ISBN : 978-81-943584-1-1

SPILL OVER EFFECT OF FOREIGN DIRECT INVESTMENT (FDI) IN THE REALM OF GLOBALISATION IN INDIA

Ashwini Alexander

Assistant Professor in Department of Management St Paul Institute of Professional Studies, Indore(MP).

Abstract

Indian retail industry is a sunrise sector and many global players are willing to enter this. Indian retail industry is one of the pillars of the Indian Economy. Since 1991, when the policy of the liberalization was introduced by the Indian Government, FDI has been a highly controversial issue. From the last 3-4 years our Government is talking about the FDI in retail sector as there are some growth drivers for this sector. But, if the Government decides to open up the doors for FDI in this sector then some consequences will be there. No doubt that FDI plays a very important role in the development of any economy but this development always has two aspects i.e. positive and negative. Experiences of FDI in retail of various countries like China, Russia, Thailand, etc. have been good. We are of the opinion that FDI should be allowed in retail sector in a phased manner but before that all the issues pertaining to this must be resolved.

Keywords: Foreign Direct Investment, Globalisation, Organized Retailing, Sunrise Sector, Strategic Issues and Prospects, Unorganized Retailing

INTRODUCTION

Foreign Direct Investment is the investment made in production or business by the country in another country by either means of buying a company or expanding its business in the foreign country. It is usually by means of bonds and shares. Generally speaking FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are “usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology.” According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control.

Foreign direct investment (FDI) in multibrand retail is neither the manna from heaven that its proponents claimed it would be, nor is it the evil its opponents have named it. Everyone forgets that this is an industry which is not making money. It is no different from airlines or television news channels that, as the joke goes, transform billionaires into millionaires. Whatever domestic investment still occurring in the sector is largely because of hope hinged on valuation.

Unarguably, in the long run, FDI in retail will be good for India, but in the short and medium terms the picture is fuzzy. Today, organised retail in India is 5% to 6% of total retail, plus about 12 million kirana shops. The latter still serve much of India, thanks to three factors. First, they offer the convenience of location, since they are omnipresent. Second, most offer home-delivery services. Third, they often offer purchases on credit to customers who lack conventional credit. Most modern retailers do not offer these options. While consumer demand, the primary driver of modern retail, has expanded consumption choices perhaps 20 times in the last 20 years, it has not changed dramatically enough to woo the megabucks of FDI inretail.

Furthermore, India's ecosystem is unique. Globally, real estate costs account for about 2% of revenue. In India it is 5% to 6%. Utility costs are 1% abroad vs. 3% in India, and manpower is 2% vs. India's 5%. Thus, the weighted average gross margins at the store level, globally 15% to 18%, are about 10% after accounting for a higher cost structure. In addition, with maximum retail prices fixed by law, the retailer cannot price items differently at premium and non-premium locations. Consumer footfalls are low and average spend is about Rs 1,200 to Rs 1,500 per visit, making most of the industry bleed. No wonder Reliance Fresh, Easyday, Spencer's, More, and Big Bazaar are all in the red or bleeding badly. More has shut down almost all its stores in Maharashtra and Punjab, Subhiksha has shut shop, and my prediction is that most of the 2,000 sq. ft. to 3,000 sq. ft. stores will shut down in the next year or two. Hypermarts and large format stores will be the ones to survive.

Amul, which produces 110 lakh litres of milk every day, gives its distributors 3% to 5% while retailers get 8% to 10%. So, the entire supply chain offers only 11% to 15% margin against the 30% margin that large format retail in the West is used to. Thus, I'm not one of those who believe that the Walmarts of the world are straining to rush to India, given all the above. No doubt, modern retail will organise the industry, improve skills, raise productivity—a McKinsey study argues that almost a fourth of America's productivity was due to investments in retail—and be good for the economy in the long run. Technology investment powers modern foreign retail, which in turn increases productivity. David Glass, who transformed Walmart, used barcodes and Retail Link, software that tracks sales of specific items on specific weeks, specific days, or specific hours of the day, when the most merchandise is sold. It also enables Walmart to slash both prices and costs, using

ISBN : 978-81-943584-1-1

its power as a monopsonistic buyer, which may not be always good for the farmer or supplier. Nor for its employees, many of whom are paid just about minimum wage.

To believe FDI will bring investment into cold chains is highly unlikely. The supply chain will only develop when there is demand and a significant change in lifestyle and habits, requiring frozen food to become a staple part of the Indian diet, which is unlikely in the short run. Little wonder then, despite FDI in warehousing, and cold chains being allowed since 1996, the investment in it is negligible.While India's markets are antediluvian and need comprehensive reform, big retail will invariably appoint its own versions of middlemen or "aggregators", or rely on the larger farmer to procure from the smaller farmer. Given that the average landholding in India is 0.5 acres to 0.7 acres, there is no way they can procure directly from each farm. In sum, the jury is still out on the impact of FDI in retail in India. Global evidence is mixed, so the best that proponents and opponents can do is to hold their horses and not decide based on emotions or slogans; instead garner and analyse facts, which often tell a different story Why India is Attracting Global Retailers? There are many reasons why India is attracting foreign players. And important point is that there are a lot of employment opportunities in retail sector in India. Indian retail industry occupies the second place, after agriculture, so far as employment is concerned. Presently 1.71 lakh persons (public sector) and 5.06 lakh persons (private sector) are directly engaged in the organized wholesale and retail sector (Economic Survey-Statistical Appendix, 2011- 12). According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in the next few years. According to the US Census Bureau, the young population in India will constitute 53per cent of the total population by the year 2020 and 46.5 per cent of the population by the year 2050—and it is much higher than countries like the US, the UK, Germany, China etc. India's demographic scenario is likely to change favourably, and therefore, the scenario for the organized retail will also change favourably. No doubt, major organized retailers have a far lesser reach in Indian market than in other developed countries, the first-mover advantage of some retail players will contribute to the sector's growth. There is a very huge industry with no large players. Some Indian large players have entered just recently like Reliance, Trent, etc. Moreover, India can support significant players averaging US$1 billion in Grocery and US$0.3-0.5 billion in apparel within next ten years. In addition to these, improved standards of living and continuing economic growth, growing spending power and increasing number of conscious customers aspiring to have quality and branded products in India are also attracting to global retail players to enter the Indian market. The transition will open multiple opportunities for companies and investors. According to some industry experts, organized retail business in India is expected to increase from 5 per cent of the total market in 2008 to 14-18 per cent of the total retail market and reach US$ 450 billion by 2015 (McKinsey&Company, 2008).

ISBN : 978-81-943584-1-1

Furthermore, during 2010- 12, around 55 million square feet (square feet) of retail space will be ready in Mumbai, National Capital Region (NCR), Bengaluru, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organised retail real estate stock will grow from the existing 41 million square feet to 95 million square feet (Knight Frank India, May 2010). So there is a golden opportunity for foreign players to enter the Indian market. Growth rates of the industry both in the past and those expected for the next decade coupled with the changing consumer trends such as increased use of credit cards, brand consciousness, and the growth of population under the age of 35 are factors that encourage a foreign player to establish outlets in India (Kalathur, 2009). India thus continues to be among the most attractive countries for global retailers. Foreign direct investment (FDI) inflows between April 2000 and April 2010, in single-brand retail trading, stood at US$ 194.69 million, according to the Department of Industrial Policy and Promotion (Ministry of Commerce and Industry, 2003). The Indian Council of Research in International Economic Relations (ICRIER), which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to conclusion that investment of 'big' money in the retail sector would in the long run not harm interests of small, traditional, retailers (Mukherjee & Patel, 2006). A number of international retail players are thus looking at this opportunity to swarm this seemingly nascent sector and exploit its unexplored potential. Consider the following plans of various companies:

1. Leading watchmaker Titan Industries Limited plans to invest about US$ 21.83 million for opening 50 premium watch outlets Helios in next five years to attain a sales target of US$ 87.31 million.

2. British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years. M&S currently operates 17 stores in India through a joint venture (JV) with Reliance Retail.

3. Chinese retail major, Yishion has entered the Indian market and plans to have at least 125 points of sales, including exclusive stores and multi-brand outlets, across India by 2012. First exclusive store in New Delhi has been opened in September 2010.

4. Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010. It further plans to open a total of five Zara outlets in India.

5. Bharti Retail, owner of Easy Day store—supermarkets and hypermarkets—plans to invest about US$ 2.5 billion over the next five years to add about 10 million square feet of retail space in the country by then, according to a company spokesperson.

ISBN : 978-81-943584-1-1

6. Raymond Weil plans to invest US$ 883,665 in India during 2010, according to Olivier Bernheim, President and CEO, Raymond Weil. However, it is not out of place to mention here that the government policies towards FDI are only hindering all the plans that do not make this a fairy tale for foreign players. Challenges in Indian Retail Sector for Global Retailers In India the retailing industry has a long way to go and to become a flourishing industry, retailing needs to cross various obstacles. Following are the challenges:

1. Organized retail sector will face the competition from unorganized sector. The Indian retail sector is full of the unorganized retailing with the dominance of small and medium enterprises as opposed to the presence of few giant corporate retailing outlets.

2. The trading sector is highly fragmented, with a large number of intermediaries who operate at a strictly local level and there is no 'barrier to entry', so far as the structure and scale of these operations are concerned (Singhal, 1999).

3. The tax structure in India favours small retail business as maximum retailers are sole owners of the business and under the present tax regime tax rates are favourable for the individual tax payers. It's not in the case of organized retail as these businesses established in the company form and has to pay huge taxes, which is negligible for small retail business. Thus, the cost of business operations is very high in India.

4. There is absence of infrastructure facilities for the organized retailers like developed supply chain and integrated IT management. This absence of adequate infrastructure facilities, lack of trained work force and low skill level for retailing management further makes the sector quite complex.

5. Rapid price changes, low margins, high cost of real estate, threat of product obsolescence and heterogeneous consumer groups are the other challenges that the retail sector in India is facing. 6. In India Government regulations and policies and real estate prices will affect the retail industry.

7. Consumer spending pattern is not consistent and there is no consistent increase all over the globe, so this may also pose problems for the retail sector. Consumer spending may further contact as banks are very cautious in lending nowadays.

8. Organized retailers have been facing a difficult time in attracting customers from traditional kirana stores, especially in the food and grocery segment.

9. This long impending approval includes a set of riders for the foreign investors, aimed at ensuring the foreign investment makes a genuine contribution to the development of Indian infrastructure and

ISBN : 978-81-943584-1-1

logistics, at the same time facilitating integration of small retailers into the upgraded value chain. These riders could complicate potential FDI investments, acting as a damper

Impact on unorganized retailers

Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large, organized retailers.

The adverse impact on sales and profit weakens over the time. There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.

There is competitive response from traditional retailers through improved business practices and technology upgradation.

Conclusion

Despite encouraging signs, India's retail market remains largely off-limits to large international retailers like Wal-Mart and Carrefour. Opposition to liberalizing FDI in this sector raises concerns about employment losses, unfair competition resulting in largescale exit of incumbent domestic retailers and infant industry arguments to protect the organized domestic retail sector that is at a nascent stage. Based on international evidence, allowing entry by large international retailers into the Indian market may help tackle inflation especially in food prices. Moreover, technical know-how from foreign firms, such as warehousing technologies and distribution systems can improve supply chain efficiency in India, in particular for agricultural produce. Better linkages between demand and supply have the potential to improve the price signals that farmers receive and also serve to enhance agricultural and other exports

Refrences

1 Lok Sabha secretariat parliament library and refrences,and research, documentation and information service (LARRDIS) members refrence service refrences Note . No. 13/RN/Ref./2014.

2 Kenneth A. Froot, editorConference held May 15, 1992 Published in January 1993 by University of Chicago Press © 1993 by the National Bureau of Economic Research

3 https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf

4. https://assets.kpmg/content/dam/kpmg/pdf/2016/07/What-influences-FDI-into-Africa.pdf

5. https://www.ibef.org/economy/foreign-direct-investment.aspx