ISSN:0971-1260
Vol-22- Issue-14-December-2019

Foreign Direct Investment In Retail Business-The Global Experience

Dr. Mohd Azher Parvez*
Shariqua Nishat**

ABSRACT

The study on Foreign Direct Investment in retail business- the global experience analyses the significant relationship of FDI with its collision on developing and developed retail markets.FDI occurs when a firm invests directly in facilities produce and market a product in a foreign country. India can learn from the experience of other developed and developing countries and develop its own strategies through policy on retail business in India. When India is the only country in the world where top five business houses with market capitals running into trillions are into retails business, this issue becomes much more interesting. Only limited number of retailer have entered into these markets that too with lot of concern as they have realized that retail thrives on local knowledge rather than transplanting global retail concepts, strategy and formats. Hence, FDI increases the level of competition in the host country, it is due to such reason retailer will also have to improve on their processes and services in order to stay in the market. Not only that, even, FDI enhance the quality of product and services, and ensures a number of employment and development opportunities, by adding some challenges like selling up of industrial units in various corners of retail business in India.

KEYWORDS: Foreign Direct Investment (FDI), Developing and developed markets, Globalization, Reforms, Organized and unorganized retail business.

1. INTRUDUCTION

India is without doubt a growth economy and many consider it an attractive country to invest in, particularly in its rapidly growing and changing retail market. However, Retail business is as state subject and States have their own regulations. As such, there is no national level framework for its development and regulation. At the central level, only the flow of Foreign Direct Investment (FDI) becomes a very sensitive issue, the most important factor against FDI driven "contemporary retailing" is that it is labor displacing to the extent that it can only expand by destroying the traditional retail sector. Because, FDI restricts in the retail sector, and despite many years of debate, the regulations are still only changing very slowly and there are still lots of uncertainties. This is because the primary task of government in

ISSN:0971-1260
Vol-22- Issue-14-December-2019

India is still to provide livelihoods and not create so called efficiencies of scale by creating redundancies. Allowing 100 percent FDI in online retail sector in the year 2012 and remaining it allowed only 31 percent FDI is permitted in retail sector in India; but in the year 2019it's allowed 49 percent in multi-brand and 100 percent FDI in retail sector. Entry of foreign players now will most definitely disrupt the current equilibrium of the economy with incision of opportunity available to them. Foreign Investors are watching India, ready for a piece of action in the retails market, but there are still plenty of uncertainties restriction and potential socio- economic risks.

The global "retail experience" of the 1990s led to firms like Wal-Mart, Costco, TESCO, Giant, Makro, Carrefour, Aeon, Ahold, Aldi, Metro and others was a result of the material and cultural developments in advances capitalist countries. Access to economical capital, huge economies of scale in retails business, progressive consolidation of purchasing power over suppliers, highly efficient sales forecasting techniques, transportation and replenishment systems expansion of the inhabited population and spread of consumerism across all classes were some of these developments.

On the other hand, the global retail experience now spreading across emerging markets is supported primarily by the political economy of neo-liberalism and only a few social-economic developments comparable to those in advanced capitalist countries, With rapid advances in mass media, and in the science of construction and manipulation of consumer consciousness, shopping has become a leading leisure activity. Class is now no more often conceived in relation to competitive emulation in consumption rather than in relation to production. This feeds back into and strengthen existing global economic and power structure, leading to a high degree of concentration and control.

2. OBJECTIVES OF THE STUDY

1) To study the impact of FDI in retail business
2) To analyze the global experience in retailing market.
3) To study the opportunities and emerging challenges in FDI in Indian Retail business.

3. FDI IN RETAIL BUSINESS

Retailing in India is slightly different than in developed markets, in that it is divides into organized and unorganized retail. Organized retail could be described as when trading is taking place under a license or through people that are registered for sales tax or income tax.

ISSN:0971-1260
Vol-22- Issue-14-December-2019

Unorganized retail is India's more traditional style of low cost retailing, for example, the local kirana shops, owner-manned general stores, convenience store, hand carts and pavement vendors. This division of retail sector which has a very heavy weighting towards, unorganized, is just one of the issues contributing to the sensitive debate on FDI in India at the moment. Following are the benefits of FDI in Retail Trade.

1) Modern trade allows for an explosion of choice. Consumers can access products that improve the quality of life. Modern Trade will benefit consumers in several ways:

a. Avail rationalized prices that better reflect market value due to several ways.

b. Access better quality food products resulting from knowledge transfer regarding best practices in grading, sorting and processing techniques, the establishment of a robust cold chain system etc.

2) FDI Retail players are tax-compliant and are large tax-payers. The organized retail sector also facilitates the generation of significant tax revenues through the building of a sophisticated supply chain. This impacts the logistics, transportation, warehousing, freight forwarding and other similar services sectors, all of which contribute to the government through payment of indirect taxes, primarily the service tax.

3) Establishing an efficient supply chain that links small manufacturer and farmers directly with retailers, will maximize value for stakeholders, Together with back-end infrastructure, this will minimize wastage, especially of fresh foods and vegetables, increase farmer's realizations, encourage best practices in crop management and improve food safety and hygiene. While inefficiencies increase consumer prices, farmers suffer from extremely low realization.

4) Kirana stores can exist alongside modern trade players and can explore partnership models in a rapidly changing retail environment.

4. RETAIL BUSINESS IN DEVELOPING ECONOMIES

During the last decade, the transformation of the retails sector has reaches many emerging markets in central and Eastern Europe, Asia, Latin America, pushed factors like the consolidated market situation in the states of origin of the transnational retail companies, and home market saturation. However, it is the pull factors at work like the rapid liberalization of retail policies in emerging markets that seem to be more important. The liberalization agenda itself seems to have been vigorously promoted by the government and the agents of these giant retailers. The south-east Asian experience is of a particular interest and concern in India

ISSN:0971-1260
Vol-22- Issue-14-December-2019

where rapid changes in the sector are afoot. The retail industry in that region was dominated by wet markets and small, local family-owned stores which operated under limited municipal level regulation regarding location until the end of the grand period in 2018.

Thereafter, the sector grew and modernized slowly, mainly with local capital and understates regulation to a greater or lesser degree. This is true for India as well. The more sophisticated retail outlets like supermarkets first came into prominence during the economic boom of 1980’s and 1990’s, experienced by south-east Asian regions in the form of joint or local ventured, sometimes with foreign retailer’s participation through franchise and technical collaboration which took advantage of careless regulatory policies.

The outcome of the 1997 East Asian financial crisis allowed a select group of multinational retail firms to gain a foothold in the emerging markets if Indonesia, Malaysia and Thailand via a combination of mergers and acquisition, joint ventures and partnerships as many local corporate retailers suffered debt problems and local customers reverted to the traditional markets. Indonesia, for example, agreed to adopt more liberalized retail and consumer sector policies in January 2019 in exchange for financial assistance in a deal with the International Monetary Fund (IMF). Since then, the modern outlets, particularly the transnational, large format chains have spread rapidly in the heavy populated urban regions. There are 220 large-format retail centers controlled by transnational’s in Malaysia, Thailand and Indonesia alone. The extreme changes induced in these host countries due to the internationalization of retail and the inevitable protest by traditional retailers and intermediaries led to the issue coming up before the regulatory authorities.

The most important concerns are the impact of these retail trade chains on local competition; elimination of small and medium-size retail and their environmentally wasteful use of resources particularly open spaced in densely populated urban centers, The regulators seem to be caught between conflicting goals of promoting trade competitiveness and economic efficiency on the one hand and defending the interest of smaller firms, environmental interest groups and consumers on the other. These sectors fall under the purview of multiple ministries and departments or government agencies of the central and state administration like that of commerce, trade and consumer affairs. The regulatory mechanisms usually fall into the following categories

1) Competition laws, which broadly promote competition, deal with issues of market structure and functioning, restrictive trade practices, and price-fixing

ISSN:0971-1260
Vol-22- Issue-14-December-2019

2) Land and property laws that restrict the amount and size of land that can be owned by individual entities, foreign entities and so on.
3) Foreign Direct Investment (FDI) laws that restrict the amounts and sectors into which FDI can flow.
4) Zoning laws that deal with town planning, land use, building codes.
5) Municipal laws that deal with business timings.
6) Environmental laws and
7) Labour laws.

Countries like Indonesia, Thailand, Malaysia, which up to the 1990's had a liberal policy towards the retail sector regulations, are now moving in the direction of increasing restrictions on large format retail using a combination of laws and regulations, to impose restrictions on the proliferation of multinational retailers, large-format shops and the domination of the indigenous retailers (Coe and Wrigley2007:362f). Malaysia, for instance, imposed a five year renewable ban in November 2003 on the construction of large format retail stored in Klang valley which includes densely populated urban areas like Kuala Lumpur. New guidelines have lengthened the approval period for developers seeking to develop similar stores in other provincial urban areas from four months to two years and new hypermarkets are prohibited within a 3.5 km radius of city centre's or housing areas. Thailand has also passed laws to restrict development of large format stores in inner city areas but it relies, like Indonesia, a lot more on competition laws to control them. The Thailand competition commission has power to search premises without a search warrant and to arrest violators. However the general opinion is that both the competition and enforcement laws are lax and favour the big players.

While regulatory systems take time to respond to these changes, full or partial liberalization of retail sector has been gathering momentum in some other emerging markets from the end of the 1990's like China, Russia and India.

5. RETAIL BUSINESS IN DEVELOPED ECONOMIES

The development of retailing in Developed markets since the Second World War needs to be understood in the context of state policy to encourage corporate retail and release scarce labour from the retail sector. The main feature of the structural change in retailing since the 1950's was the shift from predominantly Kirana stores towards service stores and

ISSN:0971-1260
Vol-22- Issue-14-December-2019

later still to self-service stores. The self-service stores were bigger and sold at lower prices. However, they were still smaller and more expensive than the supermarkets which were becoming popular towards the end of the 1960's. On average, the supermarkets now have more sales space and offer a greater variety of goods. They have mostly replaced the smallest self-service shop.

The size of the shops however continues to change starting from the small kirana stores to supermarkets and towards very big hypermarkets. In the middle of the 1960's hypermarkets started to increase their market share, reaching 25 percent in the middle of the 1980. While the number of shops is shrinking, the size of retail space and total turnover are still growing. There is a strong connection between this trend and the ongoing concentration. This concentration is partly promoted by a strong concentration and the merging of companies, trend common to all developed countries, although the prevailing conditions and the speed of the development are different and different variations of the same developments can be observed.

Thanks to the concentration in food retailing, the power that the food retailers have over the suppliers has grown significantly with the concentration of retailing. Develop country comes a tendency towards vertical integration and wholesale trade. This vertical integration had already widely progressed by the 1970's. The majority shops are part of an affiliated group of companies or an enterprise group who are doing retailing.

6. FDI IN INDIAN RETAIL BUSINESS-Some Reflections

India is witnessing a change in the age and income profiles of its over 1 billion population, which is likely to fuel accelerated consumption in the years to come. The country is believed to have an average age of 24 years for its population as against 36 years for the USA and 30 years for China. A study conducted by ICRIER on Indian Retail Industry estimates that the total retail business in India will grow at 13 percent annually from US$322 billion in 2006-07 to US $960 billion in 2018-19. The unorganized retail sector is expected to grow at approximately 10 percent per annum with sales rising from US$309 billion in 2006-07 to US$674 billion in 2018-19. Organized retail, which constituted a low four percent of total retail in 2006-07, is estimated to grow at 45-50 percent per annum and attain a 19 percent share of total retail by 2018-19. In short, both unorganized and organized retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years.

ISSN:0971-1260
Vol-22- Issue-14-December-2019

This is clearly not a case of a zero sum game as both organized and unorganized retail will see a massive scaling up of their activities.

7. OPPURTUNITIES

1) Inflow of investment and resources in retail sectors.
2) Improvement in the excellence of employment.
3) Generating more employment opportunities at middle and low level.
4) Improved local sourcing.
5) Provide better value of product to the end consumers.
6) Investment and improvement in the supply chains and warehousing.
7) Franchising opportunities for local entrepreneurs.
8) Growth of infrastructure.
9) Increased efficiency in quality of products.
10) Cost reduction in product with better quality.
11) Implementation of Information Technology in retail for better service to consumers.
12) Motivate newborn industries and other supporting industries.

8.1. CHALLENGES OF FDI IN INDIAN RETAIL BUSINESS

1) Would give rise to competitive competition rather than promoting increment business.
2) Promote cartels and will generate monopoly.
3) Increase in the real domain prices.
4) Marginalize domestic entrepreneurs.
5) The financial strength of foreign players would displace the unorganized players.
6) Nonappearance of proper regulatory provisions and guidelines would induce inequitable trade practices like grasping price.

Despite the above challenges there are certain other trouble relating to FDI in retail in Indian is that it does not provide a level playing field to other players of the domestic and small sort. In addition, it appears to take a rather naive and simplistic view on certain aspects, which like tradition being repeated, tend to become urban legends. On the other hand, no country can afford to take on an isolationist approach.

8.2. BARRIERS IN FRONT OF RETAIL BUSINESS IN INDIA

A huge number of retail chains are increasing their operations outside national boundaries is called FDI, however, only few of them are able to continue those operations

ISSN:0971-1260
Vol-22- Issue-14-December-2019

and make profits. In fact, many of them have to vacate their operations due to several barriers in foreign markets. Such barriers and difficulties can be broadly classified under these categories;

A. Barriers to entry and operation. These are only faced by foreign retailers.
B. Domestic instruction associated barriers. Both foreign and domestic players faces these, but they may sometimes affect the foreign players more than the domestic ones.
C. Other barriers, these include strong local competition, unfamiliar customer taste, low purchasing power of consumer, customer preference for certain domestic formats, unstable political situations poor quality of infrastructure etc.
   A. Common barriers to entry and operation
      1. FDI restrictions
      2. Joint Venture incorporation requirement
      3. Minimum capital requirement
      4. Local sourcing requirement
   B. Common barriers due to domestic regulation
      1. Restrictions on geographical location and zoning regulations
      2. Limitations on size and number of retail outlets
      3. Restrictions on shop opening timings
      4. Restrictions on pricing, advertising, promoting, and selling certain products etc.

9. STRATEGIES FOR BETTERMENT

It is beyond-doubt that the betterment of FDI duly depends on the following issues:

1) Up to 100% in single Brand Retail Trading.
2) By only one non-resident entity whether owner or the brand or otherwise.
3) 30% domestic sourcing requirement eased to preferable sourcing rather than compulsory.
4) 305 domestic sourcing computations further clarified.
5) Further clarification on FDI companies that cannot engage in B2C e-commerce
6) Up to 100 percent in Multi-Brand Retail Trading (MBRT) is proposed.
7) At least US$100m as equity into Indian Company.
8) At least 50 percent of the total FDI is to be invested in back end infrastructure within 3 years.

ISSN:0971-1260
Vol-22- Issue-14-December-2019

9) At least 30 percent of the value of procurement of processed product shall be sources from Indian "Small Industries."
10) Fresh agricultural produce is permitted to be sold unbranded.
11) Indian states have been given the discretion to accept or refuse to implement FDI. More than 8 states have already given their consent.
12) Retail outlets can be set up in cities having a population of at least 1 million.
13) Application needs to be approved by two levels at Department of Industrial Policy (DIPP) and Foreign Investment Promotion Board (FIPB).

10. CONCLUSION

The paper concludes that the global experience of FDI in retail business says that, foreign players should bring in necessary investment to upgrade the retail business infrastructure across the country. Since their focus would be profit they would set up efficient supply chain management systems to ensure that product deliveries are on time. Number of investors will increase thus owner can get best value of goods and naturally the middle man who sucks the blood of farmer will be minimized and considering the bottlenecks in India, diverse customer demographics and fragmented industry we feel that this opening up will attract very few global retailers particularly in foods and grocery segment. With this quality of goods will improve, level of business and quality of product will rise, its lead to rise in GDP through options between investors. It will create a competition among the industry, with this customer get the different verity of product at low price. Hence, the global experience of retail business is an sample to country with inclusion of FDI in retail business.

8. REFERENCES

1. Annual reports 2006 to 2019. Retrieved from http://www.dipp.nic.in, accessed onMarch 5, 2019.
2. Annual reports 2006 to 2019. Retrieved from http://www.rbi.org.in,accessed onMarch 15, 2019.
3. Babu Harish, S. (2012). SWOT analysis for opening of FDI in Indian retailing, *European Journal of Business and Management.* Vol 4, No.3.
4. Imtiaz and Mohmad, (2012). FDI in Organized Retail in India: Look to the Multi Brand Opportunities, *IJRCM*, Vol 3 (12), P 122-125.

ISSN:0971-1260
Vol-22- Issue-14-December-2019

5.Kaushik, K. R. & Kapil Kumar Bansal,(2012). Foreign Direct Investment in Indian Retail Sector Pros and Cons,*International Journal of Emerging Research in Management and Technology*.

6. Kamaladevi Baskaran, (2012). FDI in India's Multi Brand Retail – Boon or Bane, *Universal Journal of Management and Social Sciences*, Vol. 2(1).

7.Murtaza, Z. (2015). FDI in Retail: An Overview In India, *IJMSS*, Vol 3(01), P 354–364.