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A Study about Foreign Direct Investment in Retail Trade-An Overview

[1]S. Ramachandran and [2]R. Dhanya

[1]Director-Management Studies, Bharath School of Business Chennai, India
[2]Research Scholar Bharath School of Business Chennai, India

Abstract: The Foreign Direct Investment is gaining more attention from everyone now a days due to foreign investor' sdecision to invest in retail sector. In India the retail market is going positive in upward direction. So with the induction of FDI how it is going to react in markets? As already the local kirana shops are finding it difficult to cope up with local big retail chain stores, will this move will clearly bowl them. This article gives an overview about the retail stores in India, FDI in retail and its related pros and cons.

Key words: Kirana stores • FDI • Retail markets

INTRODUCTION

India is one fastest growing retail sector in the world hich contributes around 14%-15% of GDP to the economy. It contributes around 40 million employment opportunities in India. The Indian retail market is estimated to be US$ 450 billion.

Indian retail market comprises of two namely organized markets and un-organized markets. Organized markets are registered license traders who comply under sales tax, income tax, etc. Eg: Spencer's, Nilgris. Un-organized markets are the small owner shops, pavement shops and handcart shops, etc. In India the un-organized retail markets contributes around 95% to the retail sector. The organized sector are mostly located in urban cities.

Table 1 explains that food and grocery has the highest share of 34% followed by apparel, jewellery and watches, IT and electronics items which contributes to the remaining shares in retail sector.

Table 1: Indian Retail Market (By Category):

Category	2006	2011	2016	CAGR (2011-16)
Food and Grocery	2	9	34	30.00%
Apparel	3.5	5.5	8	8.50%
Jewellery & Watches	1	2.5	7.5	25.00%
Consumer Electronics & IT	1.5	4	18	35.00%
Pharmacy	0.2	0.8	4.5	41.00%
Furnishings & Furniture	0.4	0.7	1.2	12.00%
Food and Beverage (Eating Out)	0.5	1.5	6	30.00%
Footwear	1	1.7	3.8	17.50%
Beauty Services	0.2	0.2	0.5	20.00%
Health/Fitness Services	0.1	0.2	0.6	25.00%
Total (US$ Bn)	10	26	84	26.00%

Source: Technopak Analysis: Emerging Trends in Indian Retail and Consumer: 2011

Corresponding Author: R. Dhanya, Research Scholar Bharath School of Business Chennai, India.

Foreign Direct Investment in India (FDI): Foreign Direct Investment is the investment made in production or business by the country in another country by either means of buying a company or expanding its business in the foreign country. It is usually by means of bonds and shares.

Introduction: FDI was introduced in the year 1991 under Foreign Exchange Management Act (FEMA), by then finance minister Dr. Manmohan Singh. It started with a baseline of $1 billion in 1990. India is considered as second important destination for foreign investment.

The major sectors that attracted FDI are services, telecommunication, construction activities and computer software and hardware.

Methods of FDI:

- By incorporating a wholly owned subsidiary or company anywhere
- By acquiring shares in an associated enterprise
- Through a merger or an acquisition of an unrelated enterprise
- Participating in an equity joint venture with another investor or enterprise.

Entry Routes for FDI in India:

- Automatic approval by RBI
- The FIPB Route
- CCFI Route

The Table 2 explains the FDI equity inflow division to various sectors in India from 2006-2011. The service sector accounts for around 30.1% in 2011.

Single Brand Retail Market: In Single Brand Market,

- Only single brand products would be sold,
- Products should be sold under the same brand internationally,
- Single brand retail would cover products which are branded during manufacturing
- Any addition to the product categories to be sold under single-brand would require fresh approval from the government.

Eg: Reebok, Ikea

Multi Brand Retail Market: Marketing of similar and competing products by the same firm underdifferent and unrelated brands. For example: Walmart Until 2011, FDI in multi brand was not allowed. However in late 2011, FDI was permitted in multi brand market with a cap of 51% ownership. Some of other conditions include:

- Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be unbranded.
- Minimum amount to be brought in, as FDI, by the foreign investor, would beUS $ 100 million.
- At least 50% of total FDI brought in shall be invested in back-end infrastructure? Back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on landcost and rentals, if any, will not be counted for purposes of backend infrastructure.

Table 2: Equity FDI Inflows to India

(Percent) Sectors	2006-07	2007-08	2008-09	2009-10	2010-11
Sectoral shares (Percent)					
Manufactures	17.6	19.2	21.0	22.9	32.1
Services	56.9	41.2	45.1	32.8	30.1
Construction, Real estate and mining	15.5	22.4	18.6	26.6	17.6
Others	9.91	7.2	15.2	17.7	20.1
Total	100.0	100.0	100.0	100.0	100.0
Equity Inflows (US$ billion)					
Manufactures	1.6	3.7	4.8	5.1	4.8
Services	5.3	8.0	10.2	7.4	4.5
Construction, Real estate and mining	1.4	4.3	4.2	6.0	2.6
Others	0.9	3.3	3.4	4.0	3.0
Total Equity FDI	9.3	19.4	22.7	22.5	14.9

Source: (http://www.rbi.org.in)

- At least 30% of the procurement of manufactured/ processed products shall be sourced from Indian small industries which have a total investment in plant and machinery notexceeding US $ 1.00 million.
- Retail sales locations may be set up only in cities with a population of more than 10lakh as per 2011 Census and may also cover an area of 10 kms around themunicipal/urban agglomeration limits of such cities; retail locations will be restricted toconforming areas as per the Master/Zonal Plans of the concerned cities and provisionwill be made for requisite facilities such as transport connectivity and parking.

An Overview about FDI in Retail Trade: The buzz FDI is gaining more importance because of its political importance. There has been more of fear ignited in minds of everyone, before a proper analysis been done. Let's have an overview about the relative pros and cons to be borne by accepting FDI in Retail.

Pros:

- The first major merit is the benefit to farmers by directly procuring from them. As in India, because of middlemen the farmers are not able to reap the gains. So when Walmart, Tesco enters in India as Wholesalers definitely farmers will earn well due to elimination of middleman.
- Since the foreign investors has to invest 50% in back end infrastructure like supply chain, logistics, storage, etc. the overhead cost can be reduced. The proper storage facility helps in better storage of perishable goods. This in turn reflects in reduction of cost of final product.
- Employment opportunities are also likely to rise because of direct and indirect retail trade.
- The joint ventures with Indian retail trade will help us in transfer of technology and innovative strategies.
- The inflation and exchange rate will also come under control due to induction of foreign funds into the country.

Cons:

- Definitely the chances of monopoly is high.
- The domestic retailer's will not be able to sustain the competition so chances of employment losses are there.
- Even though it helps in procuring 30% of raw materials from local industries, how long the process will continue is a big question mark as once they establish their markets here chances are there that they will bring raw materials from their own countries.
- There is no proper legal framework setup for the safety of local retailers from the Government side.

CONCLUSION

When we analyse the relative pros and cons the benefits are more at the same time the cons can be reduced by adopting proper strategies like in China where they allowed FDI in retail with proper gap of years so that the local retailers are given time to learn out of it and develop their markets. In this way the losses can be avoided. Similarly the Government can frame a rule for assurance of employment into these sectors to reduce the unemployment ratio. At the end, it's the consumer's market, as it depend on how each retailer attracts the consumer. Not all day the consumers will be visiting malls and big supermarkets for their emergency needs. It's the local kirana shops which comes to their mind first. So let's think before we act.

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