International Journal of Management Research and Development (IJMRD)

ISSN 2248 – 938X (Print)
ISSN 2248 – 9398(Online),
Volume 3, Number 2, April - May (2013), pp. 103-112
© PRJ Publication, http://www.prjpublication.com/IJMRD.asp

IJMRD

© PRJ PUBLICATION

ROLE OF FDI IN INDIA: AN EMERGING OPTION FOR SUSTAINABLE ECONOMIC GROWTH

Avnish Sharma*
Research Scholar
Institute of Business Management
GLA University, Mathura, India.

Aneesya Sharma**
Research Scholar
Institute of Business Management
GLA University, Mathura, India.

ABSTRACT

The Retail Industry is the sector of economy which consists of individuals, stores, commercial complexes, agencies, companies and organizations etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly.

The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment.

This paper will help to examine the role of FDI in Indian retail including its benefits to stressed companies, farmers & real estate companies as well as its role in developing Indian society & economy through high quality product solutions to the consumers & employment generation. This paper is also an attempt to high light the future opportunities for FDI in India.

Keywords: FDI, Indian retail, Economic growth, future opportunities

1. INTRODUCTION TO THE INDIAN RETAIL

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP (Mckinsey and Company May 2007). The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail market in the world, with 1.2 billion people. (Sanjoy Mazumdar BBC News). India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). The sellers at these local shops are very well known to the customers in the locality and they trust each other.

1.1. FDI in Retail: Present status

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states (Times of India news report). This decision has been welcomed by economists and the markets, however has caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law (The Economic Times 20th September 2012).

The foreign investor should make a minimum investment of $100 million, 50 per cent of which should be invested in "back-end infrastructure". Also, 30 per cent of the products must be procured from small-scale industries. For the purpose of FDI in multi-brand retail, the note describes small industries as units which have a total plant and machinery investment not exceeding $250,000 (around Rs.1.25 crore). Retail chains will be allowed only in cities with a population of more than 10 lakh as per 2011 Census. At least 50 per cent of total FDI brought in shall be invested in 'back-end infrastructure' within three years of the induction of FDI, where 'back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end unit. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure. FDI in single-brand retail include products sold under the same brand name internationally; product retailing will cover only those products that are branded during manufacturing, and the foreign investor should be the owner of the brand. In States/ Union Territories not having cities with population of more than 10 lakh as per 2011 Census, retail sales outlets may be set up in the cities of their choice, preferably the largest city and may also cover an area of 10 km around the municipal/urban agglomeration limits of such cities (The Hindu September 15th 2012).

2. IMPACT OF FDI

2.1. Benefits for farmers

Farmers in India get only 10%-12% of the price the consumer pays for the agri-products. Coming of organized retailing will benefit farmers in big way. Big retailers sell their product at very competitive prices. So, they source it directly from the farmers. Middle man does not have any place in this format of retailing. This will not only benefit farmers but also help in checking the food inflation. Also India has very inadequate facilities to store the food grains and vegetables. As the investment will flow into back end infrastructure, supply chain will get strengthened. Storage is a major problem area and 20%-25% of the agricultural products get wasted due to improper storage in a year.

PRODUCT	WASTAGE
TOMATOES	35%
MANGOES	30%
POTATOES	25%

Table 1 *Source: sharetipsinfo.com*

Another area which is also the cause of concern is movement of vegetable and other perishable agricultural item from one place to another. Lack of proper transportation forces the farmer to sell their produce in local market. This results in the lower realization on the produce.

2.2. Immense growth opportunity for retailers

India is Asia's third largest retail market after China and Japan. Organized retailing is very virgin space in India. It provides immense growth opportunity. Only 5% of the total sales are being done by organized retailer. Currently Indian Retail sector have sales of around $500 billion. Retail sector is expected to have sales of $900 billion by 2014. It still far behind China, whose retail sales by 2014 is expected to cross $4500 billion mark. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Montek Singh Ahluwalia also stated that FDI will not be a threat to the small retailers (The Hindu September 23, 2012).

2.3. FDI could benefit stressed companies

FDI in multi brand will stimulate investment in the sector. There are companies in the retail sector that are reeling under debt. These companies could get fresh lease of life.

Company	Debt (Rs Crore)	Market Cap
Pantaloon	4,200	3, 867
Vishal Retail	700	42
Provogue	400	275

Table 2 *Source: sharetipsinfo.com*

2.4. Employment generation through investment in retail

According to Indian Staffing Federation (ISF), an apex body of the flexi staffing industry in India, FDI in retail can create around 4 million direct jobs and almost 5 to 6 million indirect jobs including contractual employment within a span of 10 years. Logistics and supply chain companies are also expected to grow as they will be the link between small manufacturers, producers and farmers and the organized retail chains, and thereby help them get higher returns for their supplies (Indian Express 18th September 2012)

FDI in retail will boost the Indian economy, creating job opportunities in the next few years. Driven by the much awaited FDI, retail has emerged as one of the fastest growing sectors in

India. It is expected to generate 54,000 jobs over the next five years — a variety of opportunities from the entry level to senior management level; for fresher's as well as seasoned professionals. This is a comparatively recession-proof sector and the profession starts with designing of a product and continues till delivery of the product and is entirely driven by consumer-needs. . From the employment point of view, jobs will be created in not only mainstream areas such as retail, but also in areas such as front-end sales, facility management, security management, inventory, merchandising, customer relationship and visual merchandising, among others (Times Of India 8th October 2012).

2.5. Benefits for real estate companies:

Pankaj Renjhen, Managing Director - Retail Services, Jones Lang LaSalle India said, "From a retail real estate point of view, it will be open up immense opportunities in the medium and long term, as the demand for quality real estate will rise. Currently, some retailers are cash-strapped and this will provide a sort of bail-out option to them." The investment by local and new international retailers that are likely to flow into the sector will also take the form of investments into real estate at the front end and back end. In the front end, the retail store spaces will see investments and in the back end, better quality warehouses could be seen (Business Standard September 15th 2012). Retailers like Wal-Mart, Tesco operate. in large area of 50,000 – 60,000 sqft. They generally pay to the builders certain percentage of the total revenue. Real Estate companies into retailing space to be benefitted.

3. FDI IN INDIAN RETAIL: A BACKGROUND STUDY

The Industrial policy 1991 had crafted a trajectory of change whereby every sectors of Indian economy at one point of time or the other would be embraced by liberalization, privatization and globalization.FDI in multi-brand retailing and lifting the current cap of 51% on single brand retail is in that sense a steady progression of that trajectory. India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale. Then, it required government approval. The approval requirement was relaxed, and automatic permission was granted in 2006. Between 2000 to 2010, Indian retail attracted about $1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India (KPMG, 2010). Single brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were approved and implemented. For a country of 1.2 billion people, this is a very small number. Some claim one of the primary restraints inhibiting better participation was that India required single brand retailers to limit their ownership in Indian outlets to 51%. China in contrast allows 100% ownership by foreign companies in both single brand and multi-brand retail presence.

The Retail Business in India is currently at the point of inflection. As of 2008, rapid change with investments to the tune of US $ 25 billion was being planned by several Indian and multinational companies in the next 5 years. It is a huge industry in terms of size and according to India Brand Equity Foundation (IBEF), it is valued at about US$ 395.96 billion. Organized retail is expected to garner about 16-18 percent of the total retail market (US $ 65-75 billion) in the next 5 years. In 2011 Indian retail market was generating sales of about $470 billion a year, of which a minuscule $27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 25% share (The Economist 3rd December 2011). A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers (Deloitte 2011).

1995	World trade organization's General agreement on Trade in services, which includes both wholesale and retailing services, came into effect.
1997	FDI in cash and carry (wholesale) with 100 percent rights allowed under the government approval route.
2006	: FDI in cash and carry (wholesale) brought under the automatic route. :Up to 51% investment in a single-brand retail outlet permitted, subject to Press Note3 (2006 Series)
2011	100 % FDI in single-brand retail permitted.

Table 3: FDI in single and Multi brand Retail in India
Source: Ellis, C.D, Shrivastava, A. & Shira, D. & Associates(2012): Foreign Direct Investment in India's Single and Multi-Brand Retail, retrieved from: http://www.india-briefing.com/news/foreign-direct-investment-indias-single-multibrand-retail-5232.html

4. MAJOR PLAYERS OF RETAIL IN FDI:

Future Groups-Formats*:* Big Bazaar, Food Bazaar, Central, Fashion Station, Brand Factory, Home Town, E-Zone etc. Reliance Retail-Formats: Reliance MART, Reliance SUPER, Reliance FRESH, Reliance Footprint, Reliance Living, Reliance Digital, Reliance Jewellery, Reliance Trends, Reliance Autozone, iStore. The Tata Group-Formats: Westside, Star India Bazaar, Steeljunction, Landmark, Titan, Tanishq, Croma. RP-Sanjiv Goenka Group Retail-Formats: Spencer's Hyper, Spencer's Daily, Music World, Au Bon Pain, Beverly Hills Polo Club.

The world's largest retailer by sales, Wal-Mart Stores Inc and Sunil Mittal's Bharti Enterprises have entered into a joint venture agreement and they are planning to open 10 to 15 cash-and-carry facilities over seven years. The first of the stores, which will sell groceries, consumer appliances and fruits and vegetables to retailers and small businesses, is slated to open in North India (Bharti and Walmart Joint Venture). Carrefour, the world's second largest retailer by sales, is planning to set up two business entities in the country one for its cash-and-carry business and the other a master franchisee which will lend its banner, technical services and know how to an Indian company for direct-to-consumer retail. The world's fifth largest retailer by sales, Costco Wholesale Corp (Costco) known for its warehouse club model is also interested in coming to India and waiting for the right opportunity. Tesco Plc. plans to set up shop in India with a wholesale cash-and-carry business and will help Indian conglomerate Tata group to grow its hypermarket business. In June 2012, IKEA announced it has applied for permission to invest $1.9 billion in India and set up 25 retail stores (The Wall Street Journal).

5. FUTURE OPPORTUNITIES FOR FDI

The 2012 A.T. Kearney Global Retail Development Index the 11th annual edition, finds a wide array of possibilities for retailers seeking to capture an immediate impact and a growth advantage in developing countries like India. Possibilities abound not only in the biggest markets, but also in many smaller countries around the world. The GRDI ranks the top 30 developing countries for retail investment.
Figure 1 &2 highlights the country attractiveness and rankings of countries.

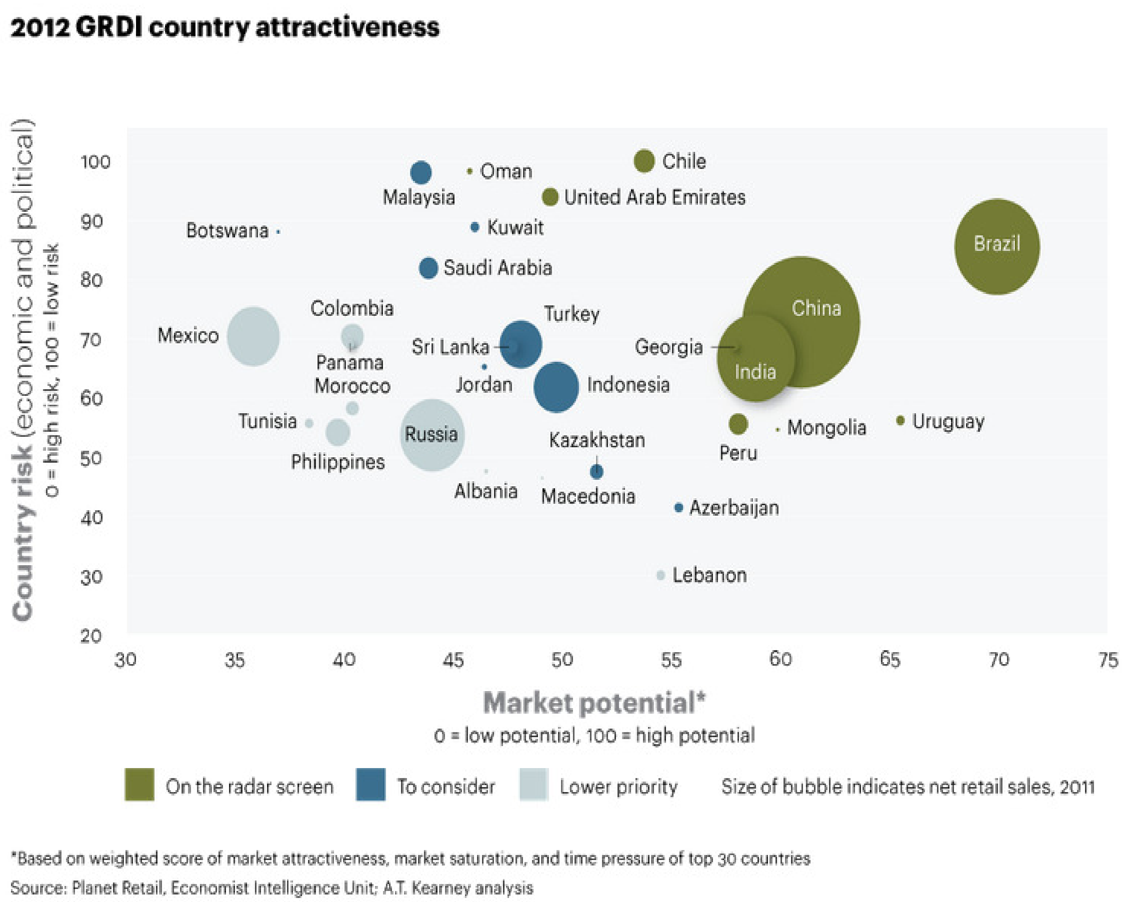


Figure 1 *Source: Planet retail, economist intelligence unit; A.T. Kearney analysis*

GRDI RANK by Year				
Country	2009	2010	2011	2012
China	3	1	6	3
Kuwait		2	5	12
India	1	3	4	5
Saudi Arabia	5	4	7	14
Brazil	8	5	1	1
Chile	7	6	3	2
UAE	4	7	9	7
Uruguay		8	2	4

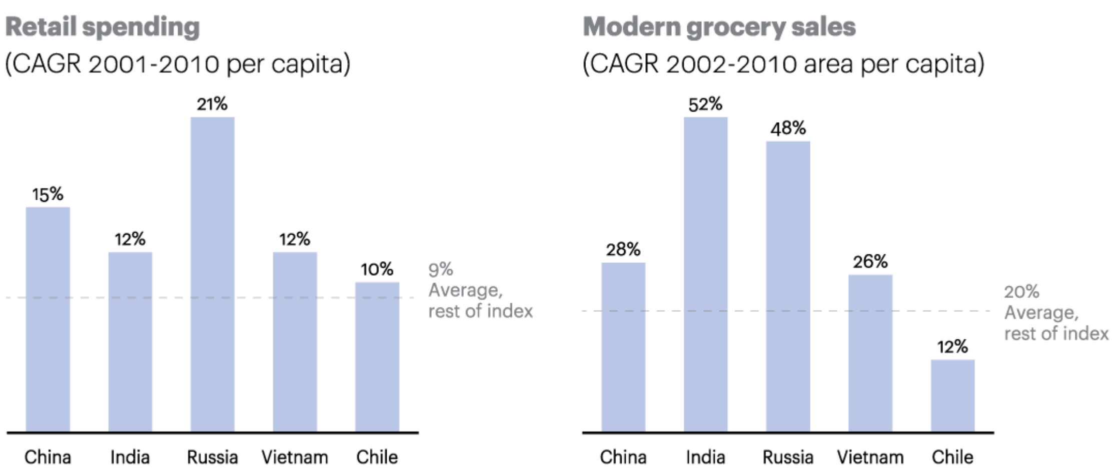
Improvement over last year   Decline over last year

Figure: 2, 2012 Global Retail Development Index

Sources: Euromoney, Population Data Bureau, IMF, World Bank, World economic forum Economic intelligence unit, Planet retail; A.T. Kearney analysis

Figure 3

China, India, Russia, Vietnam and Chile have been the GRDI's most consistent performers



Note: CAGR is compound annual growth rate.

Source: A.T. Kearney Global Retail Development Index (GRDI), 10-year perspective, 2011

Figure: 3, 2012 Global Retail Development Index

Sources: Euromoney, Population Data Bureau, IMF, World Bank, World economic forum Economic intelligence unit, Planet retail; A.T. Kearney analysis

2012 Global Retail Development Index™

On the radar screen | To consider | Lower priority

2012 rank	Country	Region	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2011
1	Brazil	Latin America	100.0	85.4	48.2	61.6	73.8	0
2	Chile	Latin America	86.6	100.0	17.4	57.1	65.3	0
3	China	Asia	53.4	72.6	29.3	100.0	63.8	+3
4	Uruguay	Latin America	84.1	56.1	60.0	52.3	63.1	-1
5	India	Asia	31.0	66.7	57.6	87.9	60.8	-1
6	Georgia	Central Asia	27.0	68.7	92.6	54.0	60.6	N/A
7	United Arab Emirates	MENA	86.1	93.9	9.4	52.9	60.6	+1
8	Oman	MENA	69.3	98.3	17.4	50.4	58.9	N/A
9	Mongolia	Asia	6.4	54.4	98.2	75.1	58.5	N/A
10	Peru	Latin America	43.8	55.5	62.9	67.2	57.4	-3
11	Malaysia	Asia	56.7	98.1	18.9	54.8	57.1	+8
12	Kuwait	MENA	81.1	88.7	36.4	20.3	56.6	-7
13	Turkey	Eastern Europe	78.8	69.3	32.3	33.1	53.4	-4
14	Saudi Arabia	MENA	63.1	81.8	35.4	33.0	53.3	-4
15	Sri Lanka	Asia	12.7	68.3	79.0	51.3	52.8	+6

Figure: 4, 2012 Global Retail Development Index

Sources: Euromoney, Population Data Bureau, IMF, World Bank, World economic forum Economic intelligence unit, Planet retail; A.T. Kearney analysis

Comparing 21st century to 18th century is inappropriate. Conditions today are not same as in the 18th century. India wasn't a democracy then, it is today. Global awareness and news media were not the same in 18th century as today. Consider China today. It has over 57 million square feet of retail space owned by foreigners, employing millions of Chinese citizens. Yet, China hasn't become a vassal of imperialists. It enjoys respect from all global powers. Other Asian countries like Malaysia, Taiwan, Thailand and Indonesia see foreign retailers as catalysts of new technology and price reduction; and they have benefitted immensely by welcoming FDI in retail. India too will benefit by integrating with the world, rather than isolating itself (The Times of India 2011). Wal-Mart, Carrefour, Tesco, Target, Metro, Coop are some of over 350 global retail companies with annual sales over $1 billion. These retail companies have operated for over 30 years in numerous countries. They have not become monopolies. Competition between Wal-Mart-like retailers has kept food prices in check. Indian economy is small, with limited surplus capital. Indian government is already operating on budget deficits. It is simply not possible for Indian investors or Indian government to fund this expansion, job creation and growth at the rate India needs. Global investment capital through FDI is necessary. With 51% FDI limit in multi-brand retailers, nearly half of any profits will remain in India. Any profits will be subject to taxes, and such taxes will reduce Indian government budget deficit. Many years ago, China adopted the retail reform policy India has announced; China allowed FDI in its retail sector. It has taken FDI-financed retailers in China between 5 to 10 years to post profits, in large part because of huge investments they had to make initially. Like China, it is unlikely foreign retailers will earn any profits in India for the first 5 to 10 years (The Economist 2nd December 2011). Ultimately, retail companies must earn profits with hard work and by creating value.

REFERENCES

1. Association of Traders of Maharashtra v. Union of India, 2005 (79) DRJ 426
2. Hemant Batra, Retailing Sector In India Pros Cons (Nov 30, 2010)http://www.legallyindia.com/1468-fdi-in-retailing-sector-in-india-pros-cons-by-hemant-batra
3. Ellis, C.D, Shrivastava, A. & Shira, D. & Associates(2012): Foreign Direct Investment in India's Single and Multi-Brand Retail, retrieved from: http://www.india-briefing.com/news/foreign-direct-investment-indias-single-multibrand-retail-5232.html
4. Mckinsey and Company, May 2007
5. Notification No. FEMA 20/2000-RB dated May 3, 2000
6. FDI_Circular_02/2010, DIPP
7. Mohan Guruswamy, Implications of FDI in Retail, (Dec 16 2010) http://www.scribd.com/doc/36888679
8. Discussion Paper on FDI in Multi Brand Retail Trading, retrieved from http://dipp.nic.in/DiscussionPapers/DP_FDI_Multi-brandRetailTrading_06July2010.pdf
9. National Accounts Statistics, 2009
10. The Economist 3rd December 2011
11. Saraswathy,M. "FDI In multi-brand will benefit real estate sector: experts". Business Standard, Mumbai 15th September 2012.
12. Isaac,aditi. "Will FDI in retail create new job opportunities for India?" , Times of India October 8 2012.
13. Agencies. "FDI in retail to create 10 million jobs: ISF", New Delhi 18th September.
14. PTI. "FDI in retail not a threat to kirana shops: Montek",The Hindu September 23, 2012
15. The Economist 2nd December 2011
16. http://www.atkearney.com/consumer-products-retail/global-retail-development-index/full-report/-/asset_publisher/oPFrGkbIkz0Q/content/global-retail-development-index/10192

17. http://www.thehindu.com/news/national/fdi-no-threat-to-small-retailers-says-montek/article3929687.ece, New Delhi, September 23, 2012
18. www.Legalserviceindia.com
19. www.Manupatra.com
20. www.Scribd.com
21. www.cci.in
22. www.rbi.org.in
23. www.dipp.nic.in
24. www.legallyindia.com
25. www.icsi.edu
26. http://siadipp.nic.in/policy/changes/pn3_2006.pdf
27. http://www.cci.in/pdf/surveys_reports/indias_retail_sector.pdf