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FDI IN RETAIL SECTOR IN INDIA: A BIRD EYE VIEW

Commerce

Dr. Namratha Faculty Member, Dept. of Commerce, S.P & J.M. Bohara Commerce College, Shorapur Dist: Yadgir-Karnataka

ABSTRACT

Foreign direct investment (FDI) is an integral part of an open and effective international economic system, which acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Indian retail industry is one of the sunrise sectors with huge growth potential. However, in spite of the recent developments in retail sector and its immense contribution to the economy, it continues to be the least evolved industries in India when compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the ongoing wave of incessant liberalization and globalization, stems from the absence of FDI encouraging policy in the Indian retail sector. Retailing in India is witness to the boom in terms of modern retailing formats, shopping malls etc. the future of retailing for any product across the country will definitely be in malls where the consumer can get variety, quality and ambience. However, in spite of this continuous debate to be or not to be, recently Government has allowed up to 51 percent FDI in single brand retailing by foreign companies like Reebok and Louis Vuiton. As of now, single brand retailers operate through the franchisee route and there is a strong view that FDI in this segment would not displace jobs or impact the local industry but help create employment. Even today the government is undecided about the level FDI in retail, but a number of foreign players, including the Wal-mart stores, Inc., have announced their intention to enter India in a big way. At present Wal-mart is operating through its subsidiary in Bangalore, which was functioning as a liaison office till last year. Now it is in the process of setting up offices in New Delhi and Mumbai.

KEYWORDS

FDI, Companies Economy Retail Product Developments

INTRODUCTION

India is a land of retail democracy- hundreds of thousands of weekly haats and bazaars are located across the length and breadth of our country by people's own self-organizational capacities and interests. Our streets are bazaars – lively, vibrant, safe and source of livelihood for millions. India has the shop density of 11 outlets per 1000 people and number around 15 million, giving India the highest retail outlet density in the world. But only four per cent of them have larger than 500 square feet area. Food constitutes 70 per cent of retail sector, which means it has a direct link with the rural economy.

Current Scenario Of Indian Retailing Industry:

The share of organized retailing in India, at around 2%, is too low, compared to 80% in the USA, 40% in Thailand, or 20% in China, thus leaving the huge market potential largely unexploited. Mounting earning levels, education and an international revelation have contributed to the progression of the Indian middle class purchasing and shopping practices are burgeoning as an outcome. Retailing all the way through non-traditional channels such as Fuel Stations, Direct Selling and Home Shopping Television is on the rise. Contemporary organized retail is short and uneven with cast list not being able to harvest economies of scale. However, retailing through formats such as supermarkets, hypermarkets, department stores and other forte chains are escalating. Top business houses in the country are investing in the sector. This includes Food World, Shopper's Stop, Crossroads, Globas, Pyramid and other such outlets. FDI in retail trading is not encouraged in any form. However, a few overseas retail names appear in the marketplace in the nature of franchisee. Quite a lot of companies including Metro, Carrefour and Ahold are exploring way in options.

Objectives Of Study

1. To study the need of opening up of FDI in multi-brand retail.
2. To analyze the positive and negative impacts of the reforms to be undertaken.
3. To review the challenges to be faced by FDI's while investing in India.

The Changing Indian Consumer

The following are the few factors which drive the big retailers for seeing India as a lucrative market for its business: Indians with an Ability to spend over USD 30,000 a year (PPP terms) on conspicuous consumption

Credit Availability:

Retail loans have doubled in the last three years to reach USD 38.7 bn by 2005. All the above figures represent only about the rich and middle class of the country. Because of the Big consumer market that India offers, the government gives no regard to the concerns of unorganized 97% of the retail trade in India. People of all classes depend upon these traders for their daily supplies.

Expanding Of The Education Sector:

Education sector has led to a incredible development which has ultimately led to the growing awareness and demands of the youth regarding the brand culture in the country. Few reports depict that among teenagers (aged 17 to 20 years) apparel, books, footwear and mobiles phones account for nearly around 42% of the total discretionary spend.

Environmental And Agricultural Factors:

The continuous changes in the environmental factors and the changing agrarian facilities with the increasing outputs and better yields have also led to the growth in demands of the consumers.

Impact Of Media:

The change in the thought process of the consumers due to the increased impact of media on their lifestyle has made the retailers find the market for new and lucrative products which were earlier not accessible to the consumers.

Improved Logistics:

The various infrastructure development schemes which have led to better connectivity between different regions has also led to the development of a more lucrative market for India as a whole.

Challenges Facing FDI

1. Resource Challenge:

India is known to have enormous amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

2. Equity Challenge:

India is definitely developing in a much faster pace now than before but in spite of that it can be identified that development has taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth.

3. Political Challenge:

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The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance.

So, there has to be a common opinion between the Parliament and the Foreign countries investing in India. This would increase the reforms in the FDI area of the country.

4. Execution Challenge:
Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the accomplishment of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important

Suggestions And Recommendations
Let us discuss few suggestions given by Retail Association of India for allowing FDI in retail:**6 RETAIL INDUSTRY CAN BE ACCEPTED AS AN INDUSTRY:** Providing industry status is the first basic step needed for reforming the Indian retail sector. This will facilitate better financial processes due to benchmarking and enable prudent practices in retail. Retail industry will also eligible for support and incentives as applicable to other industries.

Policy Clarifications To Permit Investments By Financial Investors:
A clarification if issued will enable investments by financial investors in the retail sector. This can be done by allowing investments by investors such as FIIs, Venture Capital Funds and other financial investors in the sector.

Permission To Operate 24*7 And Revision Of Labour Laws:
To strengthen the retail industry, it is important for a serious revision of the labour laws to bring them at par with the western world.

Customs Duty And Other Entry Taxes:
A reduction in the customs duties relating to consumer items would greatly channelize funds to boost the economy.

Served From India Scheme:
"Served from India Scheme" should be made available for Retailers. Any sales using foreign currency/international credit cards must be counted against this and duty credit entitlements must be credited for retailers. This can be used for import of items. Income tax depreciation rate on Furniture, Fixture and Building improvement etc should be increased to 25%. 10. GST

Consumption Incentive:
Provide a consumption incentive in the form of personal income tax relief to consumers, who can spend upto 25% of their income on consumer goods to services. This will bring a considerable amount of consumer spend into the indirect tax net, while incentivizing consumers. Such scheme also supports the government current initiatives. 12.

Let Us Discuss Few Recommendations For The Retail Sector
1. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve appropriate lending policies that will enable retailers in the organized and unorganized sectors to enlarge and improve efficiencies.

2. A National Commission must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI as and when it comes.

3. The proposed National Commission should develop a clear set of conditionalities on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionalities must be aimed at encouraging the purchase of goods in the domestic market, state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc.

4. Entry of foreign players must be slow and with social safeguards so that the effects of the labour displacement can be analyzed & policy fine-tuned. Initially allow them to set up supermarkets only in metros. Make the costs of entry elevated and according to specific norms and regulations so that the retailer cannot immediately indulge in _predatory' pricing.

CONCLUSIONS
At present it is also not desirable to increase FDI ceiling to more than 51% even for single premium brand stores. It will help us to ensure check and control on business operations of global retailers and to look after the interests of domestic players. However, the limit of equity participation can be increased in due course of time as we did in telecom, banking and insurance sectors. Foreign players should not be allowed to trade in certain sensitive products like arms and ammunition, military equipment, etc. and the list of excluded products should be clearly stated in the FDI policy.

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