



## **FOREIGN DIRECT INVESTMENT : CHALLENGES AND OPPORTUNITIES**

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### **Abstract**

This paper is emphasizes on Foreign Direct Investment, Challenges and Opportunities for the FDI. India is the world's largest democracy. It is the second most populous country and 7<sup>th</sup> largest in terms of land area. As one of the oldest civilization of world, India represents a nation rich in diversity in terms of its culture, people, language, geographic and climatic conditions and natural resources. To fully realize the country's immense economic potential, the government launched the economic reform programme in July 1991. Since then successive government have progressive liberalized and deregulated the economy. Today the government policies are simple, transparent and promote domestic and foreign investment. The result of this ongoing process has been a radical change in the course become the most preferred and attractive destination for foreign investors.

**Keywords :**Foreign Direct Investment, Opportunities, Civilization

### **INTRODUCTION**

India's retail sector is globally recognized as the sunrise industry. The country is treated as "second most attractive retail destination" among thirty emergent markets. Over 8 percent of population is engaged in retailing. Retailing sector contribute 14 percent to the national GDP. India has moved in to 21<sup>st</sup> century and is showing marked changes to push the organized retail development. Retailing the second largest industry in economy-growing dynamically and fundamentally is changing the face of Indian consumerism. Complexities of India's vast and varied market will be a challenge for domestic and foreign players.

Retailing is becoming a way of life with retail formats focusing on the needs of particular consumer groups. Previously it was manufacturers brand, the 2000s are witnessing the power of retailers brands challenging the position of suppliers. The traditional forms of small businesses and co-operative have lost significant market share and, in developed economies, the retail sector is now characterized by large-scale multiple chains run by powerful and sophisticated organizations.

## **CONCEPTUAL BACKGROUND**

Retailing includes all the activities involved in selling products and services directly to final consumers for their personal non-business use. Many institutions manufacturers, wholesalers and retailers do retailing. But most retailing do by retailers.

According to David Gilbert the definition of retail as, any business that directs its making efforts towards satisfying the final consumer based up the organization of selling goods and services as a means of distribution.

The word retail is derived from the French word retailer which implies to cut or again or to break bulk. The application of the function can be attributed to the retailers. They include assembling, sorting, standardizing, storing, selling, providing credit facilities and packing etc. before retailing in our country gathered at market place. Where vendors would put their offering on sale. In the KiranaStores the commodities were available to a some extent.

According to David Gilbert any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution. The final consumer within the distribution chain is a key as retailers are at the end of the chain and are involved in direct interface with the consumer.

According to Alexander (1997) the management of retail operations in market which are different each other in their regulations, economic development, social conditions, cultural environment and retail structures. The internationalization of retailing not only denotes the transfer of operations outside the home market but also it is a wider and more complex process than merely the transfer of stores. It involves the international transfer of retail concepts, managerial skills, technology and even the buying function.

Retailing is the final connection in the marketing channel that brings goods from manufacturers to customers for their personal or household use. All businesses that sells goods and services fall under the umbrella of retailing. Retailing can be a fairly general description of an industry. It is India's largest industry with maximum impact on the population. Although retailing has been around for millennia, the recent years have witnessed a lot of change in the retail sector in India.

## **OBJECTIVES OF THE RESEARCH STUDY**

The present research study is carried out with following objectives in view:-

1. To study the theoretical background of foreign direct investment in India.
2. To study the challenges before retailing in India.
3. To study the opportunities for retailing in India.

## **RESEARCH METHODOLOGY**

The present research study is based on the secondary data. Such secondary data is collected from various reference books on FDI, Retailing Management, Marketing Management, Commerce, Management, Technology, Finance, and Banking etc.

For the said research study the data pertaining to the above objectives was collected by the review of the literature on the subject concerned. The literature was thus collected by visiting libraries and various concerned websites.

## **CHALLENGES BEFORE RETAILING IN INDIA**

### **A) Problems of unorganized retail trading**

1. Limited financial resources :The financial strength of Indian retailers in unorganized sector, in general is very low and hence the investment capabilities. This makes the retailers more dependent on other channel members.
2. Limited bargaining capacity :All retailers in unorganized sector do not deal with the original manufacturers directly. The retailers reach is limited only to the distributors or stockiest, which are many cases independent business houses.
3. Infrastructure bottleneck :Indian road and railway are nowhere comparable to the international standard. Therefore, the real time taken in execution of an order cycle is much more in India than its developed counterparts. Power shortages and insufficient storage facility are another important problems faced by the retailers.
4. Lack of communication :The manufacturers channel not directly reach all retailers in a particular geographical area. Therefore, the manufacturer's can not maintain the desired relationship with the retailer, which in turn makes management of channel complicated. This makes the possibility of direct feedback loop form the retailer almost remote.
5. Variety of risks : Not only the goods may be destroyed through fire and flood but also there is often the danger of theft, deterioration or spoilage, further home such merchants are also faced with the threat that customers will not accept their product or will purchase them only at unprofitable prices. He also undertake risks handling of fashion goods and other items for which consumer demand varies greatly from time to time.

### **B) Problems of organized retail trading**

1. Competition form the unorganized sector :The first challenge facing the organized retail industry in India is competition from the unorganized sector. Traditional retailing has established in India for some centuries. It is low cost structure, mostly owner operated has negligible real estate and labour cost and little tax to pay consumer familiarity that runs from generation to generation is one big advantage for traditional retailing sector.
2. Lack of trained manpower :Retail selling requires skills in customer relations, simple mathematics, an eye for merchandise and display, and good memory for inventory information more over the skills of handling, storing and packaging has great impression on peoples mind.
3. Huge expenses :In contrast players in the organized sector have big expenses to meet and yet have to keep prices low enough to able compete with the traditional sector. High cost for organized sector arisesform higher labour costs, social security to employees, high quality real estate, much bigger premises, comfort facilities such as air conditioning, backup power supply, taxes etc.
4. Opposition formpoliticians :Retail reforms are likely to be opposed by the communist party coalition partner in the congress party- led government, set the changes could be threaten thousands of small retail concerns. Many politicians still feel they have a duty to protect the livelihoods of the small shopkeepers they represent.

5. **Opposition from traders :** Indian retail trade is dominated by small shopkeepers. Every tiny village has a shop the town and metros are dotted by such tiny shops. These shops provide income and employment to literally crores of shopkeepers. All the shopkeepers are opposed to corporate retail. They fear that the entry of big players would affect their sales.
6. **Mindset of consumers :**The Indian consumers find corner retail shop more convenient, comfortable and friendly. The new shiny malls are foreign to them. They have a feeling that the commodities sold in malls are costly, only higher income group consumers can purchase it.
7. **Government regulations :**In order to safeguard the small trading community government has laid down certain regulations on foreign retailers. But now regulations will allow foreign retailers to own 51 percent outlets as long as they only sell single brand goods.

### **OPPORTUNITIES FOR RETAILING IN INDIA**

1. **Direct benefit to farmers :**The biggest beneficiary of FDI in retail will be directly the farmers in India. Across the world the big retail giants buy the produce directly from the farmers, thereby eliminating the middle men. Thus farmers will get much better price which can be at least 15-20% higher than the existing price they get. In present system the farmers get approximately 30-35% of the retail price, rest all is taken over by middle men like traders etc. for e.g. during the onion storage in India most of the hoarding was done by onion traders, whereas they got price as high as Rs.35 kg, the farmer got only Rs.4-5 kg. thus farmers will directly benefit from direct purchase.
2. **Reduction in food inflation :** The incoming of FDI will bring in strong competition amongst the retailers at the same time the elimination of middle men who are also the hoarders of stocks will help reducing the supply constraints. The direct purchase policy of bigger retailers will help in passing on the benefit of low procurement cost directly to consumers. Thus helping in reducing food based inflation to a great extent.
3. **Earning of foreign exchange reserves :**India will earn a great amount of foreign exchange reserves from the investments which the mega multi brand retailers will do in India. Each retailer is suppose to do minimum of 100 million dollars, considering that setting up an average one store costs 5-10 million dollars, one can easily expect to get investments up to 1 billion dollar from each retailer in total, which can be approx 15-25 billion dollars spread over 5 years.
4. **Huge employment benefits :** The international model suggest that all those countries which opened up multi brand retail to FDI added huge amount of employment. In India the government expects it to generate at least 4 million employments over the next few years. It is very critical to note that the government is allowing foreign retailers to open retail stores in India in joint venture with Indian partner only in top 53 cities with a population of 1 million and above.
5. **Drop in food wastage :**A huge chunk of almost 30-40% of total food is wasted in transportation and poor storage facilities. The government has made it compulsory for the foreign retailers to invest at least 50% of the investment in infrastructure. Thus it

will become critical for them to reduce food wastage by making better storage and quick transport facilities available.

6. **Better consumer choice** :The other major beneficiary will be the consumer. Since most of the retail stores operate over a very large format they generally have a large amount of products. Thus they will store as much variety as possible. Which generally kirana stores do not keep since they are not sure of its sale.
7. **Benefit to Kiranastores** :As per government approved policy it is compulsory for the mega retailers to have 30% of their sales from small retailers. The Punjab state is a perfect example of this cash and carry model. At the same time one must realize that the kirana store retailers have been paying a high price to middle men to procure good, which they can now procure at much lower price from the bigger multi brand foreign retailers. At the same time the multi brand retailers with FDI will be allowed to sell only in 53 big cities with population of more than one million. Thus the Kirana stores can directly benefit from buying from cities and selling them in their towns. One must not forget that most of this big brand multi retail shops will be based on outskirts of city whereas the Kirana stores are in heart of city providing home delivery.
8. **Creation of backend infrastructure** :The government has made it compulsory for the foreign brand multi retailer to invest at least 50% of their amount into back end infrastructure. Thus giving a boost to facilities like cold storage, food grain banks etc.
9. **Overall growth** :India's GDP has been slowing down since last few quarters. The influx of foreign funds will lead to huge incoming of investments in critical sectors like construction, employments etc. such investment will easily contribute up to 0.5% to the GDP growth backed by other critical reforms. Though the government has to bring down interest rates to boost growth, it also has to bring in more reforms.
10. **Employment Generation** : Large investment in infrastructure would lead to a rise in farm productivity, manufacturing and food processing as well as cold storage facilities. This would cut down wastages and spur growth in employment, exports and GDP. Retail is the largest sector in India after agriculture, accounting for over 10 percent of the country's GDP, and employs over 4 crore people. Within this, unorganized retailing accounts for 97 percent of the total retail trade. FDI in multi-brand- retail is certainly going to create employment opportunities for the youth. Setting up of retail outlets by big retailers from all over the world in different parts of the country will help in removing regional inequalities by providing avenues for the employment.
11. **Control On Inflation**: Foreign Direct Investment (FDI) would help consumers, suppliers and farmers. It would help in controlling inflation by offering more competitive and rationalized prices of products to consumers and reduction of wastages across India's farm-to-fork supply chain. The Indian economy has been facing the acute problem of high inflation in recent times. The main reasons for inflation are excess supply of money or shortage of supply of goods in the market. Supply of money can be regulated by the Reserve Bank of India (RBI). It has its own mechanism to control the supply of money. Scarcity of supply of goods can either be due to less manufacturing/production, or it could be created artificially by

malpractices like hoarding, etc. FDI can help in removing both types of scarcity by arranging for goods from the global markets or creating competition at the domestic level. The retailers can procure the supply directly from farmers or manufacturers, who will help in strengthening the supply chain as well as help in reducing the prices.

**12. Farmers Will Get Their Due From Their Produce :** In the Indian trading system, there are different types of intermediaries at different stages. Some of the intermediaries procure products from the farmers and sell it to *artiyasmiddleman*), who collect products from different small middlemen and then *artiyassell* products to various small retailers, who then sell the products to different customers at different localities. In this system, at every stage whenever middlemen are involved, they get a fixed commission. Commission at each level adds to the prices of commodities. Generally, when the traders get the products from the farmers or small manufacturers, they pay very little money to them and grab the maximum part of the price, which they charge from the final customer.

**13. More Variety For The Consumers:** FDI in retail will have a far-reaching impact on the various aspects of the economy. Customers will get a wide assortment of quality goods at reasonable prices. They will be able to buy the best brands across various categories. The entry of the global retail giant like Wal-Mart, Tesco, etc. will certainly provide a large variety of products to the Indian customers. Commodities from all over the world can be collected from one store, which will help customers to save time and energy. International brands that were not available due to non accessibility by domestic retailers could easily be made available through these global players.

## CONCLUSION

It is now an established fact that organized retailing in India would continue to grow in the years to come, we should keep in mind some relevant issues regarding safeguarding interests of smalls and marginal farmer, and also displacement of labour and existing traditional pattern of retailing. The organized sector will grow and there will be exciting times, growth, competition for the players in the industry and the customers will be benefited by getting the best deals in the years to come.

Definitely Indian retail industry will get golden days in next few years, smaller organizations will have to decide their own fate in the price and space war. The entry of foreign player will widen the playing field and lead to more consolidation in retail sector.

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