



Foreign Direct Investment in Indian Retail Sector

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ABSTRACT

Foreign Direct Investment (FDI) plays a very important role in economic development for any developing and under-developing nation. India is the largest democracy and the second largest populated country in the world. Retail Sector is one of the most important pillars of Indian economy and it is growing at a phenomenal pace. Foreign Direct Investment (FDI) in retail sector plays an integral role in the economic growth. The market size of Indian retail industry is about US \$312 billion. Foreign direct investment has boomed in post-reform in India. Moreover, the composition and type of Foreign direct investment has changed considerably since India has opened up to world markets. This has fuelled high expectations that foreign direct investment may serve as a channel to the higher economic growth of India. This paper is going to try to give a better view of the retailing, types of retailing, FDI policies of India, role of FDI in Indian retail industry and SWOT analysis of retail sector.

KEYWORDS : Foreign Direct Investment (FDI), Retail Sector, Multi-brand Retail, Single-brand Retail

INTRODUCTION

India is the second fastest growing economy in the world. It is third largest economy in the world in terms of GDP and fourth largest economy in terms of Purchasing Power Parity. India presents a huge opportunity to the world at age, to use as a hub. Standing on the threshold of a retail revolution and witnessing a fast changing retail landscape, India is all set to experience the phenomenon of global village. India is the "promised land" for global brands and Indian retailers. A "Vibrant economy". India tops in the list of emerging market for global retailer and India's retail sector is expanding and modernizing rapidly in line with India's economic growth.

Retailing in India is gradually inching its way toward becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retail has entered India as seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof. The Indian retailing sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory. The Indian population is witnessing a significant change in its demographics. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working-women population and emerging opportunities in the services sector are going to be the key growth drivers of the retail sector in India.

The liberalization of Foreign Direct Investment (FDI) policy of the Indian Economy in 1991, that has made most business sectors in India eligible to receive foreign investment, has opened up front doors to many a multinational corporation. But the policy framework for the retail and the trading sector has continued to be highly restricted. FDI in retail trade in India have always yielded a mixed bag of reactions. In the recent times FDI in retailing has been the most heard buzzword in the Indian Corporate World. And finally the big news seems to have arrived. India is ready to open up the doors for FDI in retailing. The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment.

OBJECTIVES OF THE STUDY

The present study is to analyze the current retail scenario in India, investigate the controversial issues and evaluate the likely challenges and threats of FDI in retail sector in India. The objectives are:

- (i) To study the FDI Policy undertaken by Government of India in Indian Retail,
- (ii) To study FDI root and scenario in Retail market in India,
- (iii) To study the FDI in single and multi brand retail, and
- (iv) To identify the strength, weakness, opportunities and threats of the Indian Retail.

METHODOLOGY OF THE STUDY

This paper is based on descriptive arguments, statistical data, comparative study and analytical logic developed through the understandings from various research papers, reports, journals, books, newspapers, magazines, conference proceedings, Government reports and websites.

FDI POLICY IN INDIA

FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. The Foreign Direct Investment means "cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy.

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 monitoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), 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.

AUTHORITIES DEALING WITH FOREIGN INVESTMENT

(a) Foreign Investment Promotion Board (popularly known as FIPB): The Board is responsible for expeditious clearance of FDI proposals and review of the implementation of cleared proposals. It also undertakes investment promotion activities and issue and review general and sectoral policy guidelines;

(b) Secretariat for Industrial Assistance (SIA): It acts as a gateway to industrial investment in India and assists the entrepreneurs and investors in setting up projects. SIA also liaison with other government

bodies to ensure necessary clearances;

- (c) Foreign Investment Implementation Authority (FIIA): The authority works for quick implementation of FDI approvals and resolution of operational difficulties faced by foreign investors;
- (d) Investment Commission
- (e) Project Approval Board
- (f) Reserve Bank of 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 had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

1. Joint ventures where the Indian firm is an export house.
2. Franchising Agreements.
3. Sourcing of supplies from small-scale sector.
4. Cash and carry operations.
5. Non-store formats – direct marketing.

DEFINITION OF RETAIL

Retail is a French word which means to “cut it again” and essentially mean a sale to the consumer for direct consumption. In 2004, The High Court of Delhi defined the term ‘retail’ as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale).

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

STRUCTURE OF INDIAN RETAILING SECTOR

The retail industry is mainly divided into: - 1) Organized 2) Unorganized Retailing

Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Un-Organized retailing, on the other hand, refers to the traditional formats 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.

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, subject to Press Note 3 (2006 Series).
- c) FDI is not permitted in Multi Brand Retailing in India.

FDI IN SINGLE BRAND RETAIL

The Government has not categorically defined the meaning of “Single Brand” anywhere neither in any of its circulars or 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 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 and 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.

SWOT ANALYSIS OF INDIAN RETAIL SECTOR

STRENGTH

- Boost economic development.
- Young and dynamic manpower to take the challenge.
- Largest business house density is possible in the world.
- High growth rate in retail as well as wholesale trade.
- Presence of largest industry house which can absorb losses.

WEAKNESS

- Low capital investment in retail sector.
- Lack of trained and educated force.
- Lack of competition.
- More prices as compared to specialized shops.
- Poor infrastructure facilities.
- Heavy wastage due to insufficient warehouses and cold storage facilities.

OPPORTUNITIES

- Provide more employment opportunities.
- Improve the financial conditions of agriculturist.
- Improve retailer’s efficiency.
- More Foreign capital inflows as possible.
- Capture large market shares as possible.
- High technology as possible.
- Cost reduction is possible for Quality improvement.
- Increasing the export of commodities to abroad.
- Improves in fashion and lifestyle changes.

THREATS

- Small retailers will not steady in long run.
- Fear of controlling the local market by foreign investors.
- Job losses in manufacturing sector for Multiband retail sector.
- Roadside bargains may start which may harm the agriculturist.
- Work will complete by Indian and the profit will go to abroad.
- Farmers will be exploited and will lose their fields/areas.

IMPLICATIONS OF FDI IN MULTI BRAND RETAIL TRADE

a) IMPACT ON FARMERS

Government and supporters of FDI claimed that this policy shift would benefit both farmers and consumers. They argue that emergence of FDI will bring better cold storage facilities and technological improvements for farmers which will help in reduction of wastage. On the other hand, opponents of MBRT claim that this move would not help the farmers. In fact, it will make farmers vulnerable to exploitation by corporate retailers. Another concern raised is that Indian rural agricultural households face production risks like irrigation, credit facility, technology etc. Therefore, in order to safeguard interests of farmers’ government should first strengthen rural infrastructure and institution values than allowing FDI.

b) IMPACT ON EMPLOYMENT

Retail operations are a labour intensive venture. Therefore FDI in MBRT will lead to expansion of organized retailing, leading to creation of new jobs not only in front-end retailing but also in related activities at back-end retailing. Moreover, improved wages and better working conditions will improve the standard of living of those employed in organized sector. In addition emergence of MBRT would not be a

threat to small mom and pop stores, because these small stores provide various advantages to customers such as home delivery, convenience etc. However, the opponents are concerned that entry of FDI in MBRT may adversely impact overall employment in unorganized retail business. Since labour productivity is higher in organized retail sector, it may entail loss of jobs. Another concern raised by opponents points that emergence of FDI would lead to displacement of rent seeking middlemen those dealing in agricultural products, because global retailers would procure directly from producers, whereas supporters claimed that these displaced workers will be able to find jobs in food-processing activities due to presence of big retail chain.

c) IMPACT ON FOOD INFLATION

One of the most important problems in emerging market economies (EMEs) is issue of food inflation. Supporters of FDI claimed that government has allowed FDI in MBRT to curtail the gap between farm gate and food retail prices, bringing modern food supply chains and hence providing products at lower prices to consumers which ultimately helps in combating inflation. Opponents of FDI in retail sector claim that bringing FDI in retail will not be in interest of consumers as large big firms with deep pockets, can resort to unfair pricing by selling at lower prices which may wipe out of traditional retail sector and subsequently emerge as dominant retail chain with substantial monopoly power.

CONCLUSION

FDI in retailing is going to attract retail players by Indian Government, but India should welcome them with a talented pool of human resources by promoting institution imparting knowledge in retailing. Protection must be given to Indian small and medium retailers as retailing is their source of livelihood. The current policy is trying to encourage Joint Ventures in multi-brand retailing so as to boost the domestic retailer's growth in this area. However, there is also the risk that some foreign retailers will not be interested in investing unless they have 100% ownership and that the current policy will prevent them from choosing India as a Retail destination. In our view, the advantages outweigh the disadvantages of allowing unrestrained FDI in the retail sector. Issue of allowing FDI in the retail sector was first met with incessant protests, but allowing such FDI led to GDP growth and a rise in the level of employment. To see the overall impact of FDI in retail, India has to wait for some times and have to follow appropriate path and take necessary actions so that a mix of both foreign players as well as domestic can co-exist in India without harming each other.

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