

IMPACT OF FDI ON RETAIL INDUSTRY

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ABSTRACT

The consumers or customers are directly buying their needs from the retailers at the maximum. Only few manufacturers are come forward to sell their produce directly to the consumers or customers. Moreover, Central Government allows foreign direct investment over the business units which are dealing retail business in India. Based on this background, the researcher has taken this view in mind and analysis the impact of FDI on retail business units. This paper highlights the share of the retail business, growth of retail business in very future, need of development of retail business, positive impacts and negative impacts of FDI on retail industry.

Key words: Consumers, FDI, Retail industry, Positive Impacts and Negative Impacts

1. INTRODUCTION

Retailing is one of the channels of distribution through which goods and services transferred from the manufacturer to the end user of such goods and services. Retailing is taking place whenever the manufacturers prefer to concentrate on the production and there is a long distance between the manufacturer and the end user. Moreover, manufacturer has no time to spend with the buyers and the buyers are also unable to get the goods and services from the manufacturers directly.

The concept of retailing has changed due to the changing of consumer buying behaviour. In this direction, there is a revolution in shopping in India. Modern retailing has entered in to the Retail Market in India as in the form of bustling shopping centers, multistoried malls and the huge complexes that offer shopping, entertainment and food all under one roof.

2. RETAIL INDUSTRY IN INDIA

Retail industry is the largest among all the industries, account for over 10% of the country's GDP. It gives employment around 8% in total. Indian retail is expected to grow 25% annually. Modern retail in India could be worth US \$ 175-200 billion by 2016. The Food Retail Industry is standing in the first place which dominates the shopping basket. The second place goes to the

Mobile Phone Retail Industry which is growing at over 20% per year. The future of the Retail Industry looks promising with the growing of the market with the government policies becoming more favourable and the emerging technologies facilitating operations. The retail market takes new formats such as departmental stores, hyper markets, super markets and specialty stores.

3. REASONS FOR THE GROWTH OF THE RETAIL SECTOR

The vast middle class is the key attractive force for global retail giants wanting to enter into newer markets which in turn will help the India Retail Industry to grow faster.

A large young working population with median age of 24 years with hefty pay packets, nuclear families in urban areas along with increasing working women population and emerging opportunities in the services sector are the key factors in the growth of the organized retail sector in India. The trends that are driving the growth of the retail sector in India are

- Low share of organized retailing
- Falling real estate prices
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury items

4. FOREIGN DIRECT INVESTMENT

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA) driven by then Finance Minister, Today Prime Minister of India Dr. Man Mohan Singh. According to UNCTAD 2012 survey, India is the second most important FDI destination (after China). Mauritius, Singapore, US and UK were among the leading sources of FDI.

Foreign Direct Investment is a direct investment into production or business in a country by an individual or company of another country either buying a company in the target country or by expanding operations of an existing business in that country.

5. NEED OF FDI IN RETAIL

Under globalized economy, no country is developed without the participation FDI. India is also exception to this principle. Hence, FDI in retail is necessary on account of the following reasons.

- **Economic Development:** Due to foreign companies entering into retail sector, new infrastructure will be built thereby there is a economic development through the growth of real estate business.
- **Job Opportunities:** It has been estimated that approximately ten million jobs will be created mostly in retail and real estate business.
- **Benefits to Farmers:** Under FDI, the farmers are engaged in contract farming. Hence, they will be able to supply an organized retailer based upon demand and will get paid handsomely.
- **Benefits to Consumers:** Consumers will get variety of good quality products at low prices and choose from various international brands at one place.
- **Increase infrastructure facilities:** India is one of the largest producers of fruits and vegetables. But, the lack of proper cold storage facility significantly affects the selling of these perishable items and also in huge losses. Due to FDI, foreign companies will invest around \$100 million in India. Thereby, infrastructure facilities, refrigeration technology, transportation sector will get a boost.
- **Cheaper Production Facilities:** FDI assures operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate.
- **Available at Cheap Price:** Due to cheaper production facilities, varieties of products are available to the ultimate consumers at a reasonable and cheaper price.
- **Availability of New Technology:** FDI allows transfer of skills and technology from abroad and create managerial flow in from other countries.
- **Long Term Cash Liquidity:** FDI will render necessary capital for establishing organized retail chain stores. It is a long term investment because the physical capital in the domestic company is not easily liquidated.

- **FDI opens up a New Avenue for Franchising:** Restrictions on FDI are regarded as trade barriers. These restrictions on the global retailers regarding the inflow of FDI, leads them towards getting the market entry through franchise.

6. POSITIVE IMPACTS

There are some positive impacts on retail industry in India due to entry of FDI. They are briefly explained below.

- Job opportunities are created in the area of marketing, agro-processing, packing, transportation and the like. According to the Government, 10 million new jobs will be created.
- The post of middlemen is removed in the channels of distribution of retail market. In this way, the farmers are getting good price for their crops and their exploitation will stop.
- Foreign companies will invest around \$100 million in India. Out of this investment, infrastructure facilities, refrigeration technology, transportation etc. will be renovated.
- The foreign companies are forced to buy 30% of their goods from Indian micro and small industries. It leads to the encouragement of domestic manufacturing by creating a big effect for employment and to upgrade the technology.
- Foreign companies will also create a supply chain in the Indian market. Due to this practice, there is no wastage of perishable goods because of bad infrastructure facilities and refrigeration.

7. NEGATIVE IMPACTS

Despite the positive impacts of FDI in retail industry, there are some negative impacts also. They are briefly explained below.

- Giant retailers and Super markets like Wal-Mart, Carrefour etc. will displace small retailers. The displacement of small retailers leads to job losses.
- Super markets establish monopoly in the Indian Retail Market. They are getting the goods on low price and they will sell it on low price than small retailers. It will decrease the sale of small retailers.

- Jobs in the manufacturing sector will be lost because foreign giants will purchase their goods from the international market as per WTO law and not from domestic sources.

8. CONCLUSION

It is understood that the entry of FDI in retail market will boost the Indian Economy. Under the mixed economy, both private players and the governments have joint responsibility for the development of India. Most of the countries are getting very bitter experience on account of the entry of FDI. Hence, it is suggested that suitable policy should be framed by the Government of India with regard to the entry of FDI in retail sector and protect the Indian Economy.

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