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Research Paper

Management

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Impact of Foreign Direct Investment in Multi Brand Retailing in India

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ABSTRACT

As government of India said that to allowing 51 per cent FDI in multi-brand retail with conditions does not violate India's international commitments and agreements with any country. An official statement said that opening up of FDI in multi brand retail trading is a liberalization measure and remains so with all the conditionality, given the fact that currently FDI in multi-brand retail trading is not allowed at all in India, Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost four times its current levels to $1000 billion by 2020. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world.

INTERNET TRADING

The government decided **not to allow** companies with foreign direct investment (FDI) to sell their products through the Internet in India. The move, which effectively shuts the door on Amazon and other foreign e-commerce firms, will also prevent foreign retail companies that enter India from selling online. The provisions are part of the notification by the industry department on the FDI policies for retail announced.

Aviation

The government also issued the notification on FDI in aviation, allowing investment of up to 49% by foreign airlines.

Apart from investing in existing airline companies, foreign carriers can also partner with Indian firms to launch an airline in India. The Indian partner will need to have a 51% stake in this company, and the chairman and two-thirds of the board need to be citizens of India.

FDI Policy in India

FDI as defined in Dictionary of Economics 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. 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 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.

Challenges of Retailing in India

In India the retailing industry has a long way to go and to become a truly flourishing

industry, retailing needs to cross various hurdles. Also FDI encouraging policy can remove the present limitations in Indian system such as :

1. Infrastructure

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure.

2. Intermediaries dominate the value chain

Intermediaries often flout *Mandy* norms and their pricing lacks transparency.

Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character

3. Improper Public Distribution System ("PDS")

There is a big question mark on the efficacy of the public procurement and PDS setup and the bill on food subsidies is rising.

4. No Global Reach

The Micro Small & Medium Enterprises sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets.

SWOT Analysis of Retail Sector:

Strengths:

- Major contribution to GDP: the retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA.
- High Growth Rate: the retail sector in India enjoys an extremely high growth rate of approximately 46%.

2. Weaknesses (limitation):

- Lack of Competitors: It is found that India is least competitive as well as least saturated markets of the world.
- Highly Unorganized: The unorganized portion of retail sector is only 97% as compared to US, which is only 20%.
- Low Productivity: It is found that retail productivity in India is very low as compared to its international peers.

3. Opportunities (benefits):

- There will be more organization in the sector: Organized retail will need more workers. In China, the employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001, post reforms and innovative competition in retail sector in that country.
- Healthy Competition will be boosted and there will be a check on the prices (inflation):Retail giants such as Wal-Mart, Carrefour, Tesco, Target and other global retail companies already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices.
- Create transparency in the system: the intermediaries operating as per Mandy norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realizes only one-third of the price, which the final consumer pays.

4. Threats:

- Current Independent Stores will be compelled to close: This will lead to massive job loss as most of the operations in big stores like Wal-Mart are highly automated requiring less work force.
- Big players can knock-out competition: they can afford to lower prices in initial stages, become monopoly and then raise pries later.

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- India does not need foreign retailers: as they can satisfy the whole domestic demand.
- The government hasn't able to build consensus.

In view of the above analysis,
If we try to balance opportunities and prospects attached to the given economic reforms, it will definitely cause good to Indian economy and consequently to public at large, if once implemented. Thus the period for which we delay these reforms will be loss for government only, since majority of the public is in favor of reforms. All the above mentioned drawbacks are mostly politically created. With the implementation of this policy all stakeholders will benefit whether it is consumer through quality products at low price, farmers through more transparency in trading or Indian corporate with 49% profit share remaining with companies only.

If we go to the past we will see that CHINA has allowed FDI in 1992 and Wal-Mart in 1996. And their business gone very up in the world. So this is a lesson for us to see upward not the controversies.