

# FDI in Retail: The Impact on Indian Retail Sector

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## ABSTRACT

The Indian Economy has undergone a number of changes and witnessed many reforms since its Independence. The liberalization of Foreign Direct Investment (FDI) policy of the Indian Economy in 1991 was initiated by the then Finance Minister Dr. Manmohan Singh, was one of the most prominent steps taken by the Indian Government under which 100 % FDI was first allowed in *Cash & Carry Wholesale stores* and the First Cash & Carry Wholesale Store was opened by CARREFOUR in Delhi in 2010.

On November 24, 2011, the Indian Government approved a proposal of allowing 100 % FDI in the Single-brand and 51 % FDI in Multi-brand retailing, subject to certain conditions, these decisions have raised mixed reactions from the economists, Big retailers and Small retailers, Entrepreneurs and experts.

The FDI In Retail Sector in India carries its own pros and cons that will affect the Indian Economy to a larger extent, any reforms to be implemented has to be studied critically to understand these pros and cons and the impact of the reforms on the economy in the long run. This article attempts to study the FDI in Retail sector and its adversarial impact on the Indian economy

**Keywords:** Foreign Direct Investment (FDI), Retail Sector, Multi- Brand Retailing

## INTRODUCTION

The liberalization of Foreign Direct Investment (FDI) policy of the Indian Economy in the Retail sector permitting 100 % FDI in Single Brand Retailing and 51% FDI in Multi Brand Retailing, has opened up the doors to many multinational corporations such as Wal-Mart, Carrefour, Tesco etc. The large multinational corporations have recognized India as one of the largest potential markets for the purpose of investment especially after the recent recession in the American and European economies.

The Indian Retail Market is the second largest contributor to the country's economy and it constitutes 14% – 15 % of the total GDP and is established to be among the fastest growing retail markets estimated to being worth US \$ 450 billion, making it one of the top five retail markets in the world. The Indian Retail and Logistics Industry employing approximately 40 million Indians (3.3 % of the population)

The Retail Industry is divided into two categories

Organized retailing which refers to the activities undertaken by the licensed retailers i.e. those registered for sales tax, income tax etc. They include supermarkets, retail chains, privately owned large retail stores and corporate backed hypermarkets

Unorganized Retailing refers to the traditional format of shops commonly known as the 'kirana stores' i.e. owner managed general stores also including the convenience stores, hand carts, pavement vendors etc.

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## DEFINITIONS

### Foreign Direct Investment ( FDI)

World Bank “Foreign Direct Investment or Foreign Investment can refer to the net inflow of funds to acquire a long term management interest in an enterprise operating in a foreign economy. It is the accumulation of equity, reinvestment of retained earnings, other long term sources of capital and short term funds as presented in the balance of payments.”

*Retail:* The High court of Delhi (2004) “a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). A sale to the ultimate Consumer. ”

*Multi Brand Retailing:* It is the sale of various brands from various manufacturers under one roof by a single store.

## OBJECTIVES

The objective of this paper is to understand the adversarial impact of FDI in Retail in India on the Indian economy and the Indian Retail sector.

The FDI in Retail industry in India has raised many a discussions as to the positive and otherwise impact of this decision on the Indian economy; the adversarial impact of the same however, has not been studied in detail or has been overshadowed by the well-presented positive features of FDI in retail.

## LIMITATIONS OF THE STUDY

The study aims at understanding the impact adversarial impact of FDI in Retail, however the points discussed are just the probable results and the actual results cannot be studied until the policies have been well implemented and its effects are reviewed, after obtaining the actual results from a reasonable period of the implementation of FDI in Retail

## ADVERSARIAL EFFECTS OF FDI IN RETAIL IN INDIA

- The Indian Retail Industry second largest sector after agriculture currently employing 40 million Indians in 1.2 crore shops which comprises of 11 shops per 1000 people of which 95 % are self employed and supporting the entire family.

The FDI will result in the shutdown of these self retail outlets due to the severe competition from the Multinational giants and lack of funds to funds as compared to organizations such as Wal-Mart, Tesco, and Carrefour etc. which will lead to massive increase in the level of unemployment in the country.

Wal-Mart the biggest retail organizations in the world employs only 2 million employees in 4,253 stores across the globe, so the question arises will the Multinational organizations investing in India be able to give employ or absorb that part of the population which will be rendered unemployed on account of FDI in the Retail sector.

The Multinational organizations will provide employment majorly to the educated and skilled employees whereas the 90 % of the Indian retail sector is unorganized which is a major source of means of employment to the unskilled and uneducated employees. This will lead to an imbalance in the employment in the country

The FDI will encourage Indian participation in the Retail Sector but only the Big Retailers such as Reliance, Bharti Enterprises etc. will be the prime beneficiaries having the necessary amount of funds to match the financial requirements of the foreign multinationals, while the

small retailers will not be avail any benefits of FDI due to the shortage of funds forcing them to shut down due to lack of funds to meet the requirements for mergers with the multinationals and to withstand the competition created by them, thus leading to an unequal distribution of income and wealth.

- The Indian Retail Sector is the biggest promoter and purchaser of the goods and services offered by larger number local manufacturers, small scale industries, across the country, the local manufacturing and small scale industries survive and strive to a larger extent on account of the sales and promotions for their goods and services by the local or small retailers, the FDI in Retail will result in the shutdown of the self owned local Manufacturing units and Small Scale industries leading to a major increase in the unemployment and amounting to a heavy revenue losses to the Indian economy.

*According to Dr. S.R. Singh - Industrial Adviser (Chemical), Office of the Development Commissioner (SSI), Ministry of Small Scale Industries, Gol, New Delhi*

“The small scale sector in India comprises of a widely divergent spectrum of industries, ranging from the micro and rural enterprises - using rudimentary technology, on the one hand - to modern units using sophisticated technology, on the other. This sector, as of today comprises of 3.4 million industrial units spread throughout the country providing employment to over 19.2 million people. Over 7,500 different products for domestic as well as international markets are produced in these units. Even in the phase of strict and difficult economic environment and other constraints, the sector has been able to register an impressive growth rate. The small scale sector today contributes about 40% of the value added in manufacturing sector and 6.75% of GDP of India.”

The Large multinational retail organizations make majority of their purchases from China, who being a primarily manufacturing country is able to meet the heavy demands of goods and provide the same at very low price e.g. Wal-Mart makes 80% of its purchase from China, Thus leading to the question which still remain unanswered that will the multinational organizations stop their purchase from their dedicated suppliers and rely on the Indian Manufacturing industry for their supplies and if such a compulsion is made under law, will these multinationals still invest in India.

- According to many experts the FDI will promote the Indian Agriculture through provision of development in the infrastructural facilities and assured markets for the farm produce and will also create a ready market for cash crops and commercial crops like fruits and vegetables and commercial crops, the question here is will these benefits be received by the small and marginal farmers with small land holdings or will it be benefitting the Big farmers having large land holding, another aspect to be considered is that the FDI will be made in India with the idea of generating profits and not with a service motive thereby only those areas which are more fertile with better climatic and soil conditions will be benefitting from the FDI while other less fertile areas will be neglected thus leading to an imbalanced development, with certain states and areas getting all the benefits and the other states being totally neglected.
- After the recession in America & Europe, India has been recognized as the most potential and fastest growing market by the multinationals across the globe and are seeking an opportunity to tap this source in order to earn huge profits, thus permitting of 51 % FDI in retail makes it possible for these multinationals to achieve the objective at minimum cost, as these multinationals are benefitted in many ways such as tax concessions, tax holidays, soft loans, free or subsidized lands, infrastructure subsidies, relaxation or subsidies on imports etc.

Thus giving an opportunity to other economies to strive on the opportunities created in the Indian economy, many experts state that the FDI will enable to bring Organized Trade in the Indian Retail

sector, which is currently highly unorganized thus area leading to a better utilization of resources with a marginal wastage,

Is FDI the only solution? Given the above mentioned benefits to the current participants in the retail sector, will enable them to get organized, with appropriate government intervention, education & training being provided to the small retailers will bring forth better organization of the retail market.

If the FDI in Retail brings about the much needed organization in the Indian retail market, will the Indian economy be stable and secure when the supply of food and other essential are being controlled by the foreign multinationals?

- The Indian Retail sector in a larger context caters to the needs of the middle class, lower middle class and the marginalized section of the society and provides them with credit facilities without securities which is an essential aspect with regards to the day to day sustenance to these classes, these credit facilities and other benefits given by the Large retail stores will not be passed to the weaker sections of the society.
- The prime objective of FDI by foreign multinationals in India is that of profit maximization and expansion of markets which could be achieved by mainly maximizing the volume of sales, in order to achieve this objective a 'PUSH' strategy will be adopted by these multinationals through luring offers and attractive discounts, unmatched low prices which will lead the Indian consumer to increase their purchases and the additional funds available with the consumer due to reduction in prices will be utilized for further purchases instead of contributing towards the savings of the consumer. To accelerate the sales and to increase the profits the multinationals investing in India will try to import a large number of goods from their suppliers like China, who supply these good at very nominal rates thus leading to an imbalance in the Imports in the Indian economy and the promotion of the economies of countries who are the suppliers to these multinationals. With 51% FDI a major portions profits generated by the foreign multinationals from the Indian retail sector will be not retained in India and instead will be taken back to their respective countries thus resulting in a heavy outflow of the much essential foreign currency
- FDI will lead to heavy investments in the Indian Retail market by the foreign multinationals who will sell the goods and services at lower rates due to their economies of large scale, availability of advanced technologies and offer prices which the Indian retail sector will not be able compete, thus attracting the Indian consumer towards the multinational stores which may lead to creation of monopoly or oligopoly by these foreign participants, the possibility cannot be denied that these foreign participants will cause unreasonable price rises to avail the benefits of the advantageous position they possess. It is important to understand that the foreign multinationals will invest in the India only for profits and have no vested interest in the development of the Indian economy and would adopt any measures to achieve their objective an example of which being that In November 2012, Wal-Mart admitted to spending \$25 million lobbying

Congress for its entry in the Indian markets - lobbying is conventionally considered bribery in India. Wal-Mart is conducting an internal investigation into potential violations of the Act. Bharti Wal-Mart suspended a number of employees, which are rumored to include its CFO and legal team, to ensure "a complete and thorough investigation.

*According to the WALL STREET JOURNAL, Friday 23<sup>rd</sup> November, 2012*

*"NEW DELHI—Wal-Mart Stores Inc.'s WMT -0.48% India unit said Friday it has suspended a few employees as part of a probe into potential violations of the U.S. Foreign Corrupt Practices Act, a setback for the U.S. retailer as it tries to expand its footprint in India....."*

*Can we entrust one of our most essential sectors, food and essential supplies in the hands of foreign participants.*

## CONCLUSION

The objective of the discussion above to highlight the much neglected adversarial effects of the FDI in retail and to indicate that the Indian Retail sector though unorganized to a larger extent can be developed further and led to better origination through appropriate government intervention and participation through provision of benefits ways such as tax concessions, tax holidays, soft loans, free or subsidized lands, infrastructure subsidies, relaxation or subsidies on imports etc. to the participants of the retail sector and providing training and education to enable them to understand the importance and advantages of Organized activities in the India Retail Market.

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