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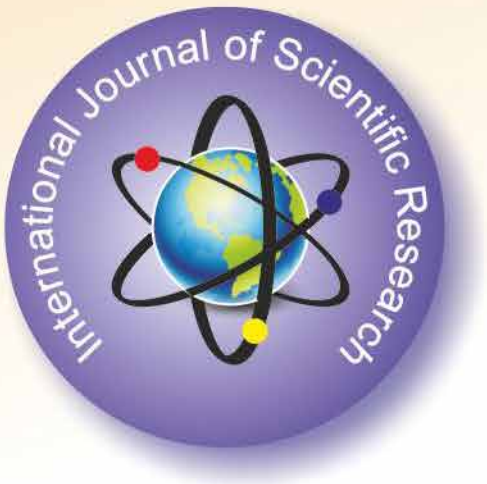

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Research Paper

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Foreign Direct Investment In Indian Retail Sector: A Critical Evaluation



Management

KEYWORDS : Foreign direct Investment, Retailers

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ABSTRACT

The Present paper highlights upon the different views related with the foreign direct investment (FDI) in retail sector ; viz . (i) Government views (ii) Retailers views (iii) consumers views.

INTRODUCTION

Foreign Direct Investment (FDI) certainly plays an extraordinary and unpredictive role in Global business . The central Gov. of India announced a number of reforms with help in the process of Liberalization , privatization & Globalization (LPG) , of Indian economy . since then its inception there has been a remarkable surge in the FDI inflows in the country .In Indian retail sector (IRS) is fifth largest industrial sector in the world . Retailing is the world's largest private industry with total sales of $ 6.6 trillion. In India too, the industry is large, accounting for around 10-11% of india's GDP and currently employs over 4 crores of people . which is the second largest sector after agriculture. FDI in retail is fundamentally different to others sectors. Entry of FDI in retail trade may creat job losses and displacement of traditional supply chain The main fear of FDI in retail trade is that it will certainly disrupt the livelihood of the poor people engaged in this trade . The GOI issue notification in FDI in single brand retail stores is 100% and in multi-brand retail stores approved 51% Foreign Direct Investment .

Survey of `Literature:

A critical evaluation of the retail sector and FDI with the Governments, retailers ,and consumers view discussed in a few studies are being referred here as given below .

1. Bhardwaj ,Satendra , Garg Priyanka , Sharma Ambrish , Sharma Rajeev (2011) in their paper entitled " FDI in Retail Business- A Boon or Ban" observed that foreign investors are tremendously enthusiastic in Indian retail sector .

2. Chaturvedi IIa (2011) in their paper entitled " Role of FDI in Economic Development of India Sectoral Analysis " explained that FDI play and important role in economic development .

3. Madhav Raghavan T.C.A (2011) in their paper entitled "FDI in Indias Retail Bazaar : Opportunities and challenges ".

Objectives :

This Research paper has three objective :

(i) To Analyzed that how the FDI is beneficial for retailer sector in India.
(ii) To understand suitability of FDI culture in India .
(iii) To evaluate the impact of FDI is Indian Retail Services on
  (a) Government view
  (b) Retailers view
  (c) Consumers view

Research Methodology:

This research paper is based on secondary data sources: besides information, figure & facts related to FDI in retail sector. Main sources are internet, journals, magazines and news paper.

FDI Policy in India :

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sect oral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA) and Department of Industrial Policy and Promotion (DIPP).The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required.

FDI Policy with Regard to Retailing in India :

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of 'Single Brand' products.
c) FDI is not permitted in Multi Brand Retailing in India

Entry Options For Foreign Players prior to FDI Policy :

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players has been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

1. Franchise Agreements :

It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. Cash And Carry Wholesale Trading :

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

3. Strategic Licensing Agreements :

Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd

4.Manufacturing and Wholly Owned Subsidiaries :

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian con-

sumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

FDI in Single Brand Retail :
The Government has not categorically defined the meaning of "Single Brand" anywhere neither in any of its circulars nor any notifications.

In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3[8] that (a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed), (b) products should be sold under the same brand internationally, (c) single-brand product retail would only cover products which are branded during manufacturing and (d) any addition to product categories to be sold under "single-brand" would require fresh approval from the government.

While the phrase 'single brand' has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a 'single brand', viz., Reebok, Nokia, Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed.

FDI in Multi Brand Retail :
The Government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous 'kirana' store .

Government s View Point :
The Prime minister of India told the meeting of youth congress FDI will help to bring modern technology in the farm sector less wastage and more jobs created in retail sector . According to the union finance Minister Mr. Pranab Mukharjee " The process of changes is never easy , but it for individuals ,societies or nations . But changes we must it is inevitable . Foreign companies and MNCs will not be allowed to the business in U.P as said Mayavati. Tamil Nadu CM Jaya lilatha's opposition to multi-brand retail in our state . The BJP Leader Arun Jaitley & S. Swaraj said that BJP never supported FDI in retail . the CM shiv raj singh chouhan has alredy expressed his intentions he would not allow FDI in retail sector in Madhya Pradesh .

Retailer's View Point :
Pantaloon retail , india largest listed retailer and part of the future group ,runs stores under the lifestyle brands Pantaloon and central . Future also operates the Big bazaar hypermarket chain and supermarket brand food bazaar ,under the unlisted future value retail . The Centeral Gov. had allowed 51% FDI in multi brand retail . Reliance retail the country second largest retailer said it does not plan to expand business with foreign players

Consumer's View Point :
A majority of consumers , farmers ,surveyed by industry body association have supported the Gov. decision to allow FDI in multi brand retail stores . While 80% traders opposed the move. the chamber surveyed over 2000 people including farmers , consumers ,and traders across 10 major cities like Delhi , Mumbai, Calcutta and Chennai . About 90% of consumers said that the entry of big retailers would bring a wide range of branded goods which would also help in bringing down the prices .

Benefits and Impact of FDI in Retail sectors :
a. Inflow of investment and funds .
b. Growth of infrastructure .
c. Reduced cost and increased efficiency .
d. Franchising opportunity for local entrepreneurs .
e. Increased local sourcing .
f. Increased number and improve quality of employment .
g. Provide better value to end customers .

Conclusion :
India's retail sector remains off-limits to large international chain especially in multi brand retailing . A number of concerns have been raised about opening up to retail sector to FDI in India . The first concern is the potential impact of large foreign firms on employment on the retail sector . According to Gov. view point it is recent times consumer are showing much greater concerns and confidence in organized retail sector expansion in India . In organized retail sector is continuous grow providing a new employment and economic development in our country .

In indian Gov. issues notification 100% FDI allow in the single brand retailing and 51% FDI in multi brand retailing.

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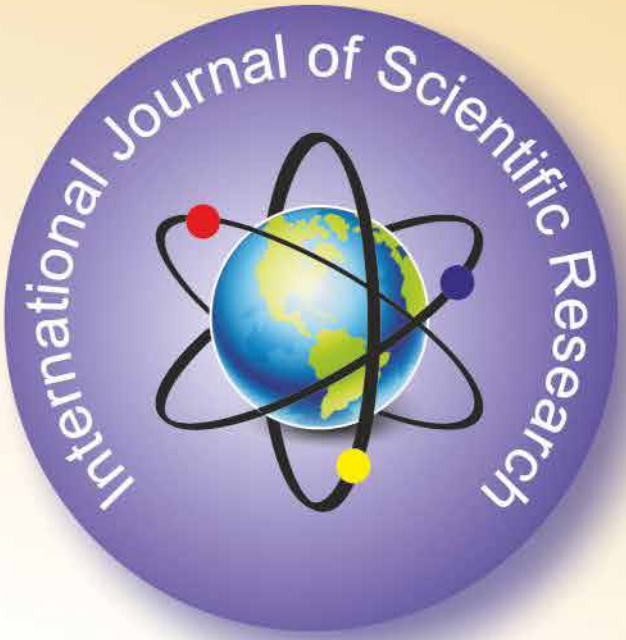

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