ABHINAV
NATIONAL MONTHLY REFEREED JOURNAL OF REASEARCH IN COMMERCE & MANAGEMENT
www.abhinavjournal.com

PERSPECTIVE OF ACADEMIC COMMUNITY TOWARD FDI POLICY INITIATIVES IN MULTI-BRAND RETAILING IN INDIA

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ABSTRACT

India has been ranked at the third place in global foreign direct investments in 2009 and will continue to remain among the top five attractive destinations for International investors during 2010-11, according to , 'World Investment Prospects 2009-2011 and in retail sector it has been on third position for retail investment as per AT Kearney report 2010. Despite a positive environment India's retail market remains largely off-limits towards large international retailers like Wal-Mart and Carrefour. Foreign investors are also very enthusiastic to invest in India's Retail Sector. Opposition has been raised toward liberalisation of FDI in multi-brand retailing as this will create employment losses, unfair competition that will effect small retailers. Expert had the opinion that FDI in multi-brand retail will bring in technological advancement and bring in efficient supply chain system which will control the rising inflation to benefit the consumers. The government need to initiate value based FDI in multibrand retailing by focusing more towards infrastructure and SMES. Also there is a need of shopping mall regulation act that can regulate the entry of foreign players in the Indian market. Every day is followed by a night. One should not stand against the good things that FDI in retail can bring us in fear of the night. FDI will create a new source of Income and investment for the Govt., which can be used for the infrastructure development of the country. The government has given green signal toward FDI in multi-brand retailing but has received the acceptance only from nine states.

This paper is a modest and sincere attempt to understand the FDI policy framework towards multi-brand retailing in India emphasizing toward positive outcome FDI and also by understanding the perspectives of the academic community toward FDI in multi brand retailing.

***Keywords**:* Foreign Direct Investment, Multi-Brand Retailing, Inflation.

INTRODUCTION

The Government had introduced major economic reforms since mid-1991 with a view to integrate with the world economy, and to emerge as a significant player in the globalization process. Reforms undertaken include dereservation, simplification of investment procedures, liberalisation of exchange control and liberalisation of FDI. The FDI policy was liberalized progressively through review of the policy on an ongoing basis permitting more FDI inflows in India. One of the sectors which have recently liberalised to encourage FDI is the Indian retail sector.

The Retail bazaar in India is booming beyond everyone's expectation. The Indian Retail sector has caught the world's imagination in the last few years. The Indian retail market has been estimated at $400-450 billion, is dominated by the highly decentralized unorganized sector. Over the last few years this sector has seen emergence of the organised retail. The organized retail industry is one of the sunrise sectors with huge growth potential. Organised retail industry accounts for only 5% of total retail industry but is expected to reach more 10% by 2013. India's retail growth was largely driven by increasing disposable incomes, favorable demographics, changing lifestyles, growth of the middle class segment and a high potential for penetration into urban and rural markets. Food and grocery forms 60% of the retail market followed by clothing and apparel. Organized retail with its variety of products and multitude of malls and supermarkets is fuelling their addiction. Despite such a large size of the market the food chain and supply chain in this sector is largely unorganised and inefficient. The lack of technology and process control leads to tremendous wastage of agriculture produce. This deficiency has been one of the problem that creates losses to the farmers, intermediaries, organised retailer and small retailers.

Policy makers do believe that entry of FDI in the retail sector will improve the efficiency of the supply chain and reduce the wastage. The food inflation in the country has stayed high for some time now. The gap between the farm level prices and consumer prices is very high in India which has not come down with the expansion of organized retail. Thus this paper attempt to understand the FDI Policy initiatives and the opinion of academic community toward FDI in multi-brand retailing in India.

OBJECTIVE OF THE STUDY

1. To analyze the current retail scenario in India,
2. To understand the Policy initiatives toward FDI in retail sector
3. To analyse the opinion of the academic community toward FDI policy framework.
4. Recommendation to initiate value based FDI in multi-brand retailing in India.

METHODOLOGY

To evaluate the overall position of the entry of FDI in multi brand retail in India, secondary data has been collected from various published sources and websites. In order to understand the present FDI policy frame work toward multi-brand retail and the extent of the acceptance among academicians and to review their expectation, a random sample of 50 academicians from Mumbai city has been selected. The data has been collected through questionnaire method. The questionnaire basically focused to understand the opinion of the respondents toward minimum investment criteria into various sector, preference of investment and the effect on inflation if FDI in multi-brand retail is implemented by the government.

REVIEW OF LITERATURE

Mukherjee and Patel (2005) study found that foreign retailers are working with small manufacturers for in-house labels and are providing them technologies like packaging technologies and bar coding. Sourcing from India has increased with the advent of foreign retailers and they also bring in an efficient supply-chain management system. Joint ventures with foreign retailers are helping the Indian industry to get access to finance and global best practices. Besides, retailing being a non-tradable service there is no possibility of improved efficiency through import competition and foreign investment is the way forward.

Reardon and Hopkins, 2006; Reardon and Berdegue, 2007 studies indentified India as an stand out example for the late coming of modern organized retail in emerging markets and also for the kind of restrictions placed on foreign investments in retail. The arrival of modern retail in developing countries occurred in three successive waves. The first wave took place in the early to mid-1990s in South America, East Asia outside China, North-Central Europe and South Africa. The second wave happened during the mid to late 1990s in Mexico, Central America, Southeast Asian countries, Southern-Central Europe. The third wave began in the late 1990sand early 2000s in parts of Africa, some countries in Central and South America, Southeast Asia, China, India, and Russia. According to the authors, the main reason why the third wave countries which include China, India and Russia lagged behind was the severe restrictions on foreign direct investment (FDI) in retailing in these countries.

Gibson Vedamani in his book, Retail Management (2010) has opined that the due to an entry of Foreign Direct Investment (F.D.I), nothing can impact. It will not harm the customers. But of course, the service providing system may be definitely improved. On this issue we can learn many things. He also added that the 'Meeting the Expectations' is the main and basic theme of any Retailer. Then these Retailers may either Domestic or Global one.

Kearney (2007) explains that the retail sector provides a unique platform to Indian Government. Both central and state government need to engage with the sector and utilize its potential for social development. So the Indian market and its consumers poised for a retail consumption explosion that will continue for future. India’s sunrise retail sector is witnessing a major transformation as traditional markets make way for modern and indigenously development retail formats.

FDI in Retailing in India

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999.The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). FDI in retailing has been so for introduced in two forms ie FDI in single brand retailing and FDI in multi-brand retailing.

FDI in Single-Brand Retailing

Single brand retail outlets with FDI generally pertain to high-end products and cater to the needs of a brand conscious segment of the population, mainly attracting a brand loyal clientele, which often has a pre-set positive disposition towards the specific brand. FDI in single brand was however, permitted in 2006, to the extent of 51%. Since then, a total of 94 proposals have been received till May, 2010. Of this, 57 proposals were approved. An FDI inflow of US $ 194.69 million (Rs. 901.64 crores) was received between April, 2006 and March, 2010, while FDI in cash and carry wholesale trading was first permitted, to the extent of 100%, under the Government approval route, in 1997. It was brought under the automatic route in 2006. Between April, 2000 to March, 2010, FDI inflows of US $ 1.779 billion (Rs. 7799 crores) were received in the sector. This comprised 1.54 % of the total FDI inflows received during the period.

FDI in Multibrand retailing

In simple terms in multibrand retailing a single retailer come up with the number of new brands to capture the market. It is important to understand the definition of single versus multi-brand retail. Multi-brand retail, as considered by the Indian government, would include retailers like Wal-Mart, Tesco, Carrefour, CVS, Walgreens, 7-11, Best Buy, Home Depot, Staples and Office Depot. Under multibrand retail the policy framework is as follows:

- Government has decided to allow 51% FDI in Multi-brand retails.
- Minimum investment of $100 million.
- 50% of the investment is to be in backend infrastructure development.
- 30% of all raw materials has to be procured from India's small and medium industries.
- Permission to set up malls only in cities with a minimum population of 10 lakhs.
- Government has the first right to procure material from the farmers.
- Products should be sold under the same brand internationally.

Thus adoption of liberalized policy for the Multi-brand retail sector would be more of a positive step as it would bring added advantage in the following ways:

- India needs trillions of dollars to build its infrastructure, hospitals, housing and School for its growing population. 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.
- In India 40% of harvests are lost in storage and transportation. India is the second largest producer of fruits and vegetables but the country is loosing Rs.1 trillion per annum, (estimated 50% of produce) going waste due to lack of storage facilities and difficult to link to far-away markets. FDI will improve our agriculture infrastructure in terms of seed supply, agrichemicals, processing, machinery, storage facilities, rural transportation and supply chain linkages.
- The technical know-how, global best practices, quality standards and cost competitiveness brought forth through FDI would encourage domestic players to sustain their growth.

- There will be large amount of tax collection by government from these firms and employees working in these firms.
- There will huge dip in inflation. As the cost price of consumable good will decrease, inflation will reduce to a considerable level.
- The retail sector is severely constrained by limited availability of bank finance. An FDI in retail sector to some extent will help to remove the inefficiencies of the govt to fund the retailers in India.

KEY FINDINGS OF THE STUDY

In order to understand the approach of academic community towards FDI policy initiatives in multi-brand retailing in India the primary study was conducted with a random sample of 50 respondents from academic community in Mumbai city to understand their perspective towards FDI policy .The key findings of the above study are:

- 60 % of the respondents agreed that FDI in multi-brand retailing should be encouraged in India.
- With reference to FDI policy initiatives towards 51% share in FDI it was found that 35% agreed toward government policy towards FDI whereas 10% were neutral in their opinion, 29% disagreed with this proposition and 26 % strongly disagreed towards 51 % of FDI in multi-brand retailing.
- It was also found that 55% of the respondents preferred FDI investment in supply chain and small medium enterprise as according to them these were never the priority of the government. While 30% preferred FDI towards agricultural resources and the rest of the respondents preferred the investment towards the retail outlets.
- In support of minimum investment criteria it was found that 18% respondents agreed that FDI should be introduced with less than 50 million whereas 52 % respondents agreed with government criteria of 100 million investment and the rest 30% of the respondents do believed that the minimum investment should be more than 100 million.
- To support small medium enterprise maximum respondents believed that government increase investment in SMES to 50% as FDI is this sector will be fruitful if more investment is done in this sector.
- The study also found that maximum respondents accepted high quality products and more varieties as the benefit that the consumer would derive from FDI and reduction in wastage, efficient infrastructure will be the benefit which the organised retailers will achieve from the FDI in multibrand retail.
- The study also revealed that 10 % of the respondents strongly agreed and 60% agreed towards incorporation of Shopping Mall regulation act.
- The study also found that 48 % agreed that FDI in back end operation would control inflation in food products while the rest didn't find any benefit that FDI could bring towards inflation.

RECOMMENDATION

Following are the recommendations in order to ensure effective implementation of FDI in multibrand retailing.

- FDI in multibrand retailing should be first introduced only in metro cities. If there are some consequences then these can be rectified without having much deeper impact instead of launching in 53 cities.
- In order to ensure the success in FDI in multibrand in retailing more than 50 percent need to invested towards retail infrastructure as this will create a ground for the organised retail market to survive in future.
- As permitted by the government to invest 30% in SMEs it is recommended that more focus need to be given to SMEs by not just procuring raw material but also extending the financial assistance.
- Most of the organised model established in India has been aping the western model which do not receive positive acceptance in Indian shore. If FDI has to be introduced it has to incorporate value based model which incorporate Indian consensus and thought and belief towards shopping. It is long term investments which need minute study before implementation.
- It has been seen that scam and scandals in India had given birth to norms and acts. It is essential for the government to incorporate shopping mall regulation act which gives protection to farmers, small retailer, Consumers, employees so that FDI do not bring any consequences to any group. The likely scenario of the growth of the two sectors should reflect certain trends in Indian urbanization that favour the organized sector without entailing the decline of the unorganised sector.

LIMITATION OF THE STUDY

- The study has focussed more on the positive incentives that FDI can invite in multibrand retailing.
- Only perspective of academic community has been presented in the present research study.

CONCLUSION

Everything has got two sides – good and bad and it's a natural law. Every day is followed by a night. One should not stand against the good things that FDI in retail can bring us in fear of the night. FDI will create a new source of Income and investment for the Govt., which can be used for the infrastructure development of the country. It would also help bring about improvements in farmer income & agricultural growth and assist in lowering consumer prices inflation. One should be able enjoy the benefits tackling the negative impact. Such arguments reminds about anti computer protests by the left parties. The Government should be able to take everyone in confidence. After all survival of the fittest is the rule of business. The local retailers should adjust themselves to the changing world. Thus allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP but also overall economic development.

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