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Research Article

# A STUDY ON ANALYSIS OF INTRODUCTION OF FDI IN RETAIL SECTOR IN INDIA

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**Abstract**

Retail Sector in India is playing a vital role in the development of today’s economy. It contributes around 14% GDP and provides employment to larger section of population either directly or indirectly. With the introduction of foreign funds in retail sector there is definitely a positive growth in retail sector in India. This article is about the analysis of Introduction of FDI in retail sector in India.

**Keywords:** Retail; GDP; FDI; Management; Sector.

## 1. Retailing in India

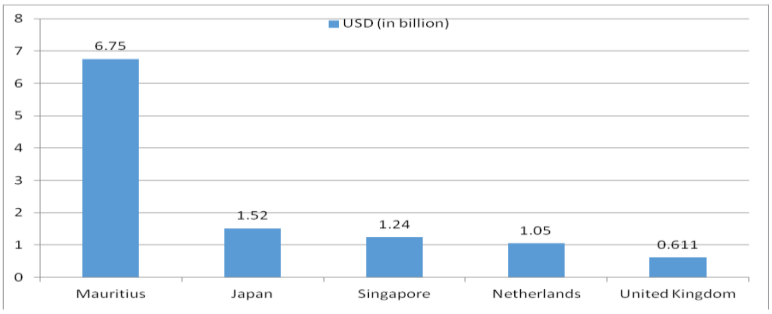
Organized retailing in India refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local corner shops, owner manned general stores, convenience stores, hand cart and pavement vendors, etc. Until the 1990s, regulations prevented innovation and entrepreneurship in Indian retailing. Some retails faced complying with over thirty regulations such as "signboard licenses" and "anti-hoarding measures" before they could open doors or new outlets. There were taxes for moving goods to states, from states, and even within states in some cases. Farmers and producers had to go through middlemen to make their products available to consumers. The logistics, transportation facilities and infrastructure was very poor, with losses to the producers exceeding 30 per cent. Through the 1990s, the Indian government introduced widespread free market reforms, including some related to retail. Since then there has been widespread changes in the way Indian consumers shop. Between 2000 to now, consumers in select Indian cities have gradually begun to experience the quality, choice, convenience and benefits of organized retail industry.

## 2. Background of FDI in India

Economic reforms were initiated in 1991 after the country faced a financial disaster when the Government had to go to foreign lenders pledging gold held in RBI for short-term loans. Between 1991 and 1999 India slowly developed into a liberalized economy. The Gross Domestic Product (GDP) of India grew which placed India among best performing countries in the world. Until recently the retail sector was not much open to FDI.

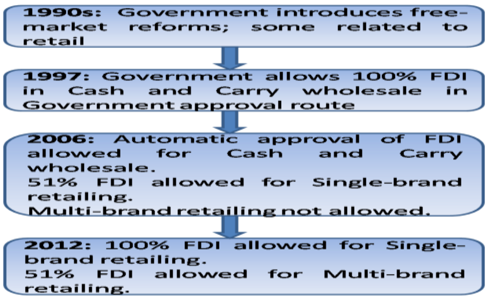
Below chart explains the investment made by other countries in India.

**Chart 1: Investment made by other countries in India**




Source: (http://www.moneycontrol.com/news/economy/fdi-inflowsoctober67-government_798229.html)

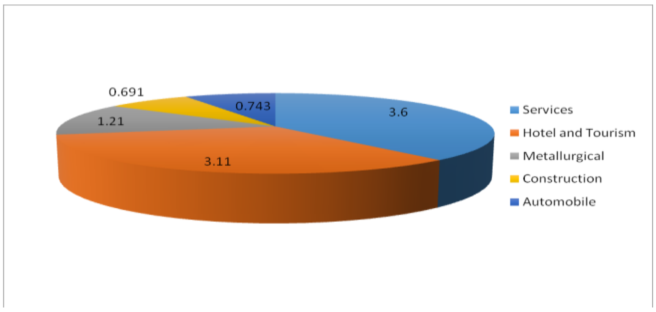
Presented below is the timeline of reforms carried out by the Government to open up the markets to global players:




## 3. Distribution of FDI inflow sector wise in India

FDI in the retail sector has helped in developing organized retailing in India. Single brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were approved and implemented. The below chart shows the maximum FDI inflows received in the sectors.

Chart 2: Sector wise FDI Inflow (in USD)




Source: (http://www.moneycontrol.com/news/economy/fdi-inflowsoctober67-government_798229.html)

Chart 2 explains the sector wise distribution of FDI Inflow in India. Sectors which received large FDI inflows in September 2011 include services (USD 3.6 billion), hotel and tourism (USD 3.11 billion), metallurgical (USD 1.21 billion), construction (USD 691 million) and automobile (USD 743 million)

**4. Growth in Retail Sector**

Retail sector in India started to develop slowly and innovatively with the new reforms and regulations. The market started developing in form of super markets, department stores, convenience markets with variety of products to cater the needs of customer's requirements. Systemized billing system and sign boards were adopted. But most of the practices were limited to urban cities alone. The rural areas mostly adopted the same general stores but with a little availability of new products that are affordable to them. In 1997, India allowed FDI in retail in cash and carry wholesale and in 2006 it was granted approval from government. From 2000 to 2010, Indian retail attracted about $1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India. The Government then proposed FDI in single brand and multi-brand products.

**5. Methods adopted by farmers in India:** Below are some of the methods adopted by the farmers to sell their produces:

1. **Farmers' Market:** The farmers set up small temporary stalls to market their produces (vegetables and fruits). The farmers directly sell their products to the consumers. In this way both farmer and the consumer are benefitted as

- Farmers get the desired price for the product directly.
- Consumers get fresh products at a cheaper price than buying from a retailer.

**2. Bulk Sale to Traders**

The traders are the middlemen or the wholesalers who buy the farm produces in bulk from the farmers and resell it to other wholesalers, exporters or retailers at a higher price (with their own profit margins). This happens for major crops like rice and wheat as the production of these is in very large quantities and is dependent on crop season.

In this system, it is observed that the farmers are at the mercy of the middlemen as they determine the price of the harvest. The farmers end up complying with the demands of the traders as they are forced to dispose of the harvest as quickly as possible to cut down losses due to spoilage.

**3. Selling to the Government (Food Corporation of India)**

When the farmers get a good harvest season, their happiness gets cut short due to plummeting of food price due to supply exceeding demand for the produce. The farmer has to sell the produce at a throw away price just to dispose of the product and thus has to incur losses. To protect the farmers from such events, the government introduced the system of Minimum Support Price (MSP). Minimum Support Price is the price at which the government purchases crops from the farmers whatever may be the price for the crops. This ensures that the market price of the crop cannot go below the MSP. In this case the government takes care of storage and export of the surplus produce thus relieving the farmer from this burden. However, India lacks the proper logistics and storage systems for preserving the crop harvest from spoilage. In 2010, the Government faced controversy and criticism for having to dump the stored grains from its warehouses due to rotting of the grains.

This was caused due to improper storage and lack of sufficient storage facilities.

## 6. Analysis of the FDI inflow in Retail Sector in India

a. In India, we do not have adequate facilities for cold and integrated storage facilities. Most of the food harvest gets spoiled due to this. India has only 5386 stand-alone cold storages, having a total capacity of 23.6 million metric tons. However, 80 percent of this storage is used only for potatoes. So we are unable to store more goods during the peak harvest season and hence it leads to loss of 30% of agricultural output.

b. India is dominated mostly by the middlemen. The farmer's earn only $1/3^{rd}$ of the total price paid by the ultimate consumer whereas they must realize in actual $2/3^{rd}$ of the total price.

c. The retail industry is not exposed to innovative and competitive market reforms. There has been debate from a long time to introduce liberal reforms to retail sector.

d. The people started shifting to service sector in recent times as the compensation paid by the manufacture sector and agricultural sector is less.

With the introduction of the FDI in retail sector the benefits to be reaped are following:

### 6.1 Cold Storage Facilities

The main motive of FDI is to provide more cold storage facilities in India. These facilities will help to store the excess food harvest and release the same during the time required. This will help to balance the demand and supply function and also reduces the price gap.

### 6.2 Farmer's Benefit

Since the investors will the main manufacturers, they will have direct contact with the farmers and hence the chances of middleman is eliminated from the picture. They will be in a position to afford the proper margin to the farmers who in turn will deliver them goods on time. This will be a win-win situation for both the parties.

### 6.3 Innovation and Technology

With the help of FDI there are more chances of development by means of new technology and innovation. The system will become more digitalized and all information can be viewed by everyone at the same time. The electronic products available in foreign countries will be open to home market too. Thus the people will access to all new technologies.

### 6.4 Employment

FDI in retail sector is expected to provide more employment opportunities directly and indirectly. In no way it will lead more unemployment as always the local unorganized stores will have its place in the market as it contributes to more than 95%. Always the customers prefer to buy from these local markets at times of emergency rather than to depend on the organized markets. So it is always the choice of customer to buy from both places and again the FDI is set to open their stores only in urban cities.

## 7. Conclusion

The recent announcement of FDI has created more arguments on both sides. Even though the main concept behind FDI in multi brand market is cold storage facilities, the investors find it profitable only when they secure market in India. So with the arguments against FDI in retail they are little reluctant to invest in India. Similarly the chances of monopoly is more. But the major benefits of FDI is it will surely help to improve the supply chain function and also to regulate the GDP growth and inflation rate. As the present generation has become more brand conscious and their standard of living has increased it is definitely a treat for them to enjoy the same. So definitely FDI will play a major role in the growth of the retail sector in India.

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