FDI in Multi-Brand Retail: Issues and Implications on Indian Economy

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Retail Sector is one of the most important pillars of Indian economy and it is growing at a phenomenal pace. Foreign Direct Investment (FDI) in retail sector plays an integral role in the economic growth. FDI in Multi-brand retail can be seen as an important reform to revive the economy and to ease supply side pressures especially inunorganized sectors. In this context the present study attempts to discuss the issues and implications of FDI in Multi-brand Retail on Indian Economy. To revive the Indian economy, FDI policy in multi-brand retail is an important reform that would ease supply side pressures and mitigate inflation. Implications of FDI in multi-brand retail sector discussed outweigh the issues related to the new FDI policy reforms.FDI in multi-brand retail can go a long way in improving the efficiency of supply chain, infrastructurefacilities, technological advancement and other relevant areas of growth in retail sector. The FDI policy on multi-brand retail creates opportunities for the Micro, Small and Medium Enterprises (MSMEs) to reach out the International markets. Farmers and consumers would benefit from the new entry of organized retailers in multi-brand and would help tame food inflation by improving agri-commodity management.

Keywords: Foreign Direct Investment; Organized Retail, Unorganized Retail, Multi-brand Retail Sector; Economic Growth.

Introduction

India has the highest retail density in the world, with 12 million small shops catering to 209 million households. India has a high potential market with accelerated retail growth of 15-20% expected over the next five years. However, a significant decrease of 60% (amounting to $24.2 billion) of FDI was noticed in 2010, when compared to 2009. This appeared to be mainly because most the Indian rural and small towns' retail markets are unorganized (Moghe, 2012). The Indian retail sector is highly fragmented and weighted towards unorganized retailers which is 93% of the market and only 7% by organized retailers but is quickly growing and organized retail market is expected to reach 20% by 2020 (Kearney Report, 2011). According to A.T. Kearney Global Retail Development Index (GRDI) 2012, India ranks fifth after Brazil, Chile, China and Uruguay. India is treated as a high potential market with accelerated retail market growth of 15 to 20 percent expected in the coming 5 years, supported by a GDP growth of 6 to 7 percent, which will considerably increase disposable income and rapid urbanization. The changing FDI climate has provided an interesting dynamic international retailers' entry and expansion plans in India (Kearney Report, 2012).

Unorganized retail operates at low cost and small size format. These include the local kirana shops, owner manned general stores, paan/beedi shops, the local mom and pop store convenience stores, hand cart and pavement vendors, etc. In the last 10 years there has been significant development from small unorganized family owned retail formats to organized retailing. This effect of branded retailing can already be seen with

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the Bharti-Wal-Mart collaboration, which has joined forces with state governments to open training and development centers in Amritsar, Delhi and Bangalore, preparing local youth for jobs in retail (Federation of Indian Chambers of Commerce and Industry Report, 2010). In November 2011, India's Central Government announced retail reforms for both Multi-brand stores and single brand stores and this however suggest that this may be about to change global market chain stores such as Wal-Mart (United states), Carrefour (France), Marks & Spenser and TESCO (United Kingdom) and Shoprite (South Africa) may finally be allowed to set up in India. The organized retail sector includes licensed retailers, that is, those registered for sales tax, income tax, etc. It also includes corporate-backed hyper-markets and retail chains and the privately owned large retail businesses.

FDI Trends in Indian Retail Sector

FDI policy plays a major role in the economic growth of developing countries around the world. The government of India has been considering opening up the retail business to FDI. Many other sectors have been exposed to FDI, the retail sector has had to wait for quite some time due opposition from political parties, including ally Trinamool Congress, UPA II and various trade organization. FDI will be a powerful catalyst to the growth of retail industry (The Siasat Daily, 2012). In 1995, the general agreement on trade in services with World Trade Organization (WTO)opened FDI for wholesale and retailing services. In 1997, FDI cash and carry (wholesale) with 100% rights was allowed with government approval.There had been a greater momentum in the retail sector since 2006 as the Government of Indialiberalized FDI policies. The FDI policy in cash and carry (wholesale) brought under the automatic route and in single-brand 51% investment was permitted. On November 24, 2011, the Government of India announced that it had approved FDI in multi-brand retail subject to a number of conditions. FDI will be allowed at up 51 percent foreign equity subject to government approval on Multi-brand retails. A foreign company initial investment must be at least $100 million and at least 50 percent of which is required to be in back-end infrastructure like supply-chain operations. Investors will have to source 30 percent their products from "micro and small" industries with not more than $1.0 million in capital investment.Foreign direct investment will be allowed in retail stores only which operate in cities with populations of over one million.

Prospects of FDI policy for Multi-brand Retail

The new policy would benefit both foreign retailers and Indian companies. The foreign retailers' will getbetter local market knowledge and thus an increased consumer base, whereas Indian companies will gain advantage from global best management practices and technological know-how. The primary aim of the policy is to attract greater FDI inflows and to create a friendlybusiness environment. Foreign investors may experience aliberalized legal and financial framework to have the potential growth in the multi-brand retail sector. Researchers (Palit and Nawani 2007; Pires, Stanton and Salavrakos 2010; Jain and Sukhlecha 2012) argued that FDI will infuse technological advancement and induce capital flow which enhances production possibilities andmaintains general macroeconomic stability. To revive the Indian economy, FDI policy in multi-brand retail is an important reform that would ease supply side pressures and mitigate inflation.This would bring better prospects and higher profit margins for the small and medium enterprises as itcreates greater market access.

The Government of India considers safety measuresin order to calibrate FDI in multi-brand retail sector as it is concerned about the competition among the domestic retailers and the monopolization of the domestic market by International giant retailers. The safety measures like afixed percentage of FDI in the sector is obligatory to be spent on building back-end infrastructure, logistics or agro-processing units so as to ensure that the foreign investors make a valid contribution to the development of infrastructure and logistics.The government ensures at least 50 percent of the jobs in the retail outlet are reserved for rural youth and a certain amount of farm produce is required to be procured from poor farmers. A minimum percentage of manufactured products are required to be sourced from the small and medium entrepreneur sector in India.The government has reserved the right to procure a certain amount of food grains in order to ensure that the public distribution system and the Indian food security system, is not weakened. An exclusive regulatory framework is set in order to protect the interest of small retailers and the giant retailer do not resort to predatory pricing or acquire monopolistic tendencies (Agarwal, 2011).

Issues in Allowing FDI in Multi-brand Retailing

The new FDI policy has become a key battleground in the emerging multi-brand retail markets, researchers (Henley 2004; Palit andNawani 2007; Pires, Stanton and Salavrakos 2010; Jain and Sukhlecha 2012; Moghe 2012) have highlighted a number problems related to backend infrastructure, implementation of improved technology, improvement in supply chains, issues of real estate and human resources. It is observed deficiency of appropriate investment in logistics and storage facilities which are two alarming factors leading to an inefficient market mechanism. The technology used in Indian retail is also largely obsolete, resulting poor efficiency at the supply side economy. Overall food based inflation has been a matter of concern though it is given substantially good subsidies to farmers. Henley (2004) study shows China is in better position in attracting FDI when compared to India. India's performance is understated because ofvarious reasons like high tariffs, poor physical infrastructure, unfriendly regulatory system etc. It concludes with a hope of liberalization which would be driven by external pressures and state level initiatives.

A.T. Kearny report (2006) by CII (Confederation of Indian Industry) indicated the best practices adopted by China and South Africa in FDI policy where infrastructure facilities were given preferences. It highlighted the role of regulatory bodies in promoting retail which is leading to the related economic benefits such as tax revenue, employment etc. The report identified the specific actions which can be taken to foster retail success and growth. Foreign Players' view is that the legal environment in India is not conducive enough to invest and many are willing to enter with 100% FDI. Inadequate data on consumer behaviour towards the retail market also is an issue for them. Some experts claim that the entry of retail giants will enable rapid expansion of Indian economy.

Palit and Nawani (2007) attempted to explain the country-wise dissimilarities in the arrangement of FDI flows in the developing Asian economies. The study refersthat the location of retail marketsinfluences FDI flows and also argues that certain countries enjoy comparative advantages in the form of superior technological capabilities and infrastructure which attracted greater volumes of FDI. Developing countries like India find the production processes becoming complex due to intensive technological development.

Joseph et.al (2008) study on organized retailing shows all segments of the Indian economy could be affected by the entry of large corporate giants in the multi-brand retail business. It has found that unorganized retailers experienced a decline in their sales and profit with the organized retailers. The liberalization of FDI for Multi-brand retail sector would affect unorganized small retailers by giving rise to monopolies of large corporate houses with respect to pricing and availability of goods.

Pires, Stanton and Salavrakos (2010) argue that the legal, technical and socio-economic problems at the macro-level interlink FDI and economic growth. The study stress on the importance of prioritizing the incentives offered to the FDI infrastructure. The entry of other players would create a competitive landscape for the e-commerce business, leading to the larger benefits for the Indian customers. The only challenge they fore see is the state approval clause. Indian government has put a clause that allows state government to opt out of the system, which would bar multi-brand retailers from opening up the physical stores in the states. They are not clear how this clause is going to affect the e-commerce. The investors would be more comfortable investing in a company that is complying with all the requirements set by the cabinet and the letter of law. From the company's perspective the investors will now be able to pursue foreign investments but have to be cautious to comply with the regulations.

Economic Survey (2011-12) for FDI in multi-brand retail states that the Inter-Ministerial Group (IMG) on inflation has recommended for leveraging FDI as it noted concerns for high rates of food inflation and low prices grasped by Indian farmers. Study (McKinsey Report, 2012) states that the retail productivity in India is very less compared to other International counterparts. The over-all retail employment in India, account for about 6% of current Indian labour force, mostly unorganized, and which is about half when compared to the other emerging economies. A comprehensive expansion of retail sector in India would create more than 50 million jobs. Training and development for labour in the retail sector for a better productivity is considered to be a challenge.

Jain and Sukhlecha (2012) studied FDI in multi-brand retail and tried to establish the need of the retail community to invite FDI in multi-brand retailing. It was noticed that there are few issues to be addressed for the consumer's right to be saved, for the employment opportunities to be generated and also for the regularization of the retailers working in different areas. But it inferred that in spite of having all these problems the entry of foreign investment in retail sector is found to be the most effective for the country's development and supremacy in the world scenario.

The government's decision to allow up to 51% Foreign Direct Investment (FDI) in multi-brand retail, has been challenging for all the sectors mentioned in the various studies throughout the literature review. Additionally, more than 20 crore people are selling vegetableson footpath without a fixed shop throughout the country. There are other farmers, milkmen, fruit producers and others also make their lives through retail trading upon footpath and hand carts across the country. It is reported that the notification would hit the livelihood all these small retailers (Hindu, 2012).

In India life of a farmer is very much cheaper than their western counterparts. The current market system is not farmer supportive, as the big giants are directly dealing with agents. If the other retail players are allowed to enter over this market segment, small retailer in organic food shops will close down. The gap between farmer prices and consumer prices would be very high even with the entry of large retailers. Small retailers would be squeezed and the movement will suffer in the long run (Hindu, 2012). This movement has to be taken up more in urban cities as the people needed this most. Small retailers must be allowed to exist with their independent shops as such to enable them to have a peaceful livelihood.

New policy ensures 30 percent of the products must be obtained from small scale industries which have a total investment of not exceeding $1 million in plant and machinery. It further emphasizes that the fresh agricultural produce may be unbranded. The retail giants will have to comply with self-certification. They have to keep all documentation intact and the government will have the right to procure agricultural produce. New policy of 30% of obtaining manufactured and processed productsshould be secured from small industry (Department of Industrial Policy and Promotion Statistics, 2012). Experts' points out that Indian retail trade sources more than 30% from small industry currently. The FDI policy is not ensuring a concession on this matter.

Moghe (2012) critically analyzed the decision of Indian government to open retail sector for FDI in single-brand and multi-brand category and it's likely to have impact on various components of Indian economy. In addition, it was suggested to have a strong enforcement mechanism to ensure that big retailers do not dislocate small retailers by unfair means and to build a co-existence of both the arms. The high-level group which is to be constituted under the Minister of consumer affairs is expected to look into the aspects such as internal trade and recommendations on trade reforms to the government. Reforms in the internal trade will ensure distribution efficiencies and overall development to all sections of the society.

Implications of FDI in Multi-brand Retail Sector

Ozturk and Ilhan (2007) reviewed various literatures dealing with effects of FDI and observed significant effect on economic growth is through multiple channels such as capital formation, technology transfer and spillover, human capital enhancement and so on. Hence the new FDI policy on multi-brand sector emphasizes the multi-brand retailers to bring minimum of 100 million US dollars with half of the investment on back-end infrastructure facilities life cold chains, transportation, refrigeration etc. It was because the government of India wanted to minimize post-harvest losses and to provide reasonable remuneration prices to farmers with this new policy. So, now the retailers will be able get at least 30% of source for goods from small and medium sized suppliers in multi-brand and at the same time it will also enable the single-brand retail sector to get benefits out of this.

The FDI policy on multi-brand retail would create opportunities for the Micro, Small and Medium Enterprises (MSMEs) to reach out the International markets. Research studies on Indian Economy emphasises the need for development of MSME sector, as most of them are highly unorganized. It has seen that the reason behind this is largely because their inability to get access to advanced technology and availability of limited options to improve its market interface. Mandeep (2009) in an attempt to review the advent of global retailers in India examined and evaluated that FDI brings latest technological know-how, well-integrated supply chains, standards and quality products. It not only upgrades human skills but also increases sourcing for Indian retail sectors to reach Global retailers.

The Indian logistics has always suffered due to lack of investment mainly in retail chain, due to which market mechanism failed to gain desired level of efficiency in-spite of being a second largest producer of fruits and vegetables. The limited integration in cold-chain infrastructure has always been a challenge to Indian economy. Currently there are 5386 stand-alone cold storages with total capacity of 23.6 million MT, whereas the production of fruits and vegetables amount to about 180 million MT (Prime, Subramanyam and Lin, 2012). The existing cold-chains are highly fragmented, which bring great challenges to farmers to make their perishable horticultural commodities to markets including overseas markets. The shortage of cold store not only brings heavy losses but also leads to wastage of produce both in terms of quantity and quality. With new policy on 'multi-branding' such issues may be resolved and the flow of FDI is expected to be more infrastructure development and a significant improvement can be seen in Indian agriculture. Over many years, Indian farmers suffer under the hands of intermediaries, who often flout mandi norms and dominate the value chain.

Lack of transparency in pricing has led to development of unorganized sector. Researcher (Discussion paper on FDI, 2010) have investigated that farmers receive only 1/3rd of total price paid by final consumers. The flaws of intermediaries are likely to be eliminated with the development of new FDI policy of the government, as the pricing would become more transparent and the farmers are expected to be benefited due to involvement of big retailers. The exploitation of intermediaries is mostly likely to be reduced.

There has always been a big question on the effectiveness of the public procurement and setting up of worthy Public Distribution System (PDS). Studies have shown that inflationary tendency in food pricing and absence of a 'farm-to-fork' retail supply system has always been a matter of concern to Indian government (Roy and Kumar, 2012).While developing FDI policies, the government has taken measures to resolve this issue through the new FDI policies.

The FDI in multi-brand retail sectors are likely to open doors for big supermarkets, which would tend to bring larger benefit to consumer, as they would experience lower prices with more diverse products and higher quality product than the traditional retailers. Increasing price in various sectors like food industry and other essential commodities the ultimate suffer are the consumers. Study conducted by Chari and Raghavan (2011) reveals that allowing entry to giantretailers to the Indian market may help tackle inflation especially in food prices. Moreover, it will help to enhance the technologies and distribution systems and supply chain efficiency in India. Some studies have shown that the basic foods of the urban poor are noted cheaper in supermarkets than in traditional retail shops. For example in Delhi (India) the price of rice and wheat are 15% cheaper and vegetables are 33% cheaper in supermarkets when compare to traditional retail shops.Survey (Pan-Indian survey, 2011) from ten major cities overwhelm that majority of farmers and consumers support the retail reforms, 90% of consumers said that the FDI in multi-brand retail reform would bring down the prices and would have more better choices of goods; 78% of farmers said that this will enable them to get better prices for their produce and 75% of traders claimed their sales may increase due multiple channels openings for marketing their products. Recent studies on new FDI policy reforms has claimed that consumers are tend to get the most benefit due to FDI in multi-brand retail (Suklecha, 2012).

Research (Moghe, 2012) has shown that Indian Farmer's associations like Shriram Gadhve of All India Vegetable Growers Association (AIVGA) and Bharat Krishak Samaj revealed their support to FDI in multi-brand retail reforms. AIVGA strong believe the new FDI policy would help to resolve issues relating to cold storage and would minimize the exploitation of the middlemen commission agents. Bharat Krishak Samaj supports new FDI policy because it would not only improve the wholesaler in sabzimandis (vegetables and farm produce) but a spillover effect can be found in small shopkeepers in the unorganized retail market.

Earlier research studies (Sharma, 2001) assessed FDI's contribution to India's export performance is considered to be one of the important channels which influence economic growth and development. It was observed that FDI have statistically no significant impact on export performance. However, the exiting retail firms like Spencer's, Foodworld Supermarkets Ltd, Nilgir's and ShopRite also support the new FDI in multi-brand retail sector as this would enable them to create opportunities for joint ventures with major global supermarkets with more scope for expansion in capital and flow of gain expertise in supply chain management. Research shows Foodworld Supermarkets Ltd. already tied up with Hong Kong-based Dairy Farm International and with new reforms their global relationship will get stronger (AP Retail conference, 2007).

Research (Wie, 2005; Blomström and Kokko, 2001) examines the links between FDI and human capital and it discuss the interaction between FDI and human labour is complex and non-linear. FDI has potential for spillovers of knowledge and advance technology which would lead to the development of labour skills. Balasubramanyam and Mahambare (2002) argued that FDI is very effective in promoting development activities conditioned by co-operant factors in the host economies which possess a threshold level of human capital. The new FDI reforms will help the Indian economy to bring structural change in labour markets with better work environment. Research (Wakchaure, 2011) argues that Indian workers in small shops work without formal contracts for long hours with very low wages. Most the unorganized sector largely depends on child labour. Hence with new FDI policy these issues may be resolved as the main agenda of the new FDI reforms is to minimize unorganized sectors in India.

Thus it can be said that the rationale behind allowing FDI in multi-brand retail sectors is due to competition in retail industry and current trends of poor productivity with high level of unorganized sectors operating in India. This would bring adequate flow of capital into the Indian Economy and help the country to promote welfare to society in general and farmers and consumers in particular. Apart from this, the Indian Economy would flourish in terms of better quality standards and gain some cost-efficacy. The Indian Council for Research on International Economic Relation (ICRIER) has projected the impact of BIG capital in retail sector will reach to $496 billion by end of 2011-12 and this would not harm the interest of small, traditional, retailers (Prime, Subramanyam and Lin, 2012). FDI in multi-brand retail would lead to substantial growth in GDP and overall economic development. The new liberalized FDI policy in multi-brand retailing is favoured by the Retail Association of India (RAI), Shopping Centers Association of India (a 44 member association of Indian multi-brand retailers and shopping malls) and International retail players like Wal-Mart, Carrefour, IKEA and Tesco (Abrar, 2012).

Research studies (Baskaran, 2012; Gupta, 2012) have indicated that FDI in multi-brand retail will lead development with an increase in the sales for modern retail outlets in India. With entry of retail giants' it is likely to eliminate informal retail sectors out of business and is likely to bring market consolidation in the formal sectors. This would help the small/less capitalized retailers to maintain a sustainable price for their product. Studies argue that the informal sectors will not be displaced with big retail giants, but in turn they are likely to grow and become more organized (Moghe, 2012). Indian economy has great scope developing informal sector to formal sectors with increased favourable investments. Bhaskaran (2012) conducted a SWOT analysis of FDI towards the multi-brand retailing which brought out the significant challenges and key success factors of FDI in Indian scenario. It reviews the impact of organized retailing on the unorganized sector. Surveys specified (Joseph, 2008) some specific policy recommendations for regulating the interactions of large retailers and suppliers and for firming the good response of the unorganized retailers.

Conclusion

In view of the above, allowing FDI in multi-brand retail will lead to a significant improvement in India's GDP and overall economic development. The Policy of multi-brand retail by Indian government would bring improvements in rural infrastructure, technology, price for agricultural produce and employment opportunities. Evidences from various literature reviews indicate that the emergence of giant retailers would lead to extensive growth in the retail sector. By new policy Indian economy is likely to get additional benefits as the industries will be able to focus on intermediaries and create more jobs for skilled employees in Indian retail sector.

Prominent increase in inflation is one of the key reasons behind the move of the Indian Government towards multi-brand retail. The retailers in India will get much assistance in keeping prices under control both in food and commodity by allowing already well-established retail giants like as Wal-Mart and Carrefour. Moreover, on one hand they will build backend infrastructure that will help to cut waste and on the other hand the retail giants will also help to narrow down the current account deficit.

The present study indicates that there would no threats to kiranas (mom and pop stores). FDI would help to integrate India's economy with that of the global economy. In future the Indian retail market would be highly organized and would resolve issues of unorganized retails and provide quality products at lower prices. FDI in multi-brand retail can go a long way in improving the efficiency of supply chain and other relevant areas and the existing negative impact would weaken overtime. It indicates that farmers and consumers would benefit from the new entry of organized retailers in multi-brand. The government of India has taken safety measures for regulating the interaction of large retailers and suppliers for firming good response for unorganized retailers.

Implications of FDI in multi-brand retail sector discussed in the paper clearly outweigh all the issues attached to it. It is evident from literature that FDI plays an important role in the economic growth of India. The study examined all possible issues that could be affected with the policy for FDI multi-brand retail sector and show that FDI reforms in multi-brand would positively accelerate GDP and also improve strategic alliances with foreign investors.

Recommendations for Future Research

The findings of the current research proposed several directions for future research. Future research should be conducted to substantiate the findings in the current study. Though the present article provides an insight into FDI in multi-brand retail issues and implications on Indian economy, there is need for a making empirical study which focuses on the likely impact of FDI multi brand retail policies on consumers across different regions of India. However the researchers are confident this study has laid a firm foundation for any future studies.

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