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FDI IN INDIAIN RETAIL MARKET: PROBLEMS AND PROSPECT

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Abstract:-This paper tries to explore the problem of Foreign Direct Investment in Indian Retail market. The researcher makes this study through exclusive literature avail in this context and analyzes its effects on Indian context. From time immemorial, societies have proposed through Trade and Exchange of goods between flag-flung areas and even between continents. In the modern day globalized world, global trade and exchanges have become inevitable. Countries are earning prosperity for their citizens by maximizing the intake, i.e. imports. But an emerging economy of the world, Indian Foreign Trade Scenario is not very encouraging. India still has a very low percentage contribution in world trade. The second fasted growing country in GDP terms ranks 20th in merchandised export and 13th in merchandised import with only 1.44percent share in total world export while import stand at 2.1 percent.

Keywords: Foreign Direct Investment(FDI), Gross Domestic Product(GDP), Retail Sector, Rural market, Investment, economy..

INTRODUCTION:-

Liberalization of economy has opened new outlook for the development of FDI in the Indian perspective. The introduction of foreign capital by the investors has been successful in bridging over the gap between requirement of retailers and retail sector. The merit is that customers of almost all branded categories appear satisfied with the quality of services made available to them. A paramount priority to the changing expectations of customers and an equivalent tailoring of financing inputs in tune with the changing business environment have awfully been helpful in increasing the market share of the investors. A transcendental priority to creativity while developing the financial resources has considerably helped them in sensitizing the impulse of prospects. The present study highlights the role of FDI in the retail sector in India.

Perceptions and policies with regard to the role of foreign capital in the process of industrial and overall growth have changed in India since the beginning of economic planning. The Government has recently introduced a number of policy measures to attract foreign investment and various organized efforts are being made to convince foreign investors namely individual, institutional and corporate that India is a good investment risk or a good market place and that they would be provided all help, facilities, concessions, incentives if they design to invest in India. In 1990s we saw a rapid and widespread move by governments round the world to involve the private sector in the provision and financing ofdifferent ventures. Seeking private funds and managerial expertise to meet rapidly growing demands of the economy at an affordable cost is indeed, the need of the hour. Increasing the level of inflow of FDI into the country is one of the main objectives of the Government's economic development strategy. In order to achieve the goal, the Government is also committed to putting in place appropriate institutional arrangements and transparent rules, procedures and guideline for investment promotion and for considering land approving the proposals of FDI.

FOREIGN DIRECT INVESTMENT (FDI)

Foreign Direct Investment (FDI) is the investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. The Ministry of Commerce and industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy of continued basis and changes in sectoral policy/ sectoral equity cap. The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or foreign Investment Promotion Board ('FIPB') would be required.

RATIONALE OF FDI IN INDIA

Foreign direct investment can have both positive and negative consequences, but on balance the positive effects outweigh the negatives. Governments in developing countries perceive FDI as a key source of economic growth of the country. Rationale of FDI in India have been in terms of

1.It helps to relax the domestic savings constraints.
2.It helps to overcome the foreign exchange barrier thereby increases capital flow.
3.It provides access to the superior technology, superior managerial skills and bigger markets.
4.It provides risk-sharing capital financing.
5.It furnishes the funds needed for the full utilization of the existing production capacity.
6.It promotes efficiency and productivity through international competition of superior quality products.
7.Aremarkable inflow of FDI in various industrial units in India will boost the economic lifeof our country.
8.It can also ensure a number of employment opportunities by aiding the setting up of industrial units in various corners of India.
9.FDI apparently helps in the outsourcing of knowledge from India especially in the IT sector.

The following table clearly shows the flow of FDI in various years as a result of the keen interest taken by the Government. From the table it is evident that FDI in Indian soil is on increase at a faster growth rate over the previous period.

WHY IS FDI ENGROSSED IN RETAIL SECTOR?

A retail sector is one that sells the produce to the consumers. In simple words, they make profit in the process and maintain the supply and demand in the society. It is defined as a sale for final consumption in contrast to a sale for further sale or processing (i.e. Wholesale).Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin of profit. With a contribution of 14 percent to the national GDP and employing 9 percent of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy.
The retail industry is mainly divided into:-1) Organised and) Unorganised Retailing.

Organised 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.g. RPG Group, Tata Group, Reliance Retail Group (RRL), Vishal Group etc.

Unorganised retailing, on the other hand, 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.

The Indian retail sector is highly fragmented with 94.5 percent of its business being run by the unorganized retailers. The organized retail however is at a very budding stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generation more than 14 percent of India's GDP. The following table clearly shows the distribution of retail trade in organized sector and unorganized sector in India and Southeast Asian countries.

Retail Trade in India & Southeast Asian Countries

Country	Organised Retail sector (%)	Unorganised Retail sector (%)
India	5.5	94.5
South Korea	15	85
China	20	80
Indonesia	25	75
Thailand	40	60
Malaysia	50	50

Source: CRISIL

Organised retail in India is infancy stage, as it is evident from the table. India's figure is low even in comparison with other Asian developing economies like China, Thailand, South Korea and Philippines all of whom have figures hovering around the 20-25 percent mark.

Similarly by considering the employment potentiality of this vital sector, the trend is not heartening. A simple glance at the employment numbers is enough to paint a good picture of the relative sizes of these two forms of trade in India. Organised trade employs nearly 3.95 Crores. The following table gives the picture of share of retailing in employment across different countries.

Share of retailing in employment across different countries

Country	Percentage of share in Employment
India	9
China	19
USA	24
Poland	16
Brazil	19

Source: CRISIL

In this context it is inevitable to tap the unutilized resources from the organized retail sector. As a result new dynamics have to be involved in Indian soil with the brawny concern of the Government. This is possible only through the active support from the part of Government and its policy decisions. India's retail sector is now taking new innovative styles, because of its growing peak. Traditional markets are making way for new formats are making way for new formats such as departmental stores, hyper markets, super markets and specialty stores. Western style malls have begun appearing in metros and urban cities with the scaffolding of Foreign Direct Investment. FDI is now recognized as an important driver of growth in the country. India is now ushering in second generation reforms aimed at further and faster integration of Indian economy with the global economy. As a result of various policy initiatives taken, India has been rapidly changing from a restrictive version to a liberal one and FDI is encouraged in almost all the economic activities under the automatic route.

Major Sectors Attracting Highest FDI Inflows in India

Sector	**2003 -03 to 2005 -06 in Crore**	**2006 -07 to 2009 -10 in Crore**	**Cum. Total in Crore**	**Growth Rate**
Electronics including computer software	23709	27597	51306	1.16
Telecommunication	14337	30427	44764	2.12
Financial and non financial sector	12804	93121	105925	7.28
Power and Oil Refinery	10976	11146	22122	1.02
Transportation Industry	13315	13859	27174	1.04

Source: Compiled from the official website of Ministry of Commerce and Industry

From the table it is clear that in all major sectors of our economy the investment in FDI is on increase. The highest growth rate was in financial and non financialsector followed this it is in the telecommunication sector.

India now can be acknowledged as one of the fasted growing economy in the world and in this current economic status; retail sector has emerged one of the most appealing investment areas for domestic as well as foreign investor. This high growth curves owes some credit to a booming economy band liberalized foreign direct investment (FDI) regime in the retail sector. This liberalization act cleared the path for foreign direct investment to meet the demand in the organized retail sector to a great extend. It has also encouraged several large financial firms and private equity funds to launch exclusive funds integrating the Indian retail sector.

Retail trading (except single brand product), Atomic Energy Lottery, Businesslike gambling and betting , Business

Chit Fund, Nidhi Company, Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. Housing and real estate business (except development of township, construction of residential/commercial premises, roads or bridges, trading in Transferable Development Rights (TDRs) and Manufacture of cigars, cheroots, cigarillos and cigarettes of tobacco or of tobacco substitutes.

Major Share of Top Investing Countries in FDI Inflows

Country	*2002 -05 to 2005 - 06(%)*	*2006 -07 to 2009 - 10(%)*	*Growth Rate*
Mauritius	37.18	43.50	1.17
U.S.A.	15.25	7.57	0.50
Japan	6.59	3.50	0.47
Netherland	6.27	4.16	0.34
U.K.	6.10	5.27	0.14
Germany	4.81	2.57	0.47
Singapore	3.24	8.96	1.77
France	2.42	1.21	0.50

Source: Compiled from the official website of Ministry of Commerce and Industry

Argument in Favour and Against the FDI in Retail Sector

Given this backdrop, the recent cry about opening up the Retail sector to Foreign Direct Investment (FDI) becomes a very sensitive issue, with arguments to support both sides of the debate. Supporters of FDI in retail trade talk of how ultimately the consumer is benefited by both price reduction and improved selection, brought about the technology and know-how of foreign players in the market. The argument that the multinationals setting of shop in retail would Helpsto creates jobs and modernizes agriculture and marketing in the country and it is estimated that in the organised sector there will be an employment opportunity of 10 million jobs.
With big retail giants coming to India, it will surely improve our back-end storage and procurement process. Once these multi-chain retailers establish themselves, they will create infrastructure facilities, which will also propel the existing infrastructure.
The farmers will benefited from FDI as they will be able to get better prices for their produce.
The elimination of intermediate channels in the procurement process will lead to reduction of price for consumers.
By providing 51% foreign investments in the Indian market, it will teach the local retailers about real competition and help in ensuring that they give better service to Indian consumers.

But who are against the FDI in Indian Retail sector opines that
Higher import and lower export results in negative balance in trade and results in more outflows of the country's precious resources and fewer earning in real term.
Entry of foreign players now will most definitely disrupt the current balance of the economy; resulted millions of small and marginal retailers become jobless by closing the small slit of opportunity available to them.
Proper procurement and distribution system is not yet fixed, how will the rest fall in place when the giant retailers enter our market?
Back-end procurement will still remain a big problem.
Once these giant foreign retailers have monopoly, they will start exploiting the market and in the long run, it will not benefit the Indian economy.

Challenges in the present scenario of retail management (organised retailing)

Hundred percent ForeignDirect Investments is not permitted in retailing in India at present. With out the FDI, this sector is deprived of access to foreign technologies that is imperative for faster growth. FDI up to 51%, under the government route now is proposed min retail trade of 'single brand' products. This is aim at attracting investment in production and marketing, improving the availability of such goods for the consumer encouraged increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technology and management practices.FDI up to 51% in retail trade of 'single brand' products would be subject to
Products to be should be a 'single brand' only.
Product should be sold under the same brand internationally.
'Single Brand' product retailing would cover only products which are branded during manufacturing.

Action Plan to be followed

1.Enhancement of foreign investment promotion law incorporating and integrating relevant aspects for promoting FDI.
2.Overhauling the existing FDI strategy by shifting from a broad macro-emphasis to a targeted sector specific approach.
3.Empower Foreign Investment Implementation Authority Board (FIIA) for expediting administrative and policy approach.
4.Urge state to enact a special investment law relating to retail sector for expediting investment in retail sector and removing hurdles to production in retail sector.
5.Empower the Foreign Investment Promotion Board to grant initial Central level registrations and approach whenever possible for speeding up the implementation process.
6.The Special Economic Zones (SEZs) should be developed as internationally competitive detonations for export oriented FDI, by simplifying laws rules, procedures and reducing bureaucratic rigmarole on the lines of china.
7.A National Commission must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI- as and when it comes.
8.Entry of foreign traders must be gradual and with social safeguards so that the effects of the labour dislocation can be analysed and policy fine tuned.

CONCLUSION

According to one conjecture, India has a tremendous potential to attract foreign investors at much more dramatic levels because of its liberal economic reform process. It has also been argued that certain factors like, large size of Indian market, the intrinsic strength of Indian corporate and India's well established and well functioning banking system are conducive to a substantial inflow of foreign equity. The positive factor such as increase in purchasing power, rise in number of double income families and demanding customers, due to change in life style and scarcity of time, customer are increasingly looking for convenience. To persuade the customers to store, retail should create a wide product range, quality and value for money, apart from creating a fascinating shopping experience. The retail store in India is just an opening the expectations are now. Nearly 25% of our population of less than 30 years, which is ideal for the population of the New Age consumers. They are more cognizant about preference and value for money. So this is the time to shift gears and accelerate the pace of retail development in India. Finally, of late, there has been a lot of debate about the merits and demerits in liberalising FDI in retail, insurance, pension and aviation sectors in India. With the issue of FDI still hot, it is important for the government to take due care in formulating its FDI policies so as to reduce the regional disparity rather than aggravating it.

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