RESEARCH PAPER | Management | Volume : 3 | Issue : 12 | Dec 2013 | ISSN - 2249-555X

Foreign Direct Investment in Organised Retail Sector

KEYWORDS: FOREIGN DIRECT INVESTMENT, RETAIL SECTOR, ORGANISED MARKET

ARIF HASAN

RESEARCH SCHOLAR, DEPARTMENT. OF MANAGEMENT STUDIES, CENTRAL UNIVERSITY OF KASHMIR, TRANSIT CAMPUS, SONWAR, SRINAGAR, INDIA

ABSTRACT *India is the third largest market after China & Japan in Asia in respect of retail market and this market plays a major role in Indian economy.. From 1996 till date, the present government has taken several decisions with reference to FDI in retail sector. According to the policy framework by the Indian government, with respect to retail sector foreign retailers will be allowed to hold 51 percent stake in multi brand and 100 percent in single brand formats. Many giant players in retail such like Walmart, Tesco are expected to enter in India very soon. India is slightly different from other developed countries. The present paper attempts to analyse FDI issues in the Indian retail industry. The findings of the study about FDI in retail would undoubtedly uncover the future opportunities for FDI in retail sector and thus enable the country to boost up the economy.*

INTRODUCTION

Retail has played a major role in any country's economy as it is one of the largest employment generators and fastest growing sectors. Many developed and developing countries such like China, Brazil, Chile, Indonesia, Malaysia, Russia, Singapore and Thailand have allowed 100% FDI in multi brand retail. China permitted FDI in retail in 1992 and no effect on small traders although they co-exist with improvement in services. Indonesia where 90% of the business still remains in the hands of small traders.

India is having various forms of foreign investment, among them FDI flows are usually preferred over other forms of external finance. FDI provides a win-win situation to both the home and host countries. The home countries want to take the advantage of expanded new market for growth of industrialization. On the other hand host countries want foreign capital for enhancement of infrastructure, technical and managerial skills. Other advantages associated with Foreign Direct Investment are economic development, rise in purchasing power & growing consumerism. Till May 2012, the total FDI equity inflows in the single brand retail trade were Rs 204.07 crore.

Due to foreign investment, it is possible to have positive effect on economic growth by increase in per capita income leading to more consumption from necessity items to discretionary consumption. It also has few threats as it can lead to promotion of unhealthy competition among organised domestic retailers resulting in exit of small retailers from the market and distortion of urban culture.

FDI IN INDIAN RETAIL – A HISTORICAL PERESPECTIVE

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. 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.

India has taken various decisions with regard to FDI in retail sector since 1995. These are as follows-

1995, World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.

1997, FDI in cash and carry (wholesale) with 100% rights allowed under government approval route.

2006, FDI in cash and carry (wholesale) brought under the automatic route. Up to 51% investment in a single brand retail permitted.

2011, 100% FDI in single brand retail permitted.

2012, 51% FDI in multi-brand retail permitted.

CONDITIONALITIES FOR FDI IN RETAIL

Indian Govt allowed 51% FDI in multi brand and 100% in single brand in place of the earlier ceiling of49%. FDI is not allowed under the automatic route in all cases as it also requires FIPB approval in many cases decided on case to case basis.

1. Foreign retailer has to invest minimum $100 million. (In case of Multi Brand)
2. 50% of the investment has to be for improving the back-end infrastructure. (In case of Multi Brand)
3. 30% of all procured materials have to be procured from the small and medium enterprises.
4. Permission to set retail stores only in cities with a minimum population of 10 lakhs. (In case of Multi Brand Retail)
5. Govt has the first right to procure material from the farmers.

MEANING OF RETAIL

Retail means sale of goods directly to the consumers or the final users by persons who are link between suppliers & consumers. Walmart, Tesco, Big Bazaar, Westside, Pantaloon are a few examples to quote.

SINGLE BRAND RETAIL

The foreign investor should be an owner of the brand, retail chains or stores and shall sell products of single brand only across all outlets.

FDI IN SINGLE-BRAND RETAIL

The Government has not categorically defined the meaning of ―Single Brand anywhere---neither in any of its circulars

Volume : 3 | Issue : 12 | Dec 2013 | ISSN - 2249-555X

nor any notifications. In single-brand retail, FDI up to 100 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions 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.
(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 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

MULTI BRAND RETAIL
A retailer is allowed to sell multiple brands under one roof. It will offer a range of domestic items and grocery directly to consumers in the same way as convenience stores. Such as Walmart, Tesco etc.

FDI IN MULTI-BRAND RETAIL
FDI in multi brand, allow foreign retailers to own 51 % stake in multi brand retail sector, thus clearing the way for global retailers to open supermarkets in India.

OTHER ENTRY OPTIONS IN INDIA FOR FOREIGN PLAYERS
FRANCHISEE AGREEMENTS - FDI is permitted with the approval of RBI under Foreign Exchange Management Act. Mc Donald, Pizza hut, Nike, Spencer are few example of franchisee agreement.

CASH AND CARRY WHOLESALE TRADING – To assist local manufacturers it involves building of a large distribution infrastructure. Metro, Amway are the global players to enter India through this route.

STRATEGIC LICENSE AGREEMENT – When a foreign brand owner gives exclusive licenses for distribution & sells products through franchisees. Mango Spanish apparel brand with Piramyd Mumbai is an example to quote.

MANUFACTURING & WHOLLY OWNED SUBSIDIARIES - The foreign brand such as Nike, Sony, Reebok, etc that have wholly owned subsidiaries in manufacturing are treated as Indian companies and are therefore allowed to retail.

TEST MARKETING – FDI allows foreign companies to test market their product in India for two years period, by the end of which they are required to set up manufacturing unit in India for example Amway, Oriflamme.

POSITIVE & NEGATIVE EFFECTS OF FDI POLICY
POSITIVE EFFECTS
1. Minimum 30% of manufactured items from SME will boost production of domestic manufacturing industry. It will also help in generating employment and development of small sector.
2. Minimum investment $100 Million for foreign company out of which 50 percent must be in backend segment such like SCM, logistic, warehouse, packaging facilities. Due to this inflation rate can be expected to come down.
3. Huge losses due to underdeveloped refrigeration facilities will improve significantly in view of FDI in backend operations.

NEGATIVE EFFECTS
1. Small retailers just like Mom & Pop, convenience stores will suffer due to incapability to fight with retail giants such like Walmart, Tesco in view of their better technology, infrastruce and management skills.
2. As 30 percent sourcing from SME means rest 70 percent from foreign market, it may cause job losses in manufacturing segment.
3. Foreign brand will also affect In-House brand due to large variety, high promotion, and cheaper rate with high quality.

IMPACT ANALYSIS OF FDI
1. General Impact
1. The retail market is expected to grow from USD 500 Billion to USD 900 Billion in 2015.
2. The unorganised retail sector will also grow with some improvement in quality & production.
3. Agriculture productivity will increase due to rise in demand.
4. The share of foreign players in the Industry is estimated to increase 10-15 percent by 2015 from the current range of 5-7 percent.

2. Particular Impact
To Consumer
- Consumer gets superior Choices of goods
- New brands shall be offered in the market
- Aggressive prices offered by companies
- Enhancement in the quality of the products and value added products

To Retailer
- Retailer will get Face stiff competition
- Improve productivity and start consolidation of the business
- It become easier to have money from foreign retailer giant for expansion
- Strategic and funding tie-ups expected
- Technical expertise and skills would provide confidence

WAIT & WATCH POLICY ADOPTED BY FOREIGN RETAIL PLAYERS WITH REGARDS TO FDI POLICY.
- MNC retailers are waiting for coming up next year election's outcome.
- Foreign retailers fear the next government will impose few extra conditions.
- Retailers such as Walmart, Tesco have yet to firm up their organisation structure for multi-brand retail.
- Government has not clarified format of single and multi-brand retail.
- Many foreign Retailers expected FDI limit to go up to 74% in Multi Brand.

CONCLUSION
Foreign companies are having so many ways to enter in the Indian market such as franchising and licensing. Foreign Direct Investment is one of the recent crucial issues in India. We should consider the interest of all stakeholders. India is one of the favourite markets in Asia for investment through foreign retailer. It has an investor friendly environment with a lot of opportunity for expansion of market. It also expect that foreign players will enhance both front end and back end processes. Some of the negative effects cannot be in ignored completely such as eradication of small retailers, loss of self competitive strength, indirectly lead to increase in real estate cost. We cannot deny this fact that foreign investors can make real contribution for the development of India due to large capital flow in India. It should not just be freely allowed but should have restriction as well as significantly encouraged.

On the other side regulatory front is also required from government. This is possible only by making retail sector a separate and independent sector. Uniform rules and regulations shall be set up with regard to tax and duties as far as different formats of retailing are concerned. Along with regulatory framework, the statutory bodies shall check that big retailers

Volume : 3 | Issue : 12 | Dec 2013 | ISSN - 2249-555X

may not influence domestic small retailer by unfair means and there should be peaceful coexistence of both domestic &foreign retailer. Foreign direct investment should be initially allowed in those sectors where domestic companies are established strongly and liberalized in phase manner such as in China.

REFERENCE 1. A.T. Kearney (2011): "Retail Global Expansion: A Portfolio of Opportunities-2011 Global Retail Development Index", A.T. Kearney, 2011 | 2. Basker, Emek, 2005a. "Job Creation or Destruction? Labor Market Effects of Wal-Mart Expansion," Review of Economic Statistics, Vol. 87, No. 1, Pages 174-183. | 3. Basker, Emek, 2005b. "Selling a Cheaper Mousetrap: Wal-Mart's Effect on Retail Prices," Journal of Urban Economics, Vol. 58, No. 2, pp. 203-229. | 4. Chari, Anusha. and T.C.A. Madhav Raghavan: "Foreign Direct Investment in India's Retail Bazaar: Opportunities and Challenges", March 2011. | 5. Confederation of Indian Industry (2012): "The Impact of FDI in Retail on SME Sector: A Survey Report". Harsh Mariwala, Retail FDI: A Win-Win Move, The Economic Times, Delhi 30-11-2011 | 6. Joseph, M., N. Soundararajan, M.Gupta and S. Sahu (2008): "Impact of Organized Retailing on the Unorganized Sector", ICRIER, May, 2008.