.

RETAIL TRADE IN INDIA

The Indian retail industry continues to be highly fragmented. This is because of the fact that retailing is probably the primary form of disguised unemployment/ under employment in the country. The Indian retail industry is considered as one of the sun- rise sector in the economy. Retailing is a largest private sector in India and can generate huge employment opportunities and also can lead to job oriented economic growth. In most economies `service sector' forms the largest sector for creating employment. For example in US over 16% of its workforce is engaged in retail sector. The Indian retail sector employees about 21 million people i.e. nearly 7-8 % of the total workforce which is second to agriculture employment. According to AravindSinghal, "A modern retail service sector has the potential of creating over 2 billion new jobs within the next 6 years in the country (assuming 8-10% share of organised retailing)." Today India has the highest retail outlet density with approximately 15 million retail outlets (as per Global Consultancy Firm AC Nielsen and Techno Park). According to one of the well-known international management Consultancy, AT Kearney, "India is the fifth largest attractive retail destination globally from among thirty emerging markets." The entire retail trade contributes about 10-11% to India's GDP and is valued at an estimated Rs. 9, 30,000crores. Out of this, organised retailing industry is around Rs. 35,000 crores. Organised retailing is primarily urban centric, its share as represented in urban scenario is projected to be 12 to 20%. Growing at more than 30%, the organized sector is driving the retail growth in India and contributes significantly to the growth of the economy. This economic growth comes primarily from increased consumer spending. In

India, retail trade is the single largest component of 'service sector' in terms of its contribution to GDP.

ORGANISED RETAILING

Retailing can be divided into two segments: organized and unorganized retailing sectors. Under organized segment of retailing, trading activities are undertaken by licensed retailers. These retailers are registered and hence pay taxes regularly. These include departmental stores, malls, corporate backed hypermarkets, specialty stores as well as discounters. This sector is still in the infant stage because its share in total retailing in India is as low as around 2% compared to other developing economies (where it is 20-25%). Its share in USA is 80%, 20% in china, 40% in Thailand, 50% in Malaysia (Table 1). This abysmally low share in the total retailing indicates that there is an opportunity for new and existing retailers to untapped its huge market.

Table 1: Organised retail trade in different countries

Countries	Retail trade (%)
USA	80
Malaysia	50
Thailand	40
Philippines	35
Indonesia	25
South Korea	15
China	20
India	2

Source: CRISIL.

As far as employment is concerned, this sector employs around 5 lakh (around 8%) people which is very low when compared with employment in unorganized retail sector i.e. nearly 3.95 crores (Table 2). And it is because of having strong linkages with sectors like tourism and hospitability industry, retail has the potential of creating jobs in these sectors. Though the planning Commission has identified retail as a prospective employment generator. In order to strengthen the multiplier effect of the growth in organized retailing upon the overall employment situation, a pro- active government support mechanism need to be evolved for making this sector grow smoothly.

Table 2: Share of employment in total retailing in different countries

Country	Employment (%)
USA	16
Brazil	15
Poland	12
India	8
China	7

SOURCE: *Presentation to FICCI by Alan Rosling (Chairman, Jordine Matheson Group): International Experience in Policy Issues*

UNORGANIZED RETAILING

Unorganized retailing refers to the low cost retailing. For example, the small Kirana shops, general stores, pan/beady shops, handcarts, pavement vendors etc. This type of retailing is by far most prevalent form of retailing/trade in India and constitutes 98% of total trade while organized trade accounts only for remaining 2%. In china it is 80%, South Korea 85%, Philippines 65% and USA it is only 20 %(Table 3).

Table 3: Unorganized retail trade in different countries

Country	Share %
USA	20
Malaysia	50
Thailand	60
Philippines	65
Indonesia	75
South Korea	85
China	80
India	98

Source: Presentation to FICCI by M.B.N.Rao, Chairman. Indian Bank.

It is evident that India has a big share of unorganized retailing in total retail sector and this is because of overcrowded agriculture sector and the stagnating manufacture sector, many millions of Indians resort to service sector. And for an individual it is a natural choice to set up a small store or retail outlet or kirana shops in the busy streets in villages and towns because retailing (unorganized) is by far the easiest business to enter with low capital and infrastructure needs. These retailers/small shops function at low-cost and size-format, function at small-scale level and are rarely come under tax net.

About 11 million outlets are operating in the country and only 4% of them being larger than 500 square feet in size while in US it is 0.9 million, yet catering to more than 13 times of the Indian retail market size. These figure speak well of the high fragmented nature of Indian retail sector.

FDI IN RETAIL SECTOR

The question is, will FDI in retailing lead to a major blow to the farmers and kill off a large number of small mom and pop shops? The government producers and small retailers also hold contrasting views on the issue. Before evaluating these questions/apprehensions, it should be recognised that even the left is not totally against FDI in retail. It is in favour of selectively allowing FDI in food, dairy and grocery segments of retail trade.

The advent of big retail giants like Sam Walton's Wal-mart, Carrefour, Charles Lazarus' Toys 'R' US and other are perceived to pose a risk. The most important argument against FDI in retail is that it will displace labour to the extent that it can only expand by destroying/closing small traditional retail stores from Kashmir to kanyakumari. But we must not forget the fact that FDI can have some positive effect on the economy. In the long run it can lead to greater efficiency and improvement of living besides integrating our economy with the global economy.

It is also argued that FDI i retail trade will ultimately benefit consumers by both price reductions and improved product selection brought about by the technology and know-how of foreign players in the market. Therefore, before evaluating both arguments let us first know what is the present FDI regime and entry routes in retail.

Positive implications of Foreign direct investment

Supporters of the foreign direct investment in Indian Retail Sector believe that both consumers as well as the producers will widely benefit. Consumers will benefit from the increased range of products, which the foreign retailers would offer. There will also be an improvement in the quality of services offered which includes consistency, standardization, branding (including private labels), pricing, per-sale activities and after sale support. Similarly the producers will also be immensely benefited, as they will get a chance to present their products to foreign retailers who may source these products to various international markets. Nandan Nilekani, CEO, Infosys, believes that FDI in retail sector will augment India's productive capacity. According to him the US $ 50 billion in exports, combined with another US $ 10 billion of organized retail domestic will create the need for thousand of factories, to make jeans, curtains, fans, cans, bottle caps. All this will result in creation of millions of jobs in the factories, agricultural fields and transportation sector. The arrival of global players will enhance the technology and it will result in the overall development of the supply chain management, which will result in the reduction of waste and intermediation costs. All this will lead to lower price for the consumers. The advocates of FDI in retail sector are of the opinion that the opening up of the retail trade will bring about a huge increase in the overall exports of India. Multinational giants like Wal-Mart, Tesco, and Metro will buy goods from India and sell in different countries. All this will result in the advent of latest quality control techniques, which will upgrade the quality of Indian exports-something that is badly needed. G. Shankar, MD of Lifestyle believes that FDI in retail sector is a market friendly move. The consumers in India deserve the best things, which the world has to offer Fred Gale, Senior Economist, Economic Research service, U.S; Department of agriculture is of the opinion that India should learn from china where FDI has contributed to a dramatic transformation of the retail environment. It has resulted in cleaner and more pleasant shopping environment, better service, lower prices and availability of a much wider variety of products. Harsh Bahadar, M.D. of Metro Carry, (noted retail outlet) believes that there is tremendous potential for FDI in retail sector in India especially in the agriculture sector because opening up of the retail sector will provide a link to the Indian farmers with the global supply giant and that's where the bigger gains lie.

Thus, the logic of the going big in to retailing is based on the premise that it gives the retailers the clout to bargain aggressively with the suppliers, which help in price reduction. Big retailing giants successfully erased the traditional manufacturer distributor-retailer chain by scaling up retail operations significantly on the one hand, while deploying information technology to gather detailed information on consumer behaviour.

Negative implications of foreign direct investment

If there are a large number of strong advocates of FDI in retail sector in one hand, there are many who vehemently oppose any such move. Communist party of India (Marxist) general secretary Prakash Karat while addressing a seminar on 'Inclusive growth through reforms' organized by ASSOCHAM opined that FDI in retail sector will jeopardize the livelihood of nearly four crore people. The retail trade has provided a means of livelihood for a large proportion of Indian population and there is fear that the small retailers and pavement sellers will be wiped out. Majority of these retailers are neither educated nor skilled and it will be very difficult for them to find an alternative employment. Many feel that the primary task of the government in India is still to provide livelihoods and not create so called efficiencies of scale by creating redundancies. The entry of foreign players will severely shake the balance of the economy, leaving millions of small retailers jobless. If we assume that there are 40 million adults in the retail sector and if we use a 1:4 dependency ratio the total dependents come around at 160 million people. Opening up of retail sector will result in displacing a huge proportion of people, which may cause severe social tensions. Similarly there is no guarantee that the multinational retail giants will source its supplies from India alone. They could be selling the goods from any country in the Indian market. Another area of grave concern is related to the high quality specification norms being followed by the multinational retail giants. It is not sure whether Indian farmers will be able to supply the products on international quality specification standards.

Conclusion

After an in-depth analysis of all the important aspect of foreign direct investment in retail sector in India, it can be concluded that opening up of this sector has to be gradual and utmost care has to be given in framing policies related to FDI in retail sector. Our policy makers should give maximum emphasis on the social security networks in order to diffuse the problem that may arise due to labour dislocation resulting because of FDI in retail sector. The government should formulate concrete plans and policies relating to the procurement of farm products and other domestically manufactured goods by the multinational companies. Our policy should be based on other countries experiences. India should adopt the 'cautions policy approach' of China which allowed FDI in retail sector in 1992 which was progressively increased to 26 percent in 1992, than to 49 percent in 2002 and finally to 100 percent in 2004.Initially China had permitted the foreign retailers to operate only in selected cities. Indian planners are well advised to follow the Chinese strategy. In Chennai the Kirana stores are competing very well with domestic retail giants like the Food World and Nilgiri's because the small retail shops using their competitive advantages like local influence, greater customer service, and tailor made inventory management along with providing credit facilities with the clients. This shows that if small retail shops do their business with judicious management techniques they can grow and prosper alongside retail giants. The government should introduce soft loans/low interest loans so that the small and medium retailers of the organized and unorganized sector can improve their efficiencies by utilizing these finances.

India is a signatory of the WTO agreement that it has opened its retail sector for the multinational firms. The government should evolve policies and plans in which the interests of the small retailers are safeguarded and at the same time the multinational retailers are also permitted to do business in India.

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