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REFORMS OF RETAIL SECTOR THROUGH FDI IN INDIA AND ITS ISSUES AND IMPACTS

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Introduction:

The Indian economy has witnessed dynamic changes after the economic reforms were introduced in the early 1990s followed by high growth numbers, rising incomes and greater participation from the private sector. This change in the economy can be traced to reform openness and foreign capital infusion. Studies conducted by the Government, World Bank and independent agencies state that pushing further FDI reforms will accelerate growth rates which will in the long run create employment opportunities and reduce poverty. The retail sector in India, which has witnessed a high year on year growth, has been conceived to be a sunrise sector where the government contemplates further FDI deepening.

On 24th November, 2011 the new proposal of FDI in retail sector initiated by the UPA Government created a stormy atmosphere in Indian Economy. After debating the various issues for over a decade, the UPA Government finally decided to allow foreign retailers to own a 51% majority in multi super brand stores, paving the way for the companies like Wal-Mart, Carrefour, Metro and Tesco to open super markets in India and to allow 100% foreign ownership of single brand retail outlet such as Nike or Reebok Stores. After this proposal and decision of UPA Government, the consumers, jobseekers, foreign retailers and farmers were quite enthusiastic about this proposal. However, grocery merchants, small retailers of various items and opposition political parties strongly protested through organizing one day Bharat Band with a fear that new FDI policy would wipe out the grocery merchants from retail market.

The proponents in favour of FDI in retail in India suggest that the influx of foreign cash and expertise will help India develop vital infrastructure for ‘firm to fork’. Indian modern retail sector has moved to the launch pad, ready for take-off into stratosphere. FDI in multi-brand retail will give a boost to the organized retail sector, which positively impact several stakeholders including farmers, consumers, jobseekers and hence, the UPA government should look into all pros and cons. So instead of politicizing, the issue is to be Indianite very carefully. One stroke may impact two sides of a coin-country and countrymen be revived or be deprived.

Objectives:

The present paper seeks to highlight the concept, reforms of retail sector in India through FDI and its issues and impact on retail sector of India.

Methodology & Scope:

Based on secondary data the present paper is at best only indicative of concept, reforms of retail sector in India through FDI and its issues and impact on retail sector of India.

Concepts:

a) Retail: The High Court of Delhi defined the term retail as a sale for final consumption in contrast to a sale for further sale or processing.

b) Retailing: is defined as any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution.

c) Retailer: A retailer may be a person or an organization who occupies an end position in the supply chain system, selling the goods to ultimate users.

d) 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.

e) Unorganized retailing: refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors etc.

f) FDI: refers to the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor.

g) FDI in single brand retail: implies that a retail store with foreign investment can only sell one brand, viz., Reebok, Nokia and Adidas.

h) FDI in multi-brand retail: implies that a retail store with a foreign investment can sell multiple brands under one roof, viz., Wal-Mart, Carrefour and Tesco.

i) Brand: Brand could be classified as products and multiple products or could be manufacturer brands and own-label brands.

FDI and Global Scenario:

The United States is the world's largest recipient of FDI. More than $228 billion in FDI flowed into the United States in 2010, with the European countries contributing 75% of the total. The $ 2.1 trillion stock of FDI in the United States at the end of 2008 is the equivalent of approximately 16% of U.S. gross domestic product.

FDI in China has increased considerably in the last decade reaching $185 billion in 2010. China is the second largest recipient of FDI globally. FDI in retail was permitted in China for the first time in 1992 and foreign ownership was restricted to 49%. Since December, 2004, after China's accession to WTO, there are equity restrictions.

Thailand is frequently referred as a country in which FDI had an adverse effect on the local retailer. It permits 100% foreign equity, with no limits on the number of outlets. According to the report of Indian Council of Research in International Economic Relations, the opening up of FDI in retail to foreign players had both positive and negative effects. Entry of foreign players in a recessionary economy affected wholesalers, manufacturers and domestic retailers and many local players had to shut down in the short run. But it led to the development of organized retailing and Thailand has now become an important shopping destination.

Indonesia permits 100% foreign equity to in retail business, with no limit on the number of outlets. According to Columbia University Study, 10 years after Indonesia opened FDI in multi-brand retails segment; small traders continue to retain 90% of the business.

Countries like China, Vietnam and Chile initially FDI in retail. However, since it opened 100% FDI to multi-brand retailing, they are enjoying the investments, job creation, introduction of technology and infrastructure. As per Chinese analysts, entry of Wal-Mart and Carrefour has changed the way Chinese companies manage the Business. Local Chinese retailers quickly learnt from 1.9 million to 2.5 million since 2004. US market researcher RNCOS has projected that Vietnam's retail market sales will increase from $39 billion in 2008 to $85 billion by 2012.

Similarly Argentina, Brazil, Malaysia, Russia and Singapore have allowed 100% FDI in multi-brand retail since 1990, and small retailers from these countries have not been wiped out due to the arrival of big foreign players.

FDI and Indian Scenario:

Retail is considered as the biggest sector of the Indian economy, which contributes 10% of India's GDP and around 8% of the employment. With 5% Compounded Annual Growth Rate, it has been reported as one of the fastest growing retail destination globally.

The beginning of previous decade observed 97% unorganized retailers dominating the $300 billion Indian retail sector, leaving only 3% area for the organized sector. Second half of the previous decade, however, observed the retail revolution. All traditional formats gradually changed into more complex and bigger formats. Supermarkets and hyper markets, category killers and mega malls came up in almost all big and small cities. Many national and global retail players entered the retail fray or expressed their intentions of expansions in those days. Bugles and trumpets were blown by the Indian players to indicate that the great Indian retail war has begun. Government allowed 51% FDI in single brand retail, prohibiting the multi-brand segment to foreign players. In those days, German retailer Metro, world's biggest retailer Wal-Mart and French retailer Carrefour expressed their presence through wholesale cash and carry format. All these foreign players were eager to enter the fray by opening multi-brand retail stores, as soon as Indian Government's policy over the FDI was changed suitably.

The boom in the sphere of organized retail sector created anxiety among the small shopkeepers in India. They were initially shocked, worried and scared with the aggressive entry of big retailers. In February, 2006, kirana merchants from New Delhi organized protest rallies to express opposition towards probable entry of Wal-Mart in India. In this year, in Maharashtra an organization was formed of all small shopkeepers and kirana merchants to display a definite oppose to Indian as well as foreign big retailers from organized sector. In those days, agitations were also organized in West Bengal and Kerala against Reliance and other big players from organized sector.

By the end of 2011, much water was flown under the bridge. The mushrooming growth of organized retailers, as it was feared, had not been able to wipe out the mom-n-pop stores from the Indian landscape. On the other hand, Subhiksha, a big player had been vanished from retail arena keeping behind a legacy of bitter lessons. Vishal and India Bulls were the two other big names in the list of casualties. Reliance and Aditya Birla Group were in danger zone and reportedly closed more than 250 stores.

On June 07, 2010, a press release was given by the ASSOCHAM Social Development Foundation, the Industry Body of Associated Chambers of Commerce, which expressed that kirana stores and local retailers remain the most preferred destinations as compared to sprawling big retail stores and mega malls for majority of the shoppers across the country. The opinion was expressed on the basis of a countrywide survey conducted by the organization across the fifteen cities $84 billion by 2016.

FDI in retail had been a debatable issue for more than a decade in our country. In 2002, Mr. Murasoli Maran, the then Commerce and Industry Minister, tried to acquire the permission from the Government to recommend a proposal to allow 100% FDI in retail trade. It did not make any distinction between single brand and multi-brand retail. However, it could not come into existence due to the very opposition of cabinet colleagues of Mr. Maran.

Upto November 24, 2011, India allowed 51% FDI in single brand retail and 100% in cash and carry segment, but none in multi-brand retail. German retail company Metro which established its presence in India in 2003, currently operates six wholesale cash and carry stores in Hyderbad, Bangalore, Mumbai and Kolkata. World's biggest retailer Wal-Mart, having joint venture with Bharati Enterprises operates four wholesale cash and carry stores at Amritsar, Zirakpur, Jalandhar and Kota. Wal-Mart is expected to open 15 more such stores in the next three years. In December, 2010, French retail giant Carrefour opened its first wholesale cash and carry store in New Delhi. All these big players along with British retail company Tesco are eager to enter Indian multi-brand retail segment, as soon as Indian government's policy over FDI is suitably changed.

Impacts of FDI on Retail Sector in India:

I) Positive impacts of FDI:

1) Farmers: The biggest beneficiary of FDI in retail would be farmers who will be able to improve their productivity. The farmers will not only be able to increase their output but will also get better rewards in terms of supplying to organized retailers by tying up long term contracts with them. The foreign retailers will purchase raw materials from the farmers and various other goods from the original producer directly. The farmers across India's 600000 villages stand to gain with higher profits and better market access. The farmers would be getting good prices for their harvest. The original producers will get a higher price since the profit will flow to them directly, leaving behind the middle men. This can happen as the giant retailers have capital and high buying power. Direct purchase from farms will hugely benefit small farmers who are not getting good returns by selling in the local mandi. The payments will be directly credited into bank accounts and will be free from commission agents. The large retailers will also save 10-15% in commissions by purchasing fruits and vegetables directly.

2) Joint business opportunity: Indian retailers have reason to be happy with foreign direct investment in the retail sector because it is a partnership opportunity that involves a lot of learning that could take them to higher profitability. The central government is planning to have 51% foreign investment; this means the foreign retailers need partners for the rest investment to gain market.

3) Consumers: India is now the home of the largest number of moneyed consumers. Indian consumers will get access to quality goods at a low cost, that too at home. The stage is now set when Indian consumers will have the luxury of world class opportunity of shopping to meet the requirements of daily life. They will find a new world of enjoyment of picking up consumer items to their greatest satisfaction. Big retailers will often allow discounts on selected items which will facilitate the consumers and they can end up with marginal bargains.

4) Jobs: There will be huge job opportunities in the country as there will be opening of malls and store houses. The entry of modern retailers will expand the market creating large amount of additional jobs in retail. The job opportunities will vary from ordinary workers to specialized officers. The employment opportunities will be in retail sales, retail floor manager, cold chains, warehousing and logistics. The new jobs will created in front end and back end leading to a positive impact on economy. The jobs will be for urban as well as rural youth. The jobs will cover educated males and females. The salaries will grow faster.

5) Tax system: Tax revenue will increase like VAT and service tax. The organized sales with computerized billing system will also yield more revenue through commodity taxes like VAT and service tax to the government. Thus tax buoyancy of the economy would increase.

6) Knowledge enhancement: FDI in retail will make way for inflow of knowledge from international experts. There will be drastic retail growth through the development of the retail capability.

7) Distribution system: The report shows that 30-35% of India's total production of fruits and vegetables is wasted every year due to inadequate cold storage and transport facilities. Almost half of this wastage can be prevented if fruit and vegetable retailers have access to specialized cold storage facilities and refrigerated trucks. The organized retail will bring in efficient practices that will help farmers in the procurement process, reduce wastage with finally efficient storage and will help India to have strong storage system with highly developed transportation.

8) Management educational institute boom: The growth of the organized retail in India will be a 'sunrise' for the management educational institute as their requirement will be increasing. The management colleges or universities role will be increasing for giving retail education to the youth to stay competitive in the liberalized environment.

9) Middle class: Middle class will be benefited as they are three-fourth of Indian population. The middle class will be benefited because they are newly emerged and swelling. There is arising aspiration for a stylish and luxurious life in this class. There has been shift from necessities to luxurious life. The emergence of large middle class in India and with rising disposable income, spends on branded products are likely to increase.

10) Inflation control: Inflation will be curbed.

II) Negative impacts of FDI:

There are many who believe that FDI will act as guardian for the economic development of the farmers and job seekers. It will not happen that big fish will eat small fishes. The negative impacts are that the new system will displace the traditional shops and petty retail shops in markets and mohallahs. India has two types of unorganized retailers: one the big unorganized retailers i.e. the shop of wealthy consumers and the other small unorganized retailers i.e. the shop of poor consumers. The latter will remain untouched while the former may be marginally affected. The real India which is hardworking bread earners, comprising of 80 crore people will surely not be benefitted. In terms of employment in retail sector around 38% in rural areas and around 47% in urban areas depend on retail trade for their livelihood, which will be effected. Around 14 crore people are directly or indirectly earning from the retail sector and if we associate their family members then this number would reach 40 crore. This may in turn render the people engaged there jobless and non business oriented. The medium and small retailers will surely be effected but not in a big way.

The world class retailers will import with huge quantities of consumer goods from their mother country and elsewhere that are available relatively cheaper to the detriment of the interest of the domestic producers. The proposal has drawbacks as it says that the big retailers have to purchase 30% from the small scale industries but they could be anywhere in the world. So the Indian industry will not be benefited. Some experts say that wherever these big retail stores have gone they have ruined the local retailers. Small retail is the thing of the past in developed countries especially in the US and Europe.

The small retailers are of the view that the central government should help them to become big instead to invite big foreign retailers in India. If these things continue, the country's retail sector would be lost.

Some experts say that there should be FDI in all large businesses like power, infra-structure, road and building leaving retail sector. There is a threat from China that has pumped goods into the state at less prices. It has forced closure of industries. China is the largest supplier to Wal-Mart. The foreign retailers will buy raw materials or other goods from China because Indian small scale goods would be costlier than the Chinese Companies. In India power is costly and not available, bank interest rates are higher, infra-structure and roads are not there. This would break the backbone of small scale industries in India. Some experts say that it was un-organized economy that has helped India to survive during the times of recessions which the US faced due to organized sector. The big retail does not create additional markets for themselves but they displace the existing ones.

According to the report in UK there were 56000 retail shops before the entry of Wal-Mart and after the entry of Wal-Mart they were reduced to 22000 retail shops. This means the entry of companies like Wal-Mart, has resulted in closure of shops in UK. According to the other report 27% jobs were loosen after the entry of Wal-Mart in Norway.

Conclusion:

The future of foreign retail players is also uncertain like that of Indian retail players. The government which acts better than the one which does not. Apprehensions were raised on many such occasions in the past on virtually every measures of liberalization of Indian economy but most of the apprehensions proved wrong while many others come true. It is better to act and watch than not to act at all.

The new proposal of FDI in retail is certainly a good decision of UPA government, which is consistent and logical with the economic reforms initiated way back in 1991. However, bad politics has prevailed over good economics. It is essential, however, to be remembered by the kirana merchants and opposition parties that arrival of foreign retailers in Indian economy is inevitable in this era of globalization. It is river of no return. By adopting modern marketing strategies and modifying their own business practices, kirana merchants should be ready to face the challenge of modern marketers.

At this point of time the economy has no choice but to accept that it does require foreign capital to drive up its growth rate and use its fruits to develop and lift millions out of dire poverty. In the long run, it will have to allow foreign investments to enter its shores and go ahead with its impending economic contribute. India has already switched on its growth engine; it is now only a matter of when and how it accelerates.

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