



## The opportunities and challenges of FDI in retail in Punjab

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Punjab is situated at North West end of India adjoining its border with Pakistan. With total population of 3 crore 60 lakhs Punjab is divided into 20 districts. The aim of this paper is to analyse various opportunities of Foreign Direct Investment in Retail in context of the infrastructural facilities, social infrastructure of the State, consumer general behaviour, consumer taste and preferences, consumer culture etc. that can induce global players of Organised Retail to choose Punjab as good investment destination or the Challenges which the players of Organised retail have to face in Punjab in context of opposition from Unorganised Retailers, Consumer preferences and behaviour etc.

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### Introduction:

As the world is becoming global day by day and developments are taking place in every corner of the world. Now a day almost every country is making FDI as an integral part of its development strategy. No doubt FDI acts as a catalyst in the development of a country through up-gradation of technology, providing global knowledge and managerial skills in various sectors. According to A.T. Kearney's Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. Being encouraged by India's growing retail boom many multinational companies also started to enter India's retail market. The state of Punjab having majority of its geographical area as Agricultural land, rising per capita income and literacy rate, large Consumer market with good spending habits can result as great opportunity for Foreign Direct Investment in Retail as well as there can be various constraints in its path and the Social, Economic or other impacts it can have on the State of Punjab.

Objectives:

1. To discuss Government of India's policies related to FDI in Retail.
2. To analyse various factors that can act as Opportunities for FDI in Retail in Punjab.
3. To discuss the factors that can act as hurdles/challenges in its path.

### FDI In Retail Sector

The Indian retail sector is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/ producers through two different channels: (a) via independent retailers ('vertical separation') and (b) directly from the producer ('vertical integration'). In the latter case, the producers found their own chains of retail outlets, or develop franchises. On the other hand, Indian retail industry is divided into organised and unorganised sectors. The Organised retailing market is referring to the trading activities carry out by the licensed retailers; and that is also, those who are registered for sales tax, income tax, etc. The organized retailers include the corporate-funded supermarkets and retail chains, and also the privately owned gigantic retail businesses. On the other hand, the unorganised retailing refers to the traditional players of low-cost retailing, for example, the

local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.'. The unorganized retailing is the prevalent form of trade in India, even in present scenario – constituting almost 98% of total trade in retail market, while organised trade accounts only for the remaining 2%. However, this is projected to increase to 15-20 per cent by 2010 (Singhal 2009).

Analysts estimate that the retail market in India, currently worth \$500 billion, will grow to \$1.3 trillion by 2020. Organized retail is expected to reach 20-25% of total retail by 2020 (from a current 5-6%) (Gupta, 2012). For achieving such high growth of retail sector there will be need for capital, proper infrastructure, latest technology, skilled worker etc. FDI can play an important role in fulfilling these need that's why India has liberalized its norms regarding FDI in retail sector. FDI in retail sector will lead to competition and efficiency. Through FDI in retail, Major global Players are expected to be beneficial for consumers, Farmers as well as well as economy as a whole.

#### Conditions for FDI Route In Retail Sector

The conditions for 51% FDI in MBRT include a minimum investment of \$100 million by each player, 50% of it in back-end infrastructure, 30% procurement from micro, small and medium enterprises (MSMEs), and the government's right to procure the farm produce first. Further, the permission for MBRT has been granted for cities with a population of one million or more, which brings in 53 cities. Some of entrance routes used by them have been discussed in sum as below:

#### Franchise Agreement

Franchise agreement is written contract between the franchisor and franchisee. It is the easiest mode to enter Indian market. One can enter through this route with RBI approval under the Foreign Exchange Management Act. Many of the players like Spencer, Lacoste, Mango, Nike etc. entered through this route only.

#### Cash And Carry Wholesale Trading

Cash & Carry wholesale trading would mean sale of goods/merchandise to retailers, industrial, commercial, institutional or other professional business users or to other wholesalers and related subordinated service providers. 100% FDI is allowed to wholesale trading which include building local infrastructure for manufacturers that will improve distribution. First Global Player entered through this route was Metro AG.

#### Strategic Licensing Agreements

Through strategic licensing developer of intellectual property, technology or a product give exclusive license and distribution rights to Indian companies. It is beneficial for both the companies. Using these Indian companies can sell it through their own shops or distribute the brand to franchises. Mango, the Spanish apparel brand has entered India through this with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodland Pvt. Ltd.

#### Manufacturing And Wholly Owned Subsidiaries

In a wholly owned subsidiary, the parent company owns all the Shares of the company and there are no minority shareholders. The subsidiary operates with the permission of the parent company. Foreign brands have their subsidiaries in India and these companies have the authority to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets etc. Some examples are Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries.

ABOUT THE STATE: Punjab is situated at North West end of India adjoining its border with Pakistan. With total population of 3 crore 60 lakh Punjab is divided into 20 districts. The areas of industrial thrust include agro-industry, electronics, dairy industry, pharmaceutical Industry and white goods industry. Agriculture is the mainstay of Punjab's economy. The state contributes 18 per cent of the country's wheat production and 11 per cent of rice production to the national exchequer. The other major reason for the prosperity of the state are the great number of people who left their home for the countries in Europe and North America and, after long struggles, achieved successes there. About one-third of Punjab's population lives in cities and towns. Its major cities are Ludhiana in the central region, Amritsar in the northwest, Jalandhar in north-central Punjab, Patiala in the southeast, and Bathinda in the south-central part of the state.

Summary of socio-economic indicators

State Capital	Chandigarh
Area (Sq. km)	50,362 sq. km
Population (Census 2011)	2.77 crore
Population Density(Sq. Km) Census 2011	550
No. of Districts#	22
GSDP at Current Prices (FY2010-11)	Rs. 228754 crore
GSDP at Constant Prices(FY2010-11)	Rs. 151941 crore
Growth of GSDP at Constant Prices(FY2010-11)	7.78%
Per capita GSDP (2009-10)	Rs. 61,035
Fiscal Deficit (FY2011)*	3.6%
Poverty (FY2004-05)	8.4%
National Highway length (2009-10)	1749kms
Rail Length (2005-06)	2133 kms
Domestic Airport	Chandigarh, Ludhiana and Pathankot
Literacy Rate (2011 Census)	76.76%
Key Industries	Agro and food processing, Beverages, IT and knowledge, Textiles, Hoisery, Wollen garments Tourism, Handicrafts, Automobile, Chemicals, Metal and Light Engineering.
Main Industrial Cities	Ludhiana , Jalandhar, Amritsar, and Mohali
Investment environment	10th rank
Composite ranking of the state	2nd rank
Agriculture	1st rank

Macro economy	5th rank
Labour laws (2009)	18th rank
Consumer markets	1st rank
Infrastructure	1st rank
Legal system	11th rank
Labour regulation	18th rank
Overall economic freedom index	12th rank

Source: PHD Research Bureau, compiled from Department of Planning, Government of Punjab, Census 2011,

Government of India, \*RBI, \*\*Annual report to people on Health, September 2010

# The state of Punjab has 22 districts which comprises of sub-divisions, tehsils and blocks.

^ India Today, 29th Nov 2010, an article by Bibek Debroy and Laveesh Bhandari, ^^Economic Freedom of the States of

India 2011, by Laveesh Bhandari, Bibek Debroy and Swaminathan Aiyar and various policy papers of Government.

#### OPPORTUNITIES:

**Per capita income:** Per capita income of Punjab is Rs. 61,035 (FY2010), which is around 38% higher than the national average of Rs. 44,345. As per the latest comparable data during FY2008, Punjab is ranked at the 5th in terms of per capita income among all the Indian states. Good per capita income is positive indicator for organised retail sector .

**Infrastructure:** For establishment of Hypermarkets or Supermarket stores similar to Wal-mart or Tesco there is need for proper infrastructure so that goods can smoothly transported from farms to stores. Some products need to be stored in cold stores till they are sent for sale Infrastructure is a vital sector for the development of the industry and economy. The state offers excellent infrastructure and has been ranked first amongst the big states in terms of infrastructure<sup>7</sup>. Punjab has also been declared as one of the best states in India in terms of rail, road and transport network<sup>8</sup>. The state government is working towards the development of infrastructure to promote industry, commerce and trade in the state. To facilitate investments in irrigation, roads, urban development, medical education, power, health and other important sectors, an amount of Rs. 916 crore has been allocated for FY2011-12.

**Roads—** Roads are the major mode of transportation services available in Punjab. The state has an extensive 60881 km network of roads comprising of 1749 km of national highways, 1479 km of state highways, 2112 kms of major district roads, 4482 km of other district roads and 51059 km of village link roads. Several initiatives and road up gradation projects have been undertaken by the state. A sum of Rs. 986 crore including has been allocated by the state for the development of road infrastructure and transport during this fiscal.

**Railways -** The railways play a significant role in the state. It connects major industrial units such as oil refining, cement, fertiliser, thermal power and manufacturing sectors to suppliers and markets. Punjab offers good railway infrastructure and its network spans over 2,098 km. The main inter-state railway routes are

Amritsar-Ambala-Delhi,Sriganganagar-Ambala-Delhi,Ferozpur-Ludhiana-Ambala,Pathankot-Ro  
opnagar fatehgarh Sahib and Sriganganagar-Bhatinda-Narwana.

Aviation – The state has made considerable progress in the filed of civil aviation. Punjab has three domestic airports which are located in Chandigarh, Ludhiana and Pathankot. The International flights operate from the Raja Sansi International Airport at Amritsar. 7 Compiled from India today “The State of the State’s study, 2010 by Bibek Debroy and Laveesh Bhandari 8 As per to the National Council of Applied Economic Research (NCAER), 2007

Telecom – According to TRAI, the total subscriber base of Punjab was 3.2 crore with a share of 3.59% in India’s telecom subscriber base<sup>9</sup>. Punjab contributes around 3.55% in total wireless subscribers in India and around 4.51% in wire line connectivity in India. Better infrastructural facilities can be called as ready platform for entry of Organised Retail.

Social infrastructure

Declining Poverty –Punjab has done reasonably well to reduce its poverty, with only 8.4% of the population living below the poverty line (BPL) as against the national average of 27.5%. However, it is higher than that of hilly state of Jammu & Kashmir with 5.4% population living below the poverty line. Declining poverty means increase in the income level of the people which will result in increase in the disposable income and ultimately increase in consumption which can be seen a positive indicator for Organised Retail.

Unemployment – The degree of unemployment in the state continues to be a cause of serious concern. The unemployment rate of Punjab stands at 10.5% as against the national average of 9.4%<sup>10</sup>. The number of job seekers (both educated and uneducated) on the live registers of Employment Exchanges during 2009 (as on 31.12.2009) was 3.7811 lakhs , out of which 2.66 lakhs were educated unemployed. Amongst the educated job seekers, 76.93% were non-technical where as 23.07% had technical qualifications. Here it can be said that FDI in Retail can result as boon for the state as by setting up organised retail outlets it can provide employment opportunities for thr unemployed youth of Punjab.

Education: The Literacy rate of Punjab is increasing. In 2001 the literacy rate of the state was 69.7% which has now increased to 76.8 percent .there has been approx. 7% in the literacy rate of the state which can also be said as a positive indicator because the upcoming consumers are going to be more educated and there will be likely shift from the traditional kiriyana store to the Organised Retail outlets as they will not mind it if doing so will save them some money . Another reason for shifting can be that the educated people doesn’t hesitate to try new things . they will without any hesitation shift towards Organised Retail Stores as there will be more choices available and the similar products will be cheaper.

Spending Habits -People of Punjab are well known for their spending habits. Shopping often, inappropriate buying, Spending money on what they like without any hesitation can be an opportunity for the Organised retail sector.

**Credit culture** - This is another thing which can be seen as an opportunity for Organised Retail store in Punjab that is Punjabi's easily go for credit. They mostly prefer buying goods on credit. Organised retail stores by providing them facility of easy availability of goods on credit through some banks Credit Cards or Smart card can take this culture as an opportunity.

**Living Standard** - Its also another part of the culture that people of Punjab like to maintain good living standard in the society even if they have to go for credit. Dining in restaurants, having all necessary comforts of life, habit of eating new and delicious food etc. it can also be taken as an Opportunity.

**Non Resident Indians (NRI'S)** - Punjab is basically divided into three main regions known as Malwa(include Districts of Patiala, Fatehgarh Sahib, Sangrur etc.), Majha (include Districts of Amritsar, Ferozpur, Faridkot etc.) and Doaba(include Districts of Jalandhar, Hoshiarpur, Gurdaspur etc.). There are large number of residents that have migrated to Countries like Australia, USA, Canada, UK etc. Having a huge number of population as NRI's can also result as an Opportunity because good proportion of NRI's visit Punjab every year and they are used to shopping through Organised retail store in the country in which they reside and also they will definitely prefer organised retail to Unorganised retail in Punjab too and their such behaviour can also change the behaviour of their relatives and friends in Punjab which can act as an opportunity.

**Challenges**

**Small State** - As by the directions of Govt. of India global players will be permitted to set up there outlets only in those cities which have minimum population of 10 lakhs and Punjab being a small state has only some cities such as Patiala, Ludhiana, Amritsar, Jalandhar, Bathinda the population of which exceeds 10 lakhs. Also most of the population of Punjab resides in villages therefore it will be difficult to taper large number of rural consumers as such store can not be opened in village or rural areas.

**Loyalty** - Loyalty is in the blood of the people of Punjab. It is seen that most people buy grocery and other items from those shops from which their ancestors used to buy and they have very warm family ties and relation with such shopkeepers. This can be a challenge as it will be difficult for such customers to shift from their family "kiriyana stores" to Organised Retail stores.

**Comfort Zone** - Almost all the cities of Punjab are densely populated. Unorganised or Local Kiriyana stores are available almost in every street and at very short walking distance in each society. People generally in big cities order their list of good through phone and mostly local retailers provide home delivery facility. On the other hand for purchasing things from Organised Retail Stores one has to go a long distance because such stores will be located only in some areas of the city not everywhere. Thus analysing the comfort level people can opt to buy from nearby stores which can be a challenge.

**Opposition from Unorganised Retailers** - If the decision to allow FDI in retail sector in Punjab is allowed the govt has to face very strong opposition from the Unorganised retailers and other people who are not in favour of this policy. As Retail sector is the second largest employer of the country there is fear in the minds of shopkeepers and others employed there that if such decision

to allow FDI is taken and implemented it will put very bad effect on their business and the employees are afraid that this may result for them to loose their jobs.

#### Conclusion

To conclude we can say that Foreign Direct Investment in Retail can bring various Opportunities in Punjab in terms of benefits to farmers as most of the land is fertile and major population of Punjab depends on agriculture for their livelihood farmers will get good price of there crops and it will bring crop diversification as there will be ready market available for fruits and vegetables, it will also help in generating employment opportunities for the youth which can be beneficial for the economy of Punjab, it will help to curb food inflation etc.. On the other hand at the same time Punjab is an opportunity for this sector as the state is doing well in terms of Poverty elimination, increasing the Literacy rate, developing the Infrastructure and consumer having endless spending habits etc. there are also some Challenges available before the sector as people will hesitate to break family relations with local shopkeepers thus restricting them to shift to Organised stores, there can be a strong opposition from the Unorganised Retailers at the state level which can force the ruling govt. to pull back its decision.

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