Impact of Welcoming of FDI in Retailing on Home Retail Business

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ABSTRACT

Foreign direct investment (FDI) refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period.

Key words: FDI, Home Retail Business.

Introduction

Indian Market Surging capital inflows, booming stock markets and a fast-appreciating currency suggest the India story is again shining after a dismal 2011. The union government cut the growth estimate for the current fiscal year that ends in March to 6.9% from a revised forecast of around 7.5% issued in December, sharply below the 8.4% growth of the last fiscal year. An improved global funding environment, relatively attractive valuations of Indian equities and hopes for rate cuts by the central bank have lured foreign institutions. They are net buyers of $3.2 billion Indian equities this year after having sold $357 million last year. Before the global financial crisis of 2008, India's growth capacity was estimated at around 8.5%. Indian Retail Industry is standing at its point of inflexion, waiting for the boom to take place. The inception of the retail industry dates back to times where retail stores were found in the village fairs, Melas or in the weekly markets. These stores were highly unorganized. The maturity of the retail sector took place with the establishment of retail stores in the locality for convenience. With the government intervention the retail industry in India took a new shape. These retail Stores demanded low investments for its establishment. The retail industry in India gathered a new dimension with the setting up of the different International Brand Outlets, Hyper or Super markets, shopping malls and departmental stores Future of organized retail in India looks bright. According to recent researches it is projected to grow at a rate of about 37% in 2007 and at a rate of 42% in 2008. It will capture a share of 10% of the total retailing by the end of 2010.

FDI in Indian Retail Industry

For a long time there were efforts for FDI in the retail sector so that the trader can reap the benefit of FDI. Retail trade contributes around 10-11% of India's GDP and currently employs over 4 crores of people. FDI in retail trade may create job losses and displacement of traditional supply chain. One of the main features of rural India is disguised unemployment. Farmers, evicted from the agricultural sector, engage in small retail trades for livelihood. The main fear of FDI in retail trade is that it will certainly disrupt the livelihood of the poor people engaged in this trade.

Figure 1: FDI in Indian Retail Industry

Retailing is the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. 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. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. The retail industry in India is of late often being hailed as one of the sunrise sectors in the economy. The well-known international management consultancy, recently identified India as the 'second most attractive retail destination' globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the Country, the retail industry is definitely one of the pillars of the Indian economy.

Indian Retail Industry Scenario

Though India is the tenth most industrialized country in the world, it is well known that it is mainly agro-based with around 70% population engaged in the farm sector. However, in the initial stage of liberalization, FDI was centred on the urban manufacturing sectors because of its civic infrastructure, labour availability, flexible taxation mechanism etc.

India is a land of retail democracy – hundreds of thousands of weekly hats and bazaars are located across the length and breadth of our country peoples own self organizational capacities. Our streets are bazaars – lively, vibrant, safe and the source of livelihood for millions. India has the highest shop density in the world with 11 outlets per 1000 people.

High levels of livelihoods in retail with nearly 40 million employed which accounts for 8% of the employment and 4% of the entire population, high level of self organization, low capital input, and high level of decentralization.

Trade or retailing is the single largest component of the services sector in terms of contribution to GDP. Its great share of 14% is double the figure of the next largest broad economic activity in the sector. The retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. Unorganized 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,

Unorganized retailing is by far the prevalent form of trade in India –constituting 98% of total trade, while organised trade accounts only for there remaining 2%. Estimates vary widely about the true size of the retail business in India. If we used the Government’s figures the retail trade in 2002-03 amounted to Rs. 3, 82,000crores. One thing all consultants are agreed upon is that the total size of the corporate owned retail business was Rs. 15,000 crores in 1999 and poised to grow toRs.35, 000crores by 2005 and keep growing at a rate of 40% per annum.3 Ina recent presentation, FICCI has estimated the total retail business to be Rs.11, 00,000 crores or 44% of GDP4. According to this report dated Nov. 2003,sales now account for 44% of the total GDP and food sales account for 63%of the total retail sales, increasing to Rs.100 billion from just Rs. 38.1 billion in 1996. Food retail trade is a very large segment of the total economic activity of our country and due to its vast employment potential; it deserves very special focused attention.

Table 1: Components of Service Sector in India

Components	Share % in GDP (2002-03)	Growth During 2002-03
Construction	5.3	7.3
Trade	14.0	4.5
Hotels & Restaurants	1.1	4.0
Railways	1.1	5.7
Other Transport	4.3	6.0
Storage	0.1	-7.8
Communications	3.5	22.0
Banking & Insurance	6.9	11.6
Real estate, Business/Legal Services	6.1	5.9
Defence	5.9	5.3
Other Community & Social services	7.8	6.2
Total	**56**	**7.2**

Source: Presentation to FICCI by MBN Rao (Chairman, Indian Bank): "Strategy for Financing Service Sector" (Sept.15, 2004)

Jobs in Retailing in India

The data of employment numbers is enough to paint a good picture of the relative sizes of these two forms of trade in India – organised trade employs roughly 5 lakh people ,whereas the unorganized retail trade employs nearly 3.95 crores5! According to a GOI study the number of workers in retail trade in 1998 was almost 175 lakhs. Given the recent numbers indicated by other studies, this is only indicative of the magnitude of expansion the retail trade is experiencing, both due to economic expansion as well as the 'jobless growth' that we have seen in the past decade. It must be noted that even within the organised sector, the number of individually-owned retail outlets far outnumber the corporate backed institutions. There are far more retailers in India than other countries in absolute numbers, because of the demographic profile and the majority of youth, India's workforce is proportionately much larger. That is about 4% of India's population is in the retail trade says a lot about how vital this business is to the socio-economic equilibrium in India

Table 2: Share of Retailing in employment across different countries

Country	Employment (%)
India	8
USA	16
Poland	12
Brazil	15
China	7

Source: Presentation to FICCI by Alan Rosling (Chairman, Jardine Matheson Group

Positive Impact:

FDI can have some positive results on the economy, triggering a series of reactions that in the long run can lead to greater efficiency and improvement of living standards, apart from greater integration into the global economy. Supporters of FDI in retail trade talk of how ultimately the consumer is benefited by both price reductions and improved selection, brought about by the technology and know-how of foreign players in the market. This in turn can lead to greater output and domestic consumption.

The largest retailer in the world 'Wal-Mart' has a turnover of $ 256 bn. And is growing annually at an average of 12-13%. In 2004 its net profit was $9,000mn. It had 4806 stores employing 1.4 mn persons. Of these 1355 were outside the USA. The average size of a Wal-mart is 85,000 sq.ft and the average turnover of a store was about $ 51 mn. The turnover per employee averaged $ 175,000.

Table 3: Product Wastage

PRODUCT	**WASTAGE**
TOMATOES	35%
MANGOES	30%
POTATOES	25%

Source: Authors Research

In 2004 Wal-Mart had a 9% return on assets and 21%return on equity.11By contrast the average The retail industry in India needs a strong back end support and the permission for foreign investment in a phased manner will help in addressing the technology and experience gap that the industry is facing currently. The impact of big foreign retail players on the domestic unorganised players would be positive. In fact, it is likely that these unorganised players would move to a higher equilibrium level of efficiency in a medium to long term horizon, added the report. Moreover, the sentiment boost by the recent measures will impact the overall real estate sector as relaxation of FDI limits in the retail sector would have direct a impact on the commercial real estate markets.

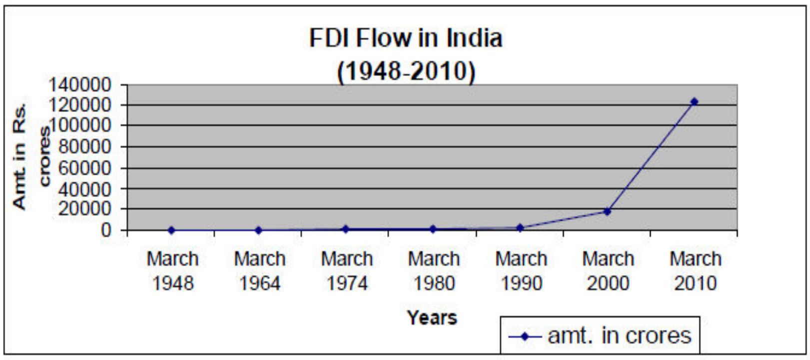
How Farmers to Get Benefitted

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 agri products get wasted due to improper storage.

Another area which is also the cause of concern is movement of vegetable and other perishable agri 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.

Table 3: Table shows seasonal perishable food items wastage



Source: Presentation to FICCI by Alan Rosling (Chairman, Jardine Matheson Group

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.

Negative Impact

Indian retailer had a turnover of Rs. 186,075. Only4% of the 12 million retail outlets was larger than 500 sq.ft in size. The total turnover of the unorganized retail sector was Rs. 735,000 crores employing 39.5 mn persons. Let alone the average Indian retailer in the unorganized sector, no Indian retailer in the organised sector will be able to meet the onslaught from a firm such as Wal-Mart – when it comes. With it's incredibly deep pockets

Wal-Mart will be able to sustain losses for many years till its immediate competition is wiped out. This is a normal predatory strategy used by large players to drive out small and dispersed competition.

Figure 2: The entails job losses by the millions

India has 35 towns each with a population over 1 million. If Wal-Mart were to open an average Wal-Mart store in each of these cities and they reached the average Wal-Mart performance per store – we are looking at a turnover of over Rs. 80,330 mn with only 10195 employees.

The recent debate 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. It is widely acknowledged that FDI can have some positive results on the economy, triggering a series of reactions that in the long run can lead to greater efficiency and improvement of living standards, apart from greater integration into the global economy. But the most important factor against FDI driven "modern retailing" is that it is labour displacing to the extent that it can only expand by destroying the traditional retail sector. Till such time we are in a position to create jobs on a large scale in manufacturing, it would make eminent sense that any policy that results in the elimination of jobs in the unorganised retail sector should be kept on hold. As per present regulations, no FDI is permitted in retail trade in India. Allowing 49% or 26% FDI (which have been the proposed figures till date) will have immediate and dire consequences. Entry of foreign players now will most definitely disrupt the current balance of the economy; will render millions of small retailers jobless by closing the small slit of opportunity available to them. Imagine if Wal-Mart, the world's biggest retailer sets up operations in India at prime locations in the 35 large cities and towns that house more than 1million people13. The supermarket will typically sell everything, from vegetables to the latest electronic gadgets, at extremely low prices that will most likely undercut those in nearby local stores selling similar goods. Wal-Mart would be more likely to source its raw materials from abroad, and procure goods like vegetables and fruits directly from farmers at preordained quantities and specifications.

No Clear cut stand of Indian Govt. on FDI in Retail

Govt does not have any clear stands on the FDI in Retail. They have not done any survey and cost benefit analysis of this issue. As claimed by the Govt that it will create Jobs, opposition does not buy it. They claim million of retailers have to shut their shops. As claimed by Govt that it will bring down price, opposition thinks otherwise. Till date the issue has to get majority votes in the parliament.

Important Issues to oppose FDI in Indian Retail Sector

1. The most important issue which is against allowing FDI in retail sector is that small traders will not able to compete with the big players and thus cease to exist. These traders don't have the capital and expertise to compete with big retail chains. The big chains also have a capacity to sustain losses for a longer period therefore able to undercut prices of goods which will lead to desertion of small traders.
2. It is assumed that initially foreign stores would keep the prices of their products low in order to attract their customers & eliminate their competitors. But with the time they would establish their monopoly in Indian markets & hence quality and price of products would be compromised.
3. In India, where millions of people are semi-skilled, it is the retail sector which offers them source of earning as one can easily open a small shop with a little capital. The government should understand that before approving any policy reform in the retail sector it must create jobs in other sectors which can accommodate these people.
4. Opening of Multi-brand stores, setting up of infrastructure, recruitment of staff & maintenance of quality of products during initial stages would force the foreign retailers to sell their products at higher price. So Government's plea ,that Inflation would be controlled to a larger extent, does not convince majority of Indians

Conclusion

When India already has the talent, capacity, technology and Experience in Retail sector, government should not allow FDI in Retail sector, If we talk about FDI in Construction and Telecommunication so it is ok, Govt. can also think the FDI in non profit making items because that had help for development but in Retail- it will harmful for Indian Economy.

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