

IMPACT OF FOREIGN DIRECT INVESTMENT IN RETAIL INDUSTRY IN INDIA

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ABSTRACT

Over the last four years, it is said that one of the key factors damaging India's reputation as a business-friendly investment destination has been its FDI policy especially on retail industry. This is not true. There are lots of arguments going on towards and against this FDI on retail. The reasons for this is it is more complicated, so restrictive that even specialists have trouble in knowing about various notifications, laws and rules related to this.

There are simple solutions for very big problems. In this aspect rather than spending time, and other resources it is better to adhere the government policy that existed before. Therefore encouraging the local communities and giving those opportunities will eradicate poverty, increase literacy level and decrease the unemployment, crime ratio in this country. In this review, with more concrete examples it is shown about the negative impact on FDI in retail industry in India. In terms of this review, it is very clear that the host country¹ is not benefited in any aspect by allowing FDI in retail industry.

KEYWORDS: FDI, Host Country, Retail Industry

INTRODUCTION

Retail – It is defined as a sale to the ultimate consumer. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

Retail Traders

The Indian Govt. policies have been anti growth oriented for traders. The trader's wish is not heard by decision makers. In fact the traders in our country have no representation in Government. The decision makers also are not ready to ever hear him on policy matters that affect their trade.

Retail Sector in India

Retail trade is world's oldest business. It is world's biggest economic activity based on turnover and volume. It is estimated that In the year 2000, world turnover in retail trade is estimated around Rs. 3, 10, 20, 000 crores. In India by investing nominal Capital a person can start retail business. This helps in self employment in highly populated country like India. In India Retail shops are generally owned and run by family. The whole family gets self employed.

The Indian retail sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10% of India's gdp. In our country there are about 1, 25, 00, 000 retail out lets. The annual^{*1} **Definition of Host Country:** Nation in which individuals or organizations from other countries or states are visiting due to government invitation or meeting.

Total turnover is about Rs. 8, 75, 000/- crores. The Retail trade provides employment to maximum number of persons next to Agriculture in this country and approximately 1.25 crore shops are providing employment to about 4 crore people. According to a study conducted by RBI (Reserve Bank of India) India Retail Traders charge less margin.

FDI in Retail Industry: It is said that this policy, if crafted well, could achieve five critical goals for India is the argument from the government related organizations – is the statement given by the policy supporters. The arguments favoring FDI are as follows:

Increase the income of farmers by increasing investments into food-chain logistics that the large global grocery stores and chain stores or hypermarkets would bring to India, raising farm productivity, reducing spoilage, wastage and curbing food inflation. This would also reduce the role played by the inefficient and exploitative mandi system prevalent in large parts of the country where traders use the lack of cold storage facilities to exploit farmers at the time of harvest.

Protect the interest of 12 million petty shops which are the backbone of the rural economy. Protect the even larger number of street vendors, as defined by the 'Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act' — which, while having been passed in both Houses, is yet to be notified. There are an estimated 35-50 million such hawkers and vendors who make a subsistence living and are literally the 'last-mile connect with consumers

Ensure all Indian consumers access to the widest variety of goods at the lowest possible price. This can also create windows of wholesale opportunity for reselling profitability for stores and street vendors. Ensure maximum tax compliance in value-added tax (VAT) collections so that we create a win-win situation for all: the petty shops, street vendor, the foreign investor, the consumer and the government treasury.

Impact of FDI Policy

There is lots of evidence that the FDI policy is not successful in any country. The following are the negative impact on FDI in retail sector in India.

- Small size outlets are also one of the weaknesses in the Indian retailing industry since 96% of the outlets are lesser than 500 sq. ft. in their area
- This will mainly cater to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns.
- Retail chain super markets are to be settled down with proper merchandise mix for the mall outlets.
- The volume of sales in the Indian retail industry is very low.
- Lack of properly trained & educated force for the smooth run of the business
- Lack of competition, makes the quality compromise and avoids healthier competition
- More prices as compared to specialized shops
- Low capital investment is prevailing in the retail sector

Threats of FDI Policy

There is very big threat for the survival of small retailers like petty shops. What is the future of our Traders?

Employment in the manufacturing sector will be reduced or totally lost to a great extent. The profits will reach foreign countries whereas not serving the local community people involved in this retail industry. The greatest barriers for the chain store like wall mart are the supply chain management issues. For perishable items we need to spend more money for the adequate infrastructure. It is Difficult to target all segments of society.

Emerge of malls and super markets is trying to attract customers by giving inspiring ads, giving variety of choices of different brand products, thereby making more sales. This is applicable only in metros and it is highly impossible in rural and villages in India. Corporations predict that a total of 2 million jobs will be created when they infiltrate India's economy. There are 200 million people in India, however, whose jobs depend on the retail sector, which intervention of big business will destroy through forcing small businesses to close and killing local economies. Labour laws are flexible favouring the investors as it happens in other host countries. Fixing of uniform tax system for organized retailing is also a major barrier when FDI comes in India In urban areas where the chain stores are to be established there is problem related to traffic congestion, parking issues and transportation of finished goods to the respective stores is also a major concern. Urbanization is a major cause for all problems in our country starting from water scarcity, pollution, consumption of electricity etc. Psychologically, it is the human tendency to get attracted towards different types of advertisement, and the customer who enters the chain stores established by means of FDI has to spend more than their estimated budget. This will add as extra burden for a family with low income.

Future of Retail Trade

It is estimated that the No of Retail outlets between 1981-99 in United Kingdom came down from 56862 to 25800 due to this FDI. Between the years 1970-80 in Europe about 4 lakh Retail shops were closed down. In the year 2000 Five Big fast food companies captured following percent market share:

Table 1

Country	% Share
Norway	99
Sweden	94
Switzerland	88
UK	64
Portugal	57

In Thailand: In price war traditional retail shop owners are facing problem of survival. Many of them have closed down their shops. Big companies have seen the growth upto 40%. There was adverse impact on 60000 small shopkeepers. The Prime Minister of Thailand agreed that there was adverse impact on retail trade.

In China: There is anger against these companies amongst the general public. The news and print media is also reporting how traditional shops have been thrown out. The suppliers and manufactures are also facing problem and these are closing down

Other Asian Countries: In Japan, there is a policy that big companies have to discuss with small traders. These companies have to establish their shops outside city limits. Indonesia and Malaysia have established zones where these foreigners can do their trade.

European and America: There is wide discontent amongst shopkeepers & people in the countries to which these stores belong. The city counselor of California & Chicago has refused to allow opening of new shops to WALMART.

In countries like France, Germany and America these shops are required to take permission to operate.

CONCLUSIONS

From the above reviews it is clear that there are lots of negative impacts on the host country. Protection must be given to Indian small and medium retailers as retailing is their source of livelihood. In India, there is an opportunity to work for the farmers in the reverse chain process. Part of inflation is due to the fact that produces do not reach the end-consumer, for which FDI is not the solution. It is of course true that there is weakness in the present retail trade and the government should identify and rectify the same. To ensure the equal distribution of products to serve all customers, and the government should specify publically who have demanded FDI in retail trade. Therefore it is necessary to stop FDI in any mode especially in Retail Trade.

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