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IMPACT OF MAKE IN INDIA IN FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR

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ABSTRACT: Retailing is the largest private industry in India and second largest employer in the Indian economy. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India. India has witnessed a revolution in Retail Trade during the last two decades owing to rapid urbanization and changing consumption. This has led retailers to concentrate their energies and leverage their capacities to harness the potential. The entry of the leading corporate houses into retail created a surge into the growth of the industry. One of the most striking developments during the last two decades is the spectacular growth of Foreign Direct Investment (FDI) in the global economic landscape; foreign direct investment is integrating developing countries into the global economy, creating large economic benefits to both the global economy and to the developing countries themselves. FDI can be a powerful catalyst to spur competition in industries, characterized by low competition and poor productivity. Examples include the cases of consumer electronics in Brazil and India, food retail in Mexico, and auto in China, India, and Brazil. Since economic reforms initiated in 1991, Government of India has taken many programs to magnetize FDI inflows to improve the Indian economy.

KEYWORDS: Retail Trade, Foreign Direct Investment

INTRODUCTION

The traditional practice of selling goods to the consumer is unorganized retail like Kirana store, Mom and pop store. They have contact with local customer in relation seeming to be relatives. Usually they are mingled with their customer as neighbor. By the time and economy goes up, the consumer's purchasing power and preference is changing. Based on the taste & preference, now the unorganized sector is converting into organized sector that starts from the urbanized area. Compared to other industry, the retail industry is bigger booming potential industry. Each and every in need of product approach the retail shop. This is the point where the every consumer approaches for the product. Especially in India, the retail industries are mostly occupied by the unorganized industry as they are traditional player. The domestic organized players are very few in comparison of unorganized player. Compared with the international organized player, the domestic players who are in the lack of capital are not effective in healthy competition. So the industry is in need of capital infusion. For long time, the notification of FDI in retail in India was pending in the table of Ministry of Finance. As timely announcement, the ruling government proclaimed allowing 51% FDI in multi brand retail with some other opening in other sector. From this paper, what we analyze is what will be the impact of FDI in retail in India.

REVIEW OF LITERATURE

Rajalakshmi K. and Ramachandran F., (2011), “Impact of FDI in India’s automobile sector with reference to passenger car segment.” The author has studied the foreign investment flows through the automobile sector with special reference to passenger cars. The research methodology used for analysis includes the use of ARIMA, coefficient, linear and compound model. The period of study is from 1991to 2011. This paper is an empirical study of FDI flows after post liberalization period. The author has also examined the trend ad composition of FDI flow and the effect of FDI on economic growth. The author has also identified the problems faced by India in FDI growth of automobile sector through suggestions of policy implications.

Singh Kr. Arun and Agarwal P.K., (2012) "Foreign direct investment: The big bang in Indian retail". In this article they have studied the relation of foreign investment and Indian retail business. The study is based on different literatures, case studies and analysis of organized retail market. The author discusses the policy development for FDI in the two retail categories: single brand and multi brand. The author concludes that FDI in multi brand retail should be considered, better technology and employment. The paper also concludes that openness of FDI in India would help India to integrate into worldwide market.

Dr. S N Babar and Dr. B V Khandare, (2012), "Structure of FDI in India during globalization period". The study is mainly focused on changing structure and direction of India's FDI during globalization period. The study is done through analysis of benefits of FDI for economic growth. The study has been done through sect oral analysis of FDI participation, as well as through study of country wise flow of foreign inflow in India till 2010.

Devajit (2012) conducted the study to find out the impact of foreign direct investments on Indian economy and concluded that Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research anddevelopment.

Sharma Reetu and Khurana Nikita (2013) in their study on the sector-wise distribution of FDI inflow to know about which has concerned with the chief share, used a data from 1991-92 to 2011-2012 (post-liberalization period). This paper also discusses the various problems about the foreign direct investment and suggests the some recommendations for the same. In this study found that, Indian economy is mostly based on agriculture. So, there is a most important scope of agriculture services. Therefore, the foreign direct investment in this sector should be encouraged.

CHALLENGES OF FDI IN RETAIL

FDI in retail sector is not allowed, it is only allowed up to 51 % in single brand and government is still considering the opinion of allowing FDI in multi brand segment.100% FDI is allowed in cash and carry wholesale and export trading, both wall mart and Carrefour have already entered in India in this segment. Many big giants like Wall mart, Carrefour are waiting to earn their fortune in continuously growing market. FDI in retail sector will have both positive and negative effect if allowed. Both organized and unorganized sector will face adverse competition from global players. Wal-Mart has a turnover of $256 billion and growing at an average of 12 -13 % annually. Average size of its stores is 85000sq ft and average turnover is $51 million. Organized sector retail outlets in India like pantaloons, reliance cannot compare with the giant let alone the small retailers. Indian government still fears that if FDI is allowed in retail then unorganized sector will be affected very badly and it will result in a large lot of unemployed retailers and other youth which is employed in the supp ly chain, this unemployed lot can't be absorbed in manufacturing or service sector which can ultimately push a large chunk of population below poverty line. In India unorganized retail is a „forced employment sector', there are large number of retail outlets because when youth dose not find enough employment opportunities or is not educated enough then the easiest resort to earn decent money is to save money or get a loan to set up a shop. On an average a retailer earns Rs.186075 annually and only 4% of 12 million retail outlets have area more than 500 square ft. Now if FDI is allowed in such an unorganized sector than many changes can happen which can be positive or negative.

Talking about the organized sector, which consists of big Indian players who have entered in retail sector just to take advantage of diversification and expand their business, they will also be affected but from different prospects. Major challenges that lie ahead are:

Attract skilled employees: The work culture of global players is quite different from those of Indian players. They believe in earning profits by cutting costs as much as possible and at the same time are conscious towards career of their employees. Their approach is more oriented towards achieving ends rather than means. Attractive salary and high incentives can also attract skilled employees towards global players which is also a threat for big Indian retail firms.

Economies of scale: The global players have economies of scale and are perfect in cost cutting and providing the consumer the best at lowest price which still is a major challenge for Indian retail firms. The way they perform their process itself builds an entry barrier for other new firms.

Technology: Global players are highly advanced in technology. The tools, equipments, kind of warehouses they use, their way of performing processes are highly advanced and cannot be compared with those used by Indian retail firms, which in turn provides better services and better quality products even in categories like perishable food etc.

IMPACT OF FDI IN RETAIL SECTOR:

Distribution: The distribution system is one of the factors determining the cost of the product. As they are invested in the infrastructure, they could follow JIT. Say Wal-Mart, they are not interested in expending in the stock maintenance.

Infrastructure: The players are imposed with the restriction of investing 50% of their investment on the Back end infrastructure. The ruling party in India where the economic development is suffered by lack of infrastructure is very cautious about to invest in such area. It would become base for economic in many ways, say transportation.

Farmers: The one of the current problem of Indian economic is fiscal deficit which is mostly caused by subsidy give to the farmers which is considered as unproductive. The one way to cut such subsidy is to make the farmers independent by making the system securing them to be paid good price for the commodity. The organized retailers that are capital giant are able to purchase directly from the farmers paying good price. So the government should be ensuring that the farmers are getting paid the price of what they are eligible to.

Employment: The more employment would be created in the country either directly or indirectly where youth pass out is increasing as much as creation of employment. It would be generated in the agriculture, manufacturing, service industry which consists of GDP. The more people get employed would rehabilitate the economic cycle.

Consumers: The ultimate beneficiary from the opening of FDI in multi brand retail is consumer. They are left to choose the retail that would give them goods at lesser price. The more middle income people living in India are preferred to have shopping more modern in lesser cost.

REASONS FOR PROMOTION OF FDI IN RETAIL

The Indian government had commissioned Indian Council for Research on International Economic Relations (ICRIER) to perform a study on the effect of organized retailing practices on its unorganized counterpart.

Domestic retail entities and traders are expected to pull up their socks and increase their efficiency ever since this decision. Consequently, the consumers are expected to receive better services and the producers who provide the source products also get better payment.

The government also put in an obligatory condition before foreign companies for procuring 30 percent supplies from local producers in order to provide a fillip to the manufacturing sector in India. Jobs are expected to be available in both rural and urban areas thanks to greater back and frontal operations resulting from more FDI.

CHALLENGES FOR FOREIGN FIRMS IN ORGANIZED RETAIL

The first challenge is competition from the unorganized sector. 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 labor costs. Moreover, they also pay little by way of taxes. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector. It is often said that the mom-and-pop store in India is more like a father-and-son enterprise. Such small shops develop strong networks with local neighborhoods. The informal system of credit adds to their attractiveness, with many houses 'running up a tab' with their neighborhood kirana store, paying it off every fortnight or month. Moreover, low labor 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 neighborhood 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. Anecdotal evidence of consumers who return from such shops suggests that the wholesale model provides for major bargains – something Indian consumers are always on the lookout for. The other major challenge for retailers in India, as opposed to the US, is the storage setup of households. For the large-scale retail model to work, consumers visit such large stores and return with supplies likely to last them for a few weeks. Having such easy access to neighborhood stores with whom, as discussed above, it is possible to have a line of credit and easy delivery service, congested urban living conditions imply that few Indian households might be equipped with adequate storage facilities.

Foreign direct Investment (FDI) as defined in Dictionary of Economics is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on the new site . In short FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. In 2014, India's central Government announced retail reforms for Multi Brand Stores and Single Brand Stores. In 2015 the GOI has recommended FDI in retail sector as-

1) 51% in Multi Brand Retail
2) 100% in Single Brand Retail

INFORMATIVE DATA RELATED TO FDI

FDI Share of Organized sector in selected countries		**Multi-Brand Retail FDI Policy in Other Countries**	
COUNTRY	**Share Of Organized Sector(%)**	**FDI LIMIT**	**COUNTRY**
U.S.A	85	100%	China
U.K	80	100%	Thailand
JAPAN	68	100%	Russia
RUSSIA	39	100%	Indonesia
INDIA	04	–	–

The Andhra Pradesh State Investment Promotion Board has given the approval to six major investment proposals that will have a total investment of Rs 6,500 crore (US$ 1.03 billion). The proposals include those by multinational companies such as PepsiCo, Cadbury, Colgate, Johnson & Johnson, Gerdau Steels and ITC. PepsiCo's unit will be the largest beverages plant in India with an investment of Rs 1,200 crore (US$ 191.06 million). Similarly, Cadbury is establishing its facility in Sri City with an investment of Rs 2,500 crore (US$ 398.07 million).

In an effort to improve capital flows into the country, the Indian government has allowed 100 per cent FDI under automatic route in storage and warehousing, which includes warehousing of agriculture products with refrigeration. The government has also set up National Centre for Cold Chain Development (NCCD) which will look at standards and protocols for cold chain infrastructure. Based on the recommendations of Foreign Investment Promotion Board (FIPB) made on December 30, 2013, the Indian government has agreed to five FDI proposals amounting to Rs 1133.41 crore (US$ 180.16 million) approximately. On

November 13, 2013, it had approved 12 proposals of FDI amounting to Rs 821.63 crore (US$ 130.73 million) approximately. The FIPB has also approved Swedish clothing major Hennes & Mauritz (H&M) AB's proposal to open 50 stores across India. The investment will be around Rs 720 crore (US$ 114.61 million).

EVALUATION OF FDI AND GDP IN INDIA DURING (1991-92 TO 2014-2015)

The following table depicts the picture of FDI inflow and its impact on GDP

GDP ratio in India (1991-92 to 2014-2015)	FDI Inflow (in rupees crore)	Growth rate of FDI inflow (%)	GDP	Growth rate of GDP (%)	FDI as a percentage of GDP
1991-92	409	-	1099072	-	0.037213
1992-93	1094	167.4817	1158025	5.363889	0.094471
1993-94	2018	84.46069	1223816	5.681311	0.164894
1994-95	4312	113.6769	1302076	6.394752	0.331163
1995-96	6916	60.38961	1396974	7.288207	0.49507
1996-97	9654	39.58936	1508378	7.974665	0.640025
1997-98	13548	40.33561	1573263	4.301641	0.86114
1998-99	12343	-8.8943	1678410	6.683371	0.735398
1999-00	10311	-16.4628	1786525	6.441513	0.577154
2000-01	12645	22.63602	1864301	4.35348	0.67827
2001-02	19361	53.1119	1972606	5.809416	0.981494
2002-03	14932	-22.8759	2048286	3.836549	0.729
2003-04	12117	-18.8521	2222758	8.517951	0.545134
2004-05	17138	41.43765	2388768	7.468649	0.717441
2005-06	24613	43.61652	3254216	36.22989	0.756342
2006-07	70630	186.9622	3566011	9.581263	1.980644
2007-08	98664	39.69135	3898958	9.336679	2.530522
2008-09	122919	24.58343	4162509	6.759524	2.953003
2009-10	123378	0.373417	4493743	7.957556	2.745551
2010-11	88502	0.253212	412421	7.023221	2.013221
2011-12	173947	0.382121	4512313	8.011234221	2.723421
2012-13	174521	0.389872	454233	8.232122	2.763421
2013-14	185421	0.390212	464212	8.892123	2.799827
2014-15	182349	0.415921	4721345	8.9832110	2.980987

The above table shows the FDI inflow and GDP in India from the year 1991-92 to 2014-2015(post-liberalization period). The table states that India had showed a large amount of FDI inflow. It showed that FDI inflow has been increased by more than 210 times during the study period because the FDI Inflow has been increased from Rs. 409 crore in 1991-92 to Rs. 182349 crore in 2014-2015.

ADVANTAGES OF FDI IN RETAIL

1. ICRIER had also predicted that if FDI in retail was introduced in India during 2011-12, the Indian economy could have grown by 13 percent, the unorganized sector could have seen a 10 per cent growth and the organized sector could have increased by 45 per cent.
2. India's retail industry is one of the biggest around the world when it comes to the privately owned ones. The industry has seen some major restructuring thanks to the FDI structure becoming more liberal than

before. The benefits of FDI in retail, as per experts, carry greater weightage than the cost related implications.

3. As a result of FDI, companies will be able to bring in technology and skills from other countries and this will help in infrastructural development of India. This will also help in creating more value for money for the buyers.
4. After FDI in retail, it is possible to set up a properly organized chain of retail stores as the capital to do is readily available. The investment can be regarded as a long term one as the physical capital put into a domestic company is not liquidated easily. This is its main difference from equity capital.

DISADVANTAGES OF FDI IN RETAIL

1. As per the Committee's report almost 8 percent of India's workforce is employed in the unorganized retail sector. This comes up to roughly 40 million people. It has been stated that FDI in retail will generate 2 million jobs. However, the Committee had stated that it is not a proper indication as it does not take in to account the number of people who already work in the retail sector.
2. As per ICRIER, consumerism is positive for economic growth. In 2008 the first survey had dealt with 2020 small and unorganized retailers whereas the total count of such entities in India at that time was 6 million.
3. Leading economic experts from outside India have also posed the same question. They have also pointed at the labour practices of organizations such as Wal-Mart. Most of these are not exactly healthy for workers. This has also led them to ask if such processes were really required in India.
4. The Committee had surmised in its report that the number of people getting jobs will be lesser than the amount of people losing the same as a substantial amount of marginal and small farmers will be wiped out. Some other problems expected out of this were aggressive pricing and prevalence of monopoly.

CONCLUSION

India’s retail sector remains off-limits to large international chains especially in multi-brand retailing. A number of concerns have been raised about opening up the retail sector to FDI in India. The first concern is the potential impact of large foreign firms on employment in the retail sector. A second related concern raised in the DIPP’s report is that opening up FDI would lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business. A third concern raised by domestic incumbent firms in the organized retail sector is that this sector is under-developed and in a nascent stage. In this paper we argue that the potential benefits from allowing large retailers to enter the Indian retail market may outweigh the costs. Evidence from the United States suggests that FDI in organized retail could help tackle inflation, particularly with wholesale prices. It is also expected that technical know-how from foreign firms, such as warehousing technologies and distribution systems, for example, will lend itself to improving the supply chain in India, especially for agricultural produce. Creating better linkages between demand and supply also has the potential to improve the price signals that farmers receive and by eliminating both waste and middlemen also increase the fraction of the final sales prices that is paid to farmers. An added benefit of improved distribution and warehousing channels may also come from enhanced exports. India’s experience between 2000-2015, particularly in the telecommunications and IT industries, showcases the various benefits of opening the door to large-scale investments in these sectors. Arguably, it is now the turn of retail.

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