Research Paper Commerce

A Study on Opportunities, Issues and Challenges of FDI In Retail in Relation to New Fdi Policy of India

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ABSTRACT

In today's competitive global business environment innovations are required for growth & survival and FDIs can be used as an innovative tool in order to accelerate growth. Foreign direct investment (FDI) is direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. 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. Indian retail industry is one of the sunrise sectors with huge growth potential.Despite encouraging signs, India's retail market remains largely off-limits to large international retailers like Wal-Mart and Carrefour. 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. In this context, the present paper attempts to review the latest FDI Policy, issues challenges and opportunities of FDI inflows into the Indian retail sector, which include single brand and multi-brand retail sectors.

KEYWORDS | Foreign Direct Investment, Retail Sector, Single Brand and Multi-Brand Retail Sectors.

Introduction:

Foreign direct investment can take on many forms and so sometimes the term is used to refer to different kinds of investment activity. Commonly foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans. However, foreign direct investment is often used to refer to just building new facilities or Greenfield investment, creating figures that although both labeled FDI, can't be side by side compared. As a part of the national accounts of a country, and in regard to the national income equation Y=C+I+G+(X-M).I is investment plus foreign investment, FDI refers to the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements. Foreign direct investment is nothing but increase the country's economy. The main focus of this paper is to study FDI in retail sector. For this purpose first a small brief of Indian retail is required.

Indian retailing: An overview:

Retailing is considered to be the largest private sector in India and moreover, it is second to agriculture in terms of provision of employment. Indian retailing provides employment to more than 4 crore people. The retail industry is divided into two sectors namely, organized or formal and unorganized or informal. In simple terms, it could be said that Organized retailing is one in which the trading or merchandising is carried out by licensed or authorized retailers who are registered for sales tax and other taxes. The companies" owned super markets, hyper markets; retail chains and other privately owned retail stores or departmental stores come under this organized retailing.

FDI in retail can be divided into two parts:

1) Single Brand retail
2) Multi brand retail

FDI in Single Brand retail:

Single brand implies that foreign companies would be allowed to sell goods sold internationally under a 'single brand', viz., Reebok, Nokia and Adidas. FDI in 'Single brand' retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

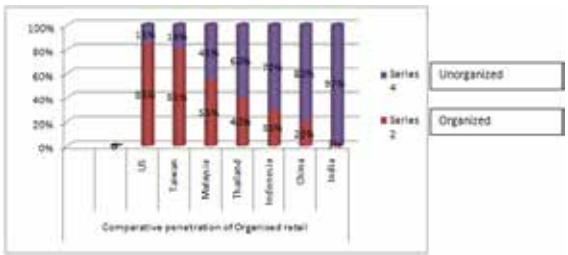
FDI in Multi brand retail:

FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. 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.

The story so far…..

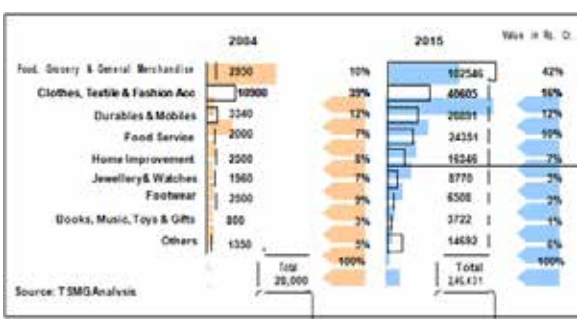
Year	Status
1997	• 100% FDI being permitted in cash & carry wholesale trading under the government approval route.
2006	• FDI permitted in cash & carry, wholesale trading comes under the automatic route • FDI in single brand retail was permitted to the extent of 51%.
2010	• DIPP had put up a paper proposing FDI in Multi-brand retail.
2011	• Union cabinet approved : • 51% FDI in multi brand retail. • Increasing the FDI limit in single brand retail to 100%. • However the implementation was deferred for evolving a broader consensus on the subject.

A diagrammatic form of Indian retail scenario:
Highly fragmented retail sector in India:



The retail sector in India is highly fragmented and organized retail in the country is still in emerging stage.There are about 12 million retail outlets spread across India, earning it the epithet of a "nation of shopkeepers." More than 80% of these 12 million outlets are run by small family businesses which use only household labour. India Organized Traditional Retail is amongst the fastest growing sectors in the country. India ranks 1st, ahead of Russia, in terms of emerging markets potential in retail and is deemed a 'Priority 1'market for international retail.

Organized Retail Market in India (Rs. Cr.)
Going forward, TSMG projects that in the next 10 years, the overall retail market in India are likely to grow at a CAGR of 5.5% (at constant prices) to 1,677,000 Cr in 2015. The organized retail market is expected to grow much faster at a CAGR of 21.8% (at constant prices) to Rs. 246,000 Cr by 2015 thereby constituting ~15% of the overall retail sales. Based on our projections, the top 5 organized retail categories by 2015 would be food, grocery & general merchandise, apparel, durables, food service and home improvement.



Keeping in view the potential of Indian retail market The Government on 14 September 2012 approved the proposal of the Department of Industrial Policy & Promotion (DIPP) for amendment of the existing policy on Foreign Direct Investment (FDI) in relation to retail trading.

Policy at a Glance:
The policy: Single Brand Retail Trading

EARLIER	NOW
• For Single Brand Retail Trading (SBRT) sector – only 51% FDI permitted – subject to approvals and conditions such as: • Products should be of a Single Brand only • Products to be under the same brand in one or more countries if are sold outside India • Single Brandproducts should be branded during manufacturing • The foreign investor should be theowner of the brand	• FDI in single brand retail trading is permitted up to 100% with Government approval. • Products to be sold should be of a Single Brand only • 30% sourcing is to be done from micro and small industries (investment in Plant and Machinery not exceeding US $ 1mm). • This condition will ensure that SME sector, including artisans, craftsman, handicraft and cottage industry gets the benefits of liberalization.

The policy: Multi Brand Retail Trading

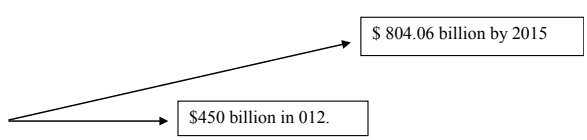
EARLIER	NOW
• FDI in Multi Brand Retail Trading was not allowed.	• FDI in Multi Brand Retail Trade is permitted up to 51%, subject to following conditions: • Outlets to be set up - only in cities with a population of more than 1m (within a 10km range)* • Minimum investment by the foreign investor - US $100mm and at least 30% of the procurement of manufactured / processed products shall be sourced from small industries(investment in Plant and Machinery not exceeding US $1million) • Sourcing requirements will be checked together for first five years – after that on a annual basis. • Retail trading by means of e-commerce – not permissible. • At least 50% of total FDI brought in shall be invested in back-end infrastructure within three years of the induction of FDI

FDI in retail: Potential Economic implications on stakeholders

Government: • Improvements in balance of payments. • Surge in employment opportunities. • Expected higher tax collections	Unorganized trade retailers: • Overall increase in consumption. • Potential migration of customer base.
Farmers: • Reduction in wastage/ leakages owing to better back-end infra. • Price realization due to disintermediation in supply chain. Manufacturers/MSME's:	Indian organized trade retailers: • Larger cost effective supplier base. • Access to new technology. • Capital infusion from international retailers. • Loss of market share.
• Increase in demand from organized retailers. • Growth in export opportunities. • Imports from other low cost manufacturing countries.	Consumers: • Lower prizes compared to unorganized retail. • Better shopping options and experience.

Points in favour of FDI Policy:

- Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country, & its productive use in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers.
- Since Indians spend a lot of money shopping abroad, this policy enables them to spend the same money on the same goods in India. FDI in single-brand retailing was permitted in 2006, up to 51 per cent of ownership. Between then and May 2010, a total of 94 proposals have been received.
- Research points to a potential $ 5-6 billion in foreign investments that India can receive over the next five years. This is different and more conservative from some other estimates (e.g. CRISIL Research estimates FDI inflows of $10 billion in retail over the next five years). Further, overall Central & State tax collection can increase by $8 billion over five years as a direct consequence of growth in organized retail.
- The Indian retail market is currently estimated at around $450 billion.As per the BMI India Retail Report for the fourth-quarter of 2011, total retail sales will grow to US$ 804.06 billion by 2015.



FDI inflows will improve organized retail penetration moderately:

CRISIL Research believes that organized retail penetration (ORP) will increase moderately from 9 per cent to 10 per cent in 2016-17, if all states permit FDI. The same has been arrived at taking into account the likely supply of quality retail space and the current ORP in large cities. Further, the lead time for organized retailers to identify appropriate store locations and address issues in rolling out back-end infrastructure will limit the pace of growth in ORP.

Organized retail penetration in India

		2011-12	2016-17 P	2016-17 P
			Pre FDI Impact	Post FDI Impact
Total Retail	USD Billion	430	850	850
Organized Retail	USD Billion	29	72	85
ORP	Percent	7	9	10

ORP - Organized retail penetration
P-Projected
Source: CRISIL Research

Points those are unfavourable:

- The arguments against are that the new system will displace the traditional shops and petty retail stops in markets.
- India has two types of un-organized retailers: one the big un-organized retailers i.e. the shop of wealthy consumers and the other small un-organized retailers i.e. the shop of poor consumers. The latter will remain untouched while the former may be marginally affected.

The real India which is hardworking bread earners, comprising of 80 crore people will surely not be benefitted. In terms of employment in retail sector around 38% in rural areas and around 47% in urban areas depend on retail trade for their livelihood, which will be effected.

SWOT Analysis of FDI in retail:

Strengths • Retail is a $450bn Industry in India • Young and dynamic manpower • Highest shop density in the world • High growth rate in retail & wholesale trade • Presence of big industrial houses with deep pockets	Weaknesses • High capital investment required in the retail sector (real estate) • Lack of trained and educated work force • Higher prices as compared to local shops • Will mainly cater to high-end consumers placed in metros
Opportunities • High employment generation in the future. • Will enhance financial condition of farmers. • Encourage foreign capital inflows. • Result in increasing supply-chain. • Improve Logistics & Infrastructure.	**Threats** • Effect on the small retailers - local Kirana stores (mom-pop stores) • Long gestation period - Foreign • Retailers will take a while to adapt to India and generate profits • States not buying in so efficiencies expected may not be achieved

As along with strengths and opportunities FDI in retail also brings certain threats. In order to get more benefits compared to threats certain steps should be taken by Indian government in order to protect the interests of small retailers. Few suggestions are given below:

SUGGESTIONS:

- Preparation of a legal and regulatory framework and enforcement mechanism is required to ensure that large retailers are not able to harm small retailers.
- Extension of institutional credit, at lower rates, by public sector banks, to help improve efficiencies of small retailers.
- FDI should be initially allowed in less sensitive sectors and also in the sectors wherein the domestic companies are established strongly.
- In order to facilitate the establishment of infrastructure, FDI should be initially permitted in Tier-II Cities of the country.
- The new shopping centers, to be opened by the foreign companies should not add to the congestion of the cities.
- Since countries like Thailand and Malaysia have suffered badly out of the sourcing done by Multi-nationals, permitted in the retail of their market, India should take a note of certain lessons from those countries while framing policies for allowing FDI in single-brand retail.
- Try to emphasize on more sourcing of products locally. In order to avoid the foreign companies to make use of predatory practices allow the companies to first set up stores in the form of super markets or departmental stores.
- The government should take initiatives to improve the manufacturing sector that grows at a very lesser rate of 3.7%. If the manufacturing is strengthened, the displaced employees of the retail industry could be well accommodated there. Indian government should bring out another condition by which the foreign retail giants should require to spend a portion of their profit to take care of certain social welfare activities such as, controlling pollution, generation and conservation of energy, etc.
- The conditions for allowing FDI in single-brand retail should also emphasize upon the provision of employment opportunities to Indians that would enable India to reduce the crucial unemployment problem.
- Formulation of a Model Central Law regarding FDI of Retail Sector.

Conclusion:

There are various expected concerns about FDI implementation in Indian retail market. The first concern is the potential impact of large foreign firms on employment in the retail sector. A second related concern raised in the DIPP's report is that opening up FDI would lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business. A third concern raised by domestic incumbent firms in the organized retail sector is that this sector is under-developed and in a nascent stage Dilemma about the threats or benefits of New FDI Policy can be solved by finding out the suitable ways of FDI implementation. A planned strategy is the need of hour. The government should take efforts to strengthen various industries. The New FDI Policy will benefit not only the Indian consumer but also open the door for Indian products to enter the wider global market. Allowing FDI in multi brand retail can bring about Supply Chain Improvement, Investment in Technology, Manpower and Skill Development, Tourism Development, Greater Sourcing from India, Up-gradation in Agri-

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