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IMPACT OF FOREIGN DIRECT INVESTMENT IN RETAIL BUSINESS: PROS AND CONS

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Abstract: *Indian market is one of largest market with high purchasing power. Retail is largest private industry in India and 2nd largest employer after agriculture. Indian economy has both organized and unorganized retailers, more than 90% of the retail industry in Indian is run by unorganized sector because 70% of the total house hold sector in India reside in rural areas, where we find traditional outlets which we commonly call it as kirana stores and generally these are operated by single person. This unorganized retailer contributes 15% of GDP and provides 15-20% of employment. Now-a-days big cities, metropolitan cities and semi urban areas are flooded by modern organized retail stores. Earlier the entry of foreign retailers was restricted in Indian retail marketing. But with the liberalization of the economy, rise in per captia income, growing consumerism has encouraged large business and venture capitalist in investing retail infrastructure. So, government has changed its policy and started allowing FDI both in single brand retailing and multi brand retailing.*

Now the concept of FDI is a part of Indian economic feature. Allowing FDI's in Indian retail trade focus on issues like employment and consumer welfare. FDI in retail will have a much wider impact on economy and may help to tackle inflation especially in food prices. Global retailers are interested in India because of strategic location and vast growing economy.

Key Words: *FDI, Retailing, Indian Economy.*

1. INTRODUCTION:

Foreign Direct Investment (FDI) means an investment made by a company or entity in one country, into a company or entity based in another country. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. The investing company may make its overseas investment in a number of ways i.e. is either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture.

Government of India has recognised the role of FDI and initiated a slew of economic and financial reforms in 1991. India slowly started changing from the restrictive regime to a liberal one. FDI policy initiatives 1991 allowed selectively up to 51% in priority sectors. In the year 1997 FDI allowed up to 100% in sectors like mining, manufacturing and during the year 2000-2006 allowable was up to 100% in specified sectors. FDI limits increased and the procedure was further simplified and the three states which attracted highest FDI is Mumbai, Delhi and Karnataka and the proportion of the FDI in this three states was nearly 62% of the total FDI.In November 2011 Indian central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well as single major brands such as IKEA, Nike and Apple. In December under the pressure from the opposition, Indian government placed the retail reforms on hold. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership but imposed the requirement that the single brand retailer source 30% of its goods should be from India. Later the cabinet has approved 51% FDI in multi- brand retail to open outlets in India.With the introduction of FDI the consumers not only have wider choice, but it can also penetrate into less developed parts of the Indian economic activity and can improve the country's shunned sectors by improving their infrastructure and logistics.

Dr sameerahmadshalla (2013) , in his study concluded that malls have an contrary effect on unorganized sector. M.A.Shinde&N.V.Shaha (2013), stated that small retailers has to strengthen their market position by streamlining their working environment along with the innovative government measures which lessens the adverse effects on small retailers. K. R. Kaushik, Dr. Kapil Kumar Bansal (2013),concluded that the advantages of allowing uncontrolled FDI in the retail sector obviously offset the disadvantages attached to it.

2. Necessity Of FDI in Indian Retail:

FDI inflow offers the following benefits to an economy:

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i. Increase in financial resources for progress
ii. Increase in export competitiveness
iii. Employment generation by strennthening the skill base
iv. Protecting the environment by attaining the social responsibility
v. Improvising technological capabilities through transmission and dispersal.

3. Retailing In India:

3.1 Evolution of Indian Retail Industry:

Retail sector in India has evolved as a source of entertainment in the form of village fairs, melas, weekly markets etc., this was restricted to only rural reach or historic reach and later on rural reach was transformed into traditional reach in the form of convenience stores, kiranas and Mom and Pop.Lateron with the government support people started setting up PDS outlets, khadi store, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc., has brought a great revolution to the Indian retail market. Now retailing in India is one of the source and support to the economy and accounts for 14 to 15% of its GDP and it is depicted in the below diagram 1.

Diagram : 1

<u>THE OVERVIEW OF THE RETAIL INDUSTRY</u>

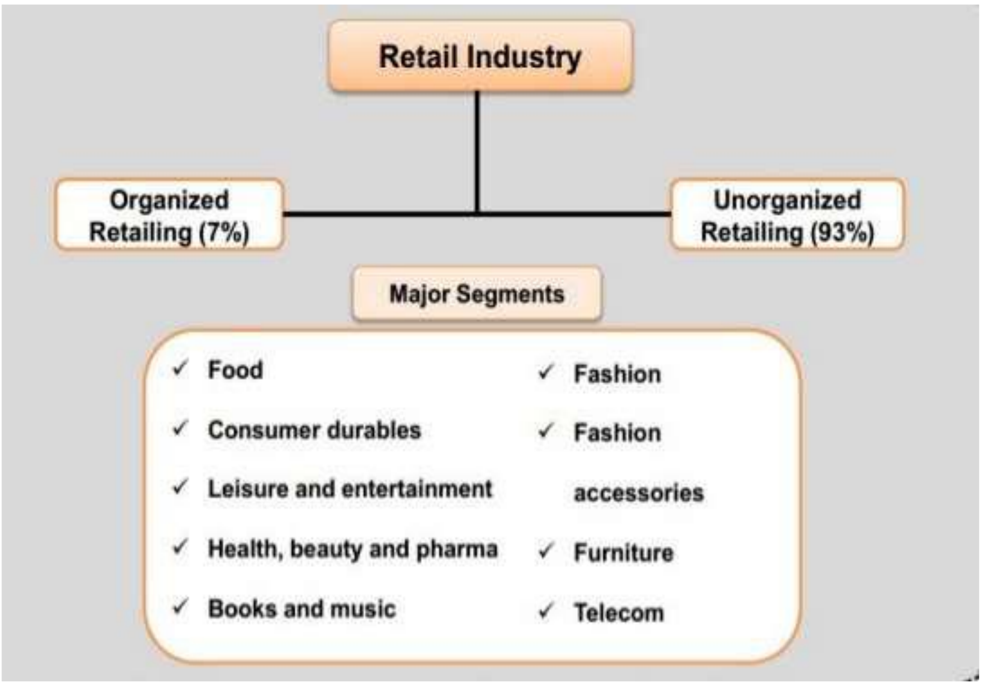

Diagram 2:

Retail Industry is mainly divided into Organised and unorganised retailing. Organised retailing refers to trading activities undertaken by licensed retailers which include hypermarkets and retail chains. Unorganised retailing refers to the traditional formats like local kirana shops, convenience stores etc., the introduction of FDI's faced many controversies and the same has both pros and cons in the retail industry. The direct FDI impact in the short term from retail chains will be modest as per the financial information services firm. FDI is successful in creating innovation in retail sector as it reduces the gap between farm price and retail price. FDI gives best management practices from all over the world.

3.2 Indian retail Industry in 2018

The year 2018 was a crunch for retail in India. The year also marked a coming of age of the internalization of the GST and demonetization impacts with the retail sector exhibiting resiliency in its onward march to embrace and understand digital challenges. With this, the sector has begun and started showing the signs of maturing. The trends and shifts in the retail scenery have been visible to the discriminating judgement, the outline that is identified narrates that the customer and his attitude shift to retail requirements and experiences and it is identified as the Year of the Buyer fo 2018.

3.3 The dimensions of 2018 in the retail industry are as follows:

1. **Luxury segment:** This segment share 1.5% in global market, Due to various cultural, regulatory, and legal issues, people still prefer foreign destinations for luxury shopping. But all have put the brakes due to high import duties and challenged quality retail spaces. Due to potentiality there are chances to improve.
2. **Premium Retail:** This segment estimates the growth from 10% to 15% in the next five years.
3. **Retail towards digital:** The year 2018 was witnessed the movement of convenience in retail towards digital**.** Around 42% of India's population is expected to go digital by 2022.
4. **Omnichannel model:** Omnichannel model is a format to differentiate between the modern and old retail business and the year 2018 was the arrival and growth ofhe Omnichannel model**,** retailers have recourse to an integrated offering where shoppers can experience and involve with products and brands prior to committing a purchase.
5. **Experiential retail:** The year 2018 was the emergence and establishment of experiential retail. Now a days retail has become more of journey rather than a destination.

4. Advantages for the retail industry by introduction of FDI concept:

- FDI will cut intermediaries between farmers and the retailers thereby helping them to get more money for their produce.
- Helps in bringing down the prices at retail level and also can calm the inflation.
- Big retail chains will invest in supply chain which results in reduction in wastage especially in perishable goods.
- Small and medium enterprises will have a bigger market with better technology and branding.
- Helps in reducing the gaps between farm price and the retail price.
- FDI will bring much needed foreign investment into the country and this is done by balancing the trade and also by increasing the liquidity by way of foreign exchange reserves.
- Gives best management practices from all over the world along with the technology.
- FDI creates employment opportunities.
- FDI will encourages competition in the market therefore benefitting both the producers as well as consumers.

5. The consequences faced by retailers due to introduction of FDI concept in retail industry:

- FDI poses threats on both the organised and unorganised retail players.
- FDI will lead to closure of traditional or neighbourhood stores across the country which dangers the livelihood of more than 40 million people
- By introduction of FDI concept in the economy it may bring down the prices initially but it is vice versa once the multinational companies stabilises in the retail market.
- Replacement of established national brands by the international brands
- Farmers may be given remunerative prices initially but gradually they will be at the mercy of big players or big retailers in the market.

- Small and medium enterprise will become victims of greedy pricing policies of multinational retailers.
- FDI will fragment established supply chains by encouraging monopolies of global retailers.

5. CONCLUSION:

Allowing FDI in retail industry raised conflicting views among the policy makers, economist and social thinkers. But retail sector in India is vast and it has huge potential for and development. Generally this FDI is opposed by the small and medium retailers and this conflicting is because they were not informed about the benefits and the shortcomings of the suggested policy change. In order to overcome from this situation there is a need for educating the small and medium retailers regarding the policy. To keep pace with growing GDP government should encourage foreign investment. Lastly FDI should be encouraged with strict viable and reciprocally beneficial regulation.

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