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FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR

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Abstract:

Indian retail industry is one of among the growing sectors with huge potential. This growth of the retail industry has attracted a number of foreign countries to India. Foreign Direct Investment in retail is fundamentally different from that in manufacturing. FDI in manufacturing basically enhances the productive employment in most cases; but FDI in retail trade may create job losses and displacement of traditional supply chain. Clearly, except for some existing Indian retail operations, the bulk of the Indian economy would gain, significantly, from the emergence of a well-capitalized retail industry that brings the latest technology and management practices to build modern supply chains in India, connecting country and town, connecting small producers with national and even global markets. This paper attempts to explain FDI policy in Indian retail sector and also SWOT analysis of FDI in retail sector.

Index Terms: FDI Policy, Indian Retail Sector, Single Brand Retailing and Multi Brand Retailing & SWOT Analysis

1. Introduction:

Foreign investments have been very helpful for the developing countries in last two decade. There are various sectors in which foreign player are interested to enter and retail sector is one the most attractive sectors for them. The retail sector has been contributing a significant amount in the GDP of India. Foreign direct investment helps in economic development of a country. India is a growing economy and is considered attractive market to invest in, specially in rapidly growing retail market. However, there are some policy issues and restrictions in foreign direct investment in the retail sector in India. Even after so many years of debate, the regulations are still changing slowly with lots of uncertainties. Foreign investors are having close eyes on India and ready to enter into it. But it is still having restrictions, socio-economic risks and uncertainties.

2. Objectives of the Study:

- ✓ To examine the FDI policy in retail sector in India
- ✓ To analyze the structure of retail industry in India
- ✓ To study the SWOT analysis of FDI In retail sector in India

3. Research Methodology:

The study is based on the secondary sources of data. Secondary data are collected through published sources like text books, journals, magazines and through the websites.

4. Limitations of the Study:

- ✓ Time constraints while collecting the secondary data.
- ✓ All the datas cannot be generalized.

5. 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 motoring 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.

Routes for Investment:

There are two routes by which India gets FDI:

- ✓ **Automatic Route:** By this route FDI is allowed without prior approval by government or Reserve Bank of India.
- ✓ **Government Route:** Prior approval by government is needed via this route. Foreign Investment Promotion Board is the responsible agency to oversee this route.

6. Indian Retail Sector: An Overview and Current Position:

The Indian retail sector has come off age and has gone through major transformation over the last decade with a noticeable shift towards organized retailing. A.T Kearney, a US based global management consulting firm has ranked India as the fourth most attractive nation for retail investment among 30 flourishing markets. The retail market is expected to reach a whooping Rs. 47 lakh crore by 2016-17, as it expands at a compounded annual growth rate of 15 percent, accordingly to the 'Yes Bank- Assocham's study.

Types of Retail Market in India:

Organized Retailing: Organized retailing includes modern trade activities which are done by the licensed and registered retailers. These include corporate backed retail chains and hypermarket which are registered for sales tax.

Un-Organized Retailing: Un-organized retailing is concerned with low cost retailing like owner operated general stores, Kirana shop and paan/beedi shop.

Types of Retailing in India:

- ✓ **Single Brand Retail Trading (SBRT):** It is concerned with a retail store selling a single brand with foreign investment. For example, if Nike were to obtain permission to retail its product in India, those retail stores could only sell product under the Nike brand and not the Reebok brand.
- ✓ **Multi Brand Retail Trading:** It implies that a retail store can sell multiple brands under one roof. By opening up FDI in multi brand will allow foreign giants like Wal-Mart, Tesco and Carrefour to offer a wide range of product of household items and grocery directly to consumers.

7. FDI Policy in Retail:

FDI Policy Related to Single Brand Product Retail Trading: FDI in Single Brand product retail trading is allowed 100% viz. automatic up to 49% and Government route beyond 49%. The circular shows that Foreign Investment in Single Brand retail trading aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices, as Per DIPP consolidated FDI policy circular of 2015. FDI in single brand product retail trading is subject to certain conditions such as:

- ✓ Products to be sold should be of single brand only.
- ✓ Products sold should be of same brand internationally.
- ✓ 'Single Brand' covers only products which are branded during manufacturing.
- ✓ In case of proposals involving FDI beyond 51%, sourcing of 30% of the value of goods purchased will be done from India, preferably MSME's, village and cottage industries, artisans and craftsmen, in all sectors.
- ✓ Applications would be processed firstly by DIPP and then by the FIPB for Government approval.

FDI Policy Related to Multi Brand Retail Trading: FDI in Multi Brand Retail Trading is allowed upto 51% through Government route, as per DIPP policy. FDI in Multi brand retail trading is subject to certain conditions such as:

- ✓ Fresh agriculture produce (fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products) may be unbranded.
- ✓ The foreign investor must bring a minimum amount of US $ 100 million for investment.
- ✓ At least 50% of the investment bought should be invested in 'back-end infrastructure' within three years. Expenditure on land cost and rentals will not be included in infrastructure development.
- ✓ At least 30% of the products purchased must be sourced from Indian micro, small and medium industries(total investment in plant and machinery not exceeding US $ 2.0 million)
- ✓ Government possess the first right of procurement on agriculture produce.
- ✓ Retail outlets are allowed to be set up in cities with a population of more than 10 lakh as per 2011 census survey, or any other cities as per the decisions of the respective State Governments.
- ✓ The policy for FDI is an enabling policy, the State Governments are set free for implementation of the policy.
- ✓ Applications are to be processed firstly by DIPP followed by the FIPB for Government approval.

Retail trading in any form by means of e-commerce is not permissible for FDI, engaged in multi brand or single brand retail trading.

8. SWOT Analysis of FDI in Retail:

The strategic analysis of environmental factors is referred as SWOT analysis. This analysis provides the information that is helpful in understanding the retail sector resource mobilization and capabilities to the competitive environment in which it operates.

Strengths:

- ✓ Major contributor to the GDP
- ✓ Improvement in supply chain
- ✓ Creation of research and development

- ✓ High employment generator
- ✓ High potential
- ✓ High growth rate
- ✓ Young and dynamic manpower
- ✓ Large scale investments
- ✓ Progression in agriculture

Weaknesses:

- ✓ Lack of competition
- ✓ Highly unorganized
- ✓ Low productivity
- ✓ Financial issues for retailers
- ✓ Shortage of talented professionals

Opportunities:

- ✓ More organizations
- ✓ Healthy competition
- ✓ Transparent system
- ✓ Direct link between farmers and producers
- ✓ Quality control over wastage
- ✓ Encourage Foreign capital inflows
- ✓ Sustainable development
- ✓ Improve logistics and infrastructure
- ✓ High employment generation in future
- ✓ Large scale investment
- ✓ Improvement of quality standards

Threats:

- ✓ Effect on small retailer
- ✓ Long gestation period
- ✓ Closure of Traditional stores
- ✓ Delay in approval of foreign investment
- ✓ Corruption
- ✓ Value of rupee will depreciate further
- ✓ Domination of organized retailers
- ✓ Repatriation of profits outside India

9. Suggestions:

- ✓ In order to set up the conditions on foreign retail on procurement of farm produce, Government should set up a national commission. It should also state the minimum space required for storage.
- ✓ To protect the interest of local retails in the country, there should be gradual entry of foreign players is necessary.In metros the foreign players should be slowly allowed.
- ✓ Stringent policies should formulated and fine tuned.
- ✓ Foreign players should be allowed in a structured manner.
- ✓ To reduce complexities for foreign investors, the government should formulate a single window system.

10. Conclusion:

The foreign investment in retail which was once a prohibited sector now became the FDI in retail has now gained momentum in both single brand retail and multi brand retail. The prohibited sector has got so much of momentum. The period for which we delay these reforms will be loss for government only, since majority of the public is in favor of reforms. The single brand retail has allowed 100% FDI. The foreign direct investment and politically sensitive multi brand retail have been facing a lot of trouble. Yet policies are to be changed and should allowed in a phased manner. This will make the retail industry to be tapped and the growth will be well developed in encouraging the GDP growth of the country.Finally, it does not matter whether it the local or foreign retail players leading, retail revolution in India benefitted Indian consumers in terms of access to innovative retails formats, best practices and availability of goods and services from all over the world along with great shopping experience.

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