The sunrise sectors with huge growth potential economics essay

Indian retail industry is one of the sunrise sectors with huge growth potential.

According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the on-going wave of incessant liberalization and globalization stems from the absence of an FDI encouraging policy in the Indian retail sector. In this context, the present paper attempts to analyze the strategic issues concerning the influx of foreign direct investment in the Indian retail industry. Moreover, with the latest move of the government to allow FDI in the multiband retailing sector, the paper analyses the effects of these changes on farmers and agro-food sector. The findings of the study point out that FDI in retail would undoubtedly enable India Inc. to integrate its economy with that of the global economy. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged. The paper ends with a review of policy options that can be adopted by Competition Commission of India.

Introduction

As per the current supervisory regime, retail trading (except under single-brand product retailing – FDI up to 51 per cent, under the Government route) is forbidden in India. Simply placed, for a company to be able to get foreign funding, products sold by it to the general public should only be of a single-brand; this condition being in addition to a few other conditions to be abide by to. India being a signatory to World Trade Organization’s General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade zone to foreign investment. There were initial doubts towards opening up of retail sector rising from fear of occupation losses, procurement from global market, Competition and loss of innovative opportunities. However, the management in a series of moves has unbolted up the retail sector gradually to Foreign Direct Investment. In1997, FDI in cash and carry (wholesale) with 100% ownership was permitted under the Government support route. It was brought underneath the reflex route in 2006. 51% investment in a single brand retail outlet was also permitted in 2006.

All Indian households have traditionally enjoyed the suitability of calling up the corner grocery “ kirana” store, which is all too familiar with their product Preferences, offers credit, and smears flexible situations for product returns and exchange. And while shopping mall based shopping formats are gaining popularity in most cities today, the price-sensitive Indian consumer has reached out to stores such as Big Bazaar mainly for the steep markdowns and bulk prices. Retail fetters such as Reliance Fresh and More have allegedly closed down maneuvers in some of their locations, because subsequently the initial novelty faded off, most shoppers adopt the convenience and access offered by the local “ kirana” store. So how would these Western multi-brand rations such as Wal-Mart and Carrefour strategies their entry into the country and gain access to the run-of-the-mill Indian household? Wal-Mart has previously entered the market through its enterprise with Bharti, and grew opportunity for some early observations. The company's access into China will also have transported some understanding on catering to a large, diverse market, and outlooks on buying behavior in Asian households. Carrefour on the other hand has launched its wholesale cash and carry operations in the country for professional businesses and retailers, and will now need to focus more on understanding the separate Indian customer. As such, these retail giants will try to gain from some quick wins while reaching out to the Indian consumer. For one, they will effectively harness their expertise with cold storage technologies to lure customers with fresh and exotic vegetables, fruits and organic produce. Secondly, they will also emphasize on the access that they can create for a range of inspirational global foods and household brands. Thirdly, by supporting domestic farmers will try ensuring supplies of essential raw materials to them.

Surely, these should engage shoppers' and farmers interest-but what needs to be seen is whether they can effectively combine these benefits, with the familiarity, convenience and personalized shopping experiences that the local " kirana" stores have always offered.

Body

FDI In India

FDI as well defined in Dictionary of Economics (Graham Bannock et. al) is financing in a overseas country through the achievement of a native company or the formation there of a process on a new (Greenfield) site. To place in humble words, FDI refers to money inflows from overseas that is capitalized in or to improve the manufacture capacity of the economy. Foreign Venture in India is governed by the FDI policy proclaimed by the Government of India and the establishment of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India in this esteem had issued a announcement, which contains the Foreign Exchange Management (Transmission or issue of sanctuary by a person area outside India) Rules, 2000. This notice has been edited from period to period. The Department of Commerce and Trade, Government of India is the nodal activity for riding and reviewing the FDI policy on constant basis and variations in sectorial policy/ sectorial equity cap. The FDI policy is informed through Media Notes by the Secretariat for Industry Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The overseas financiers are free to devote in India, excluding few sectors/activities, where previous approval from the RBI or Foreign Investment Promotion Board would be required.

FDI Policy with Regard to Retailing in India

It will be judicious to look into Media Note 4 of 2006 distributed by DIPP and combined

FDI Policy distributed in October 2010, which deliver the area exact advices for

FDI with regard to the conduct of trading activities.

a) FDI up to 100% for money and convey wholesale exchange and export trading permissible under the reflex route.

b) FDI up to 51 % with previous Government endorsement (i. e. FIPB) for retail exchange of Single Brand produces, subject to Press Note 3 (2006 Series).

c) FDI is not allowable in Multi Brand Retailing in India.

Panned Alterations in FDI Policy for Retail Sector in India

The government (led by Dr. Manmohan Singh, proclaimed following potential improvements in Indian Retail Sector

1. India will let FDI of up to 51% in â€•multi-brand sector.

2. Single brand sellers such as Apple and Ikea, can individual 100% of their Indian stores, up from earlier cap of 51%.

3. The retailers (both single and multi-brand) will have to cause at least 30% of their belongings from minor and average sized Indian suppliers.

4. All retail stores can accessible up their processes in populace having over 1million. Out of about 7935 towns and cities in India, 55 avail such criteria.

5. Multi-brand retailers must carry at least investment of US$ 100 million. Partial of this must be capitalized in back-end organization facilities such as cold chains, cooling, carriage, packaging etc. to decrease post-harvest costs and deliver remunerative values to farmers.

6. The introductory of retail competition (policy) will be within limits of state laws and rules.

Multi-Brand Retailing

FDI in Single-Brand Retail

The Government has not categorically defined the meaning of â€•Single Brand anywhere neither in any of its circulars nor any warnings.

In single-brand retail, FDI up to 51 per cent is allowable, theme to Foreign Investment

Promotion Board (FIPB) sanction and theme to the conditions mentioned in Press

Note 3 that

(a) Solitary single brand commodities would be vended (i. e., retail of goods of multi-brand even if manufactured by the same manufacturer would not be permissible),

(b) Commodities should be sold under the same brand internationally,

(c) Single-brand merchandise retail would only cover merchandises that are exclusive during built-up

(d) Any accumulation to product groupings to be sold under â€•single-brand would require fresh authorization from the government.

While the expression ‘ single brand’ has not been well-defined, it indicates that foreign companies would be permitted to sell goods sold worldwide under a ‘ single brand’, viz., Nokia, Adidas and Reebok. Retailing of goods of many brands, even if the same manufacturer manufactured such products, would not be permitted.

Going a step foster, we inspect the notion of ‘ single brand’ and the related

Conditions: FDI in ‘ Single brand’ retail suggests that a retail store by foreign investment can only sell one brand. For example, if Adidas were to obtain approval to retail its lead brand in India, those retail openings could only sell commodities under the Adidas brand and not the Reebok brand, for which detached approval is mandatory. If arranged permission, Adidas could sell stuffs under the Reebok brand in individual outlets.

FDI in Multi-Brand Retail

The government has also not cleared the term Multi Brand. FDI in Multi Brand retail indicates that a retail store with a overseas investment can sell multiple brands underneath one cover.

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a conversation paper on permitting FDI in multi-brand retail. The paper doesn’t propose any forward-thinking limit on FDI in multi-brand retail. If pragmatic, it would accessible the arrivals for global retail giants to attain and found their footpaths on the retail scenery of India. Opening up FDI in multi-brand retail will mean that overall retailers including Wal-Mart, Carrefour and Tesco can open stores contribution a range of domestic items and grocery directly to consumers in the same way as the ever-present ‘ kirana’ store.

SWOT Analysis of Retail Sector:

Strengths:

· Major contribution to GDP: the retail sector in India is hovering around 33-35% of GDP as likened to around 20% in USA.

· High Growth Rate: the retail sector in India experiences an extremely high growth rate of around 46%.

· High Possible: since the prearranged portion of retail sector is merely 2-3%, thereby making lot of possible for future companies.

· High Occupation Generator: the retail sector hires 7% of effort force in India, which is ritual now imperfect to muddled sector only. Once there methods get applied this proportion is likely to increase considerably.

Weaknesses (limitation):

· Lack of Contestants

AT Kearney’s study on global retailing styles found that India is least modest as well as least immersed markets of the world.

· Highly Chaotic:

The chaotic portion of retail sector is solitary 97% as linked to US, which is solitary 20%.

· Low Productivity:

McKinney study entitlements retail output in India is very short as paralleled to its international peers.

· Shortage of Clever Specialists:

The retail trade business in India is not careful as reputed vocation and is mostly approved out by the family members (self-employment and captive business). Such people are not intellectually and skillfully qualified.

· No Industry status,

Hence creating financial issues for retailers: the retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds.

Opportunities (benefits):

·There will be more organization in the sector:

Organized retail will need more workers. According to findings of KPMG, in China, the

employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001, post reforms and innovative competition in retail sector in that country.

· Healthy Competition will be boosted and there will be a check on the prices (inflation): Retail giants such as Walmart, Carrefour, Tesco, Target and other global retail companies already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices.

· Create transparency in the system: the intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realizes only one-third of the price, which the final consumer pays.

· Intermediaries and mandi system will be evicted, hence directly benefiting the farmers and producers: the prices of commodities will automatically be checked. For example, according to

Business Standard, Walmart has introduced â€•Direct Farm Project at Haider Nagar in Punjab, where 110 farmers have been connected with Bharti

Walmart for sourcing fresh vegetables directly.

· Quality Control and Control over Leakage and Wastage:

Due to organization of the sector, 40% of the production does not reach the ultimate consumer. According to the news in Times of India, 42% of the children below the age group of 5 are malnourished and Prime Minister Dr. Manmohan Singh has termed it as â€•national sham. Food often gets rot in farm, in transit and in state-run warehouses. Cost conscious and highly competitive retailers will try to avoid these wastages and losses and it will be their endeavor to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society.

· Heavy flow of capital will help in building up the infrastructure for the growing population: India is already operating in budgetary deficit. Neither the government of India nor domestic investors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base.

·There will be sustainable development and many other economic issues will be focused upon: Many Indian small shop owners employ workers, who are not under any contract and also under aged workers giving rise to child-labor. It also boosts corruption and black money.

Threats:

· Current Independent Stores will be compelled to close:

This will lead to massive job loss as most of the operations in big stores like Walmart are highly automated requiring less work force.

·Big players can knock-out competition: they can afford to lower prices in initial stages, become monopoly and then raise price later.

· India does not need foreign retailers: as they can satisfy the whole domestic demand.

· Remember East India Company it entered India as trader and then took over politically.

·The government hasn’t able to build consensus.

In view of the above analysis, if we try to balance opportunities and prospects attached to the given economic reforms, it will definitely cause good to Indian economy and consequently to public at large, if once implemented. Thus the period for which we delay these reforms will be loss for government only, since majority of the public is in favor of reforms. All the above mentioned drawbacks are mostly politically created. With the implementation of this policy all stakeholders will benefit whether it is consumer through quality products at low price, farmers through more transparency in trading or Indian corporates with 49% profit share remaining with Indian companies only.

Conclusion

The discussion above highlights:

(1) Small retailers will not be crowded out, but would strengthen market positions by turning innovative/contemporary.

(2) Growing economy and increasing purchasing power would more than compensate for the loss of market share of the unorganized sector retailers.

(3) There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they are likely to be absorbed by increase in the food processing sector induced by organized retailing.

(4) Innovative government measures could further mitigate adverse effects on small retailers and traders.

(5) Farmers will get another window of direct marketing and hence get better remuneration, but this would require affirmative action and creation of adequate safety nets.

(6) Consumers would certainly gain from enhanced competition, better quality, assured weights and cash memos.

(7) The government revenues will rise on account of larger business as well as recorded sales.

(8) The Competition Commission of India would need to play a proactive role.

Thus from developed countries experience retailing can be thought of as developing through two stages. In the first stage, modern retailing is necessary in order to achieve major efficiencies in distribution. The dilemma is that when this happens it inevitably moves to stage two, a situation where an oligopoly, and quite possibly a duopoly, emerges. In turn this implies substantial seller and buyer power, which may operate against the public interest.

The lesson for developing countries is that effective competition policy needs to be in place well before the second stage is reached, both to deter anticompetitive behavior and to evaluate the extent to which retail power is being used to unfairly disadvantage smaller retailers and their customers. The sources of retail power need to be understood to ensure that abuses of power are curbed before they occur. The more important debate lies in the parameters of competition policy. The benefits brought by modern retailers must be acknowledged and not unduly hindered. While it is true that some dislocation of traditional retailers will be felt, time will prove that the hardship brought will not be substantial. Competition law is being created and adopted across Asia but in the immediate future its impact is not expected to be large. Competition laws only become vital as time passes and retail becomes concentrated in the hands of a few powerful companies, whether or not these companies are foreign or domestic.

In conclusion, the issue that India must grapple with now is the impact of reduced competition brought about by retailer concentration will have on various stakeholders and the ways in which competition laws and policy can deal with this growth of power before it is too late. The new Competition Act, 2002 has all the required provisions. It would, anyhow, depend on how it is implemented.

Suggestions

FDI since 1991 has proved to be game changer for wide segments of Indian industry.

FDI has change quality, productivity, and production in areas where it has been allowed. FDI has led to the creation of new activities such as IT-BPO, which was initiated by select foreign companies.

India needs huge investment in the 12th Plan period, it is calling for investments to the tune of $1 trillion in the infrastructure sector alone. We need among many other infrastructure facilities infrastructure in retail as well as those for food & perishable products. Opening of FDI in retail would have led to the creation of such farm infrastructure.

This apart mining and manufacturing sectors also require huge investments and FDI can supplement domestic efforts significantly. There is also an urgent need for India to augment the investment absorption capacity.

Moreover it has to be understood that India is competing for foreign investments with other emerging economies and so far a comparative analysis suggest that India has not been a large recipient of FDI.

While one can feel that FDI liberalization should be pursued we also recommend some immediate ground level reforms for increasing the ease of doing business in India. Therefore we would like to propose a few suggestions to the policymakers for their consideration:

- Bureaucratic delays and various governmental approvals and clearances involving different ministries need to be fastened so as to increase the absorption rate of FDI into the country.

- Restrictions on sector caps and entry route to sectors other than those of national importance need to be liberalized further and constant reviewing of policies must be done.

- Government must ensure consistency of policy so as to improve the business and investor confidence.