FDI IN RETAIL SECTOR IN INDIA: CONCEPTUAL AND THEORETICAL ISSUES

Ms. SONIYA SINGH, ASSISTANT PROFESSOR
UGC NET (MANAGEMENT) DEC 2011 AND JUNE 2012
FACULTY OF MANAGEMENT DEAPARTMENT
LDC INSTITUTE OF TECHNICAL STUDIES,
SORAON, ALLAHABAD.

ABSTRACT

Retail is one of the largest sectors of Indian economy the unorganized retail sector in India occupies 98% of the retail business and the rest 2% is contributed by the organized sector. The unorganized retail sector contributes about 13% to the GDP and absorbs 6% of our labor force. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

Also there is divided opinion on the impact of FDI in the retail sector in India, Some say that FDI in the retail sector in India will lead to economic growth and creation of new jobs along with rural infrastructure development. But the other view point is that mass scale job loss will happen particularly in manufacturing sector with the entry of the big MNCs like Wal-Mart and Carrefour, Metro PLC and IKEA etc. This paper highlights Definition of Retail; Background & Division of Retail Industry, FDI Policy with Regard to Retailing in India, Foreign Investor's Concern Regarding FDI in Retail sector, SWOT Analysis of Indian retail Sector, Govt.'s view point and Conclusion.

Keywords: FDI, Indian retail sector, impact on stakeholders, GDP, Labor, competition.

INTRODUCTION

India is the founder member of World Trade Organization and signatory to its General Agreement on Trade in Services (GATS). This agreement includes wholesale and retailing services and all member countries are required to open up the retail trade sector to foreign investment. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to Foreign Direct Investment (FDI) in India.

Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space. Retail modernization in India depicts a similar story.

The most important channel through which foreign capital flows into the country is **Foreign Direct Investment (FDI).** 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. International Monetary Organization (IMF) and Organization for Economic Cooperation and Development (OECD) define FDI as a category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a 'lasting interest' in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motive of the direct investor is a strategic long term relationship with the direct investment enterprise to ensure significant degree of influence in the management of the direct investment enterprise .Besides, International Bank for Reconstruction and Development (IBRD) and United Nations Conference on Trade and Development (UNCTAD) also provide definition of Foreign Direct Investment. 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. It is preferred over other source of foreign capital because it is non-volatile, non-debt creating and results in economic development, modernization and employment generation in the economy.

Foreign Direct Investment under the Industrial Policy 1991 and thereafter under different Foreign Trade Policies is being allowed in different sectors of the economy in different proportion under either the Government route or Automatic Route. In **Retailing**, presently 51 per cent FDI is allowed in single brand retail through the **Government Approval route** while 100 per cent FDI is allowed in the cash-and-carry (wholesale) formats under the **Automatic route**. Under the Government Approval route, proposal for FDI in 'Single Brand Product Retailing' are received in the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry. Automatic route dispenses with the need of multiple approvals from Government and/or regulatory agencies (Government of India or the RBI). Investors are required only to notify the concerned Regional offices of RBI within 30 days of receipt of inward remittances and file required documents with that office within 30 days of the issue of shares to foreign investors

Background of FDI in Retail Sector in India

1. During nineties Mr. P V Narsimha Rao lead Govt. allowed limited FDI in retail and as a result "Dairy Farm" a MNC made entry in India.
2. In 1997, FDI in cash and carry (wholesale) with 100 percent ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. NDA Government was willing to introduce FDI in retail sector in May, 2002 but it could not materialize due to unknown reasons.
3. 51% Foreign Direct investment in single brand retail was also permitted in 2006.
4. In 2011 100% FDI was allowed in Single Brand retail withholding the FDI in Multi Brand Retail due to various political reasons.
5. 100 % FDI in Single Brand (with revised guidelines) and 51% in Multi-Brand retailing with some conditions have now been allowed in India w.e.f. 20th Sept., 2012 with an option to the state Governments to allow or not to allow the FDI in retail sector in their states.

Indian Retail Sector: An Overview and Current Position
Meaning of retail

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. In 2004, The High Court of Delhi defined the term "retail‟ as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

Evolution of Indian Retail Industry

It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were transformed Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc has brought a great revolution to the Indian retail market.

Distinction of Indian Retail

The Indian trading sector, as it has developed over centuries, is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent retailers („vertical separation‟) and (b) directly from the producer („vertical integration‟). In India, however, the above two modes of operation are not very common. Small and medium enterprises dominate the Indian retail scene. The trading sector is highly fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Retail giants like US-based Wal-Mart and French Carrefour are very keen to enter in the segment. Bharti Enterprises and Wal-Mart Stores entered into a joint venture in August 2007 and started cash-and-carry stores named 'Best Price Modern Wholesale' in 2009.

Division of Indian Retail Industry

The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing.

(a) Organized Retailing - refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

(b) Unorganized Retailing - refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

In the developed economies, organized retail is in the range of 75-80 per cent of total retail, whereas in developing economies, the unorganized sector dominates the retail business. The share of organized retail varies widely from just one per cent in Pakistan and 4 per cent in India to 36 per cent in Brazil and 55 per cent in Malaysia (Table-1). Modern retail formats, such as hypermarkets, superstores, supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by family-run neighborhood shops and open markets.

As a consequence, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain in these countries. Recent statistics states that though organized retail in India constituted a meager 4 percent of total retail in 2006, but it is expanding at a much faster pace of 45-50 percent per annum and has quadrupled it share to 16 percent by2011-12. The unorganized retail sector is also growing at about 10 percent per annum with sales rising from US $ 309 billion in 2006-07 to US $ 496 billion in 2011-12.

Types of Retailing in India

(a) Single Brand- 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.

(b) Multi Brand- 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 approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

While the minimum capital requirement of US$ 100 million is unlikely to be an issue for the large foreign players vying to enter India in the supermarket/ hypermarket segment, it could make it difficult for foreign investors planning to enter specialty formats such as music, mobile, electronics goods, among others, as these formats require relatively lower investments. Further, the approval requirements from State Governments could limit the cities that FDI backed retailers can operate in. The current opposition raised by a number of the political parties, if persists, may pose a major roadblock in the entry of the foreign retailers in India. Besides restricting the number of cities these retailers can operate in, it could also lead to problems in creating supply chain efficiency.

PRESENT SHAPE OF FDI

The retail industry in India is the second largest employer with an estimated 35 million people engaged by the industry. There has been opening of Indian economy to foreign organization for foreign direct investment through organized retail. The union government has sanctioned 51% foreign direct investment in multi-brand like Wal-Mart, Carrefour, Tesco and upto 100% in single brand retail like

Gucci, Nokia and Reebok. This will make foreign goods and items of daily consumption available locally, at a lower price, to Indian consumers.

The new policy will allow multi-brand foreign retailers to set up shop only in cities with a population of more than 10 lakhs as per the 2011 census. There are 53 such cities. This means that big retailers can move beyond the metropolises to smaller cities. The final decision will however lies with the state governments. Foreign retailers will be required to put up 50% of total FDI in back-end infra-structure excluding that on front-end expenditures. Expenditure on land cost and rentals will not be counted for the purpose of back-end infra-structure. Big retailers will need to source at least 30% of manufactured or processed products from small retailers. The government will go for surprise checks and if found irregularities then the deed will be broken with a second of time. Home grown retailers have not muscles and the reach to go for the big game like Subiksha and Vishal Retail. They have expanded their retail chain but did not have the resources to manage the backend across several cities. If we look rationally at the FDI in retail sector then it will be a win-win situation for all.

The foreign retailers will purchase raw materials from the farmers and various other goods from the original producer directly. The farmers across India's 6, 00,000 villages stand to gain with higher profits and better market access. The farmers would be getting good prices for their harvest. The original producers will get a higher price since the profit will flow to them directly, leaving behind the middle men. This can happen as the giant retailers have capital and high buying power.

Direct purchase from farms will hugely benefit small farmers who are not getting good returns by selling in the local mandi. The payments will be directly credited into bank accounts and will be free from commission agents. The large retailers will also save 10-15% in commissions by purchasing fruits and vegetables directly.

1. **Indian consumers**: India is now the home of the largest number of moneyed consumers. Indian consumers will get access to quality goods at a low cost, that too at home. The stage is now set when Indian consumers will have the luxury of world class opportunity of shopping to meet the requirements of daily life. They will find a new world of enjoyment of picking up consumer items to their greatest satisfaction. Big retailers will often allow discounts on selected items which will facilitate the consumers and they can end up with marginal bargains.

2. **Proper tax system:** Tax revenue will increase like VAT and service tax. The organized sales with computerized billing system will also yield more revenue through commodity taxes like VAT and service tax to the government. Thus tax buoyancy of the economy would increase.

3. **Partnership opportunity:** Indian retailers have reason to be happy with foreign direct investment in the retail sector because it is a partnership opportunity that involves a lot of learning that could take them to higher profitability. The central government is planning to have 51% foreign investment; this means the foreign retailers need partners for the rest investment to gain market.

4. **High availability of jobs:** There will be huge job opportunities in the country (in crores) as there will be opening of malls and store houses. The entry of modern retailers will expand the market creating large amount of additional jobs in retail. The job

5. **Knowledge enhancement:** FDI in retail will make way for inflow of knowledge from international experts. There will be drastic retail growth through the development of the retail capability.

6. **Management educational institute boom:** The growth of the organized retail in India will be a 'sunrise' for the management educational institute as their requirement will be increasing. The management colleges or universities role will be increasing for giving retail education to the youth to stay competitive in the liberalized environment.

7. **Inflation control**: Inflation will be curbed.

There are many who believe that FDI will act as guardian for the economic development of the farmers and job seekers. It will not happen that big fish will eat small fishes. This is because that in India 95% retail is in the un-organized sector that means only 5% is in organized sector. Local chains like Big Bazaar and Spencer's haven't dealt a deathblow to small retailers. So, the FDI in retail won't affect them either. The local kirana community is strategic and agile to get wiped off. Their offerings such as home delivery, credit facility and personalized customer relationship management can never be matched by foreign retail players.

FDI in retail is certainly a step forward to eliminate the evils of adulteration, shortage in naap tol (weights and measures), unreasonable profit due to large differences between the wholesale price and the printed maximum retail price (MRP) and corruption in saving taxes leading to generate black money. The growth in the retail sector has so far been slower than what was projected, about 5 or 6 years back. The present FDI has once again arisen the hope of fast retail growth rate in India.

UN-FAVOURABLE

Now we will take up the arguments which will not support the decision. The arguments against are that the new system will displace the traditional shops and petty retail stops in markets and mohallahs. 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 benefited. 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.

<u>Entry Options For Foreign Players prior to FDI Policy</u>

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general player's ha\d been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

1. **<u>Franchise Agreements</u>**

   It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. **Cash And Carry Wholesale Trading**

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

3. **Strategic Licensing Agreements**

Some foreign brands give exclusive licenses and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd

4. **Manufacturing and Wholly Owned Subsidiaries.**

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorized to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

FDI POLICY IN INDIA:

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. Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap which goes from 26% to 100% at present.

The FDI policy is notified through Press Notes/ Policy Circulars by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP) Ministry of Commerce & Industry. FDI is allowed under Direct Route and Government. 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. FDI in retail sector is allowed through Government Route only.

FDI POLICY WITH REGARD TO RETAILING IN INDIA:

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which has further been revised in 2011 and 2012 vide Press Note 1 of 2011 dt.14.2011, Press Note 2 of 2011 dt. 1.10.2011, Press Note 3 of 2011 dt.8.11.2011, Press Note 1 of 2012 dt.10.1.2012, FDI Policy Circular 1 of 2012 dt. 10.4.2012, Press Note 2 of 2012 dt. 31.7.2012, Press Note 3 of 2012 dt. 1.8.2012 and Press Notes 4, 5, 6, 7 & 8 dt. 20.9.2012 provides the sector specific guidelines for FDI with regard to the conduct of trading activities. Press Notes 4 &5 dt. 20.9.2012 particularly pertains to the FDI policy for Retail Sector. Detailed guidelines are available in the following press notes. a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route in 2006. b)FDI up to 100 % with prior Government approval (i.e. FIPB) for retail trade of „Single Brand‟ products, subject to Press Note 4 (2012 Series) c) 51% FDI is permitted in Multi Brand Retailing in India under Government Route (Press Note 5 of 2012).

REVISED FDI POLICY IN SINGLE BRAND RETAIL:

Paragraph 6.2.16.4 of 'Circular 1 of 20 12-Consolidated FDI Policy', effective from April 10, 2012, relating to single-brand product retail trading, presently reads as below: 6.2.16.4 Single Brand product retail trading 100% Government Route (1) Foreign Investment in Single Brand product retail trading is 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. (2) FDI in Single Brand product retail trading is subject to the following conditions: (a) Products to be sold should be of a 'Single Brand' only. (b) Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India. (c) 'Single Brand' product-retail trading would cover only products which are branded during manufacturing. (d) The foreign investor should be the owner of the brand. (e) In respect of proposals involving FDI beyond 51%, mandatory sourcing of at least 30% of the value of products sold would have to be done from Indian 'small industries/ village and cottage industries, artisans and craftsmen'.

'Small industries' would be defined as industries which have a total investment in plant & machinery not exceeding US $ 1.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point in time, this valuation is exceeded, the industry shall not qualify as a 'small industry' for this purpose. The compliance of this condition will be ensured through self-certification by the company, to be subsequently checked, by statutory auditors, from the duly certified accounts, which the company will be required to maintain. (3) Application seeking permission of the Government for FDI in retail trade of 'Single Brand' products would be made to the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion. The application would specifically indicate the product, Product categories which are proposed to be sold under a 'Single Brand'. Any addition to the product, product categories to be sold under 'Single Brand' would require a fresh approval of the Government. (4) Applications would be processed in the Department of Industrial Policy & Promotion, to determine whether the products proposed to be sold satisfy the notified guidelines, before being considered by the FIPB for Government approval.

PROCEDURE FOR FDI IN RETAIL SECTOR

Applications would be processed in the Department of Industrial Policy & Promotion (DIPP), to determine whether the proposed investment satisfies the notified guidelines, before being considered by the Foreign Investment Board (FIPB) for Government approval. Final approval will be given by Foreign

Investment Promotion Board. FOREIGN INVESTOR'S CONCERN REGARDING FDI POLICY IN INDIA: The current FDI Policy will not make any difference for those brands which adopt the franchising route. They would have preferred that the Government liberalize rules for maximizing their royalty and franchise fees.

They must still rely on innovative structuring of franchise arrangements to maximize their returns. Consumer durable majors such as LG and Samsung, which have exclusive franchisee owned stores, are unlikely to shift from the preferred route right away. Companies which choose to adopt the Multi Brand retailing must tie up with a local partner. The key is finding a partner which is reliable and who can also teach a trick or two about the domestic market and the Indian consumer. Currently, the organized retail sector is dominated by the likes of large business groups which decided to diversify into retail to cash in on the boom in the sector – corporate such as Tata through its brand Westside, RPG Group through Food world, Pantaloon of the Raheja Group and Shopper‟s Stop. Do foreign investors look to tie up with an existing retailer or look to others not necessarily in the business but looking to diversify, as many business groups are doing? An arrangement in the short to medium term may work wonders but when the Government has allowed 51% FDI in Multi Brand and 100% in Single Brand retail, will the foreign investor will terminate the agreement with Indian partner and trade in market without him? Either way, the foreign investor must negotiate its joint venture agreements carefully, with an option for a buy-out of the Indian partner‟s share. They must also be aware of the regulation which states that once a foreign company enters into a technical or financial collaboration with an Indian partner, it cannot enter into another joint venture with another Indian company or set up its own subsidiary in the „same‟ field‟ without the first partner‟s consent if the joint venture agreement does not provide for a „conflict of interest‟ clause. In effect, it means that foreign brand owners must be extremely careful whom they choose as partners and the brand they introduce in India. The first brand could also be their last if they do not negotiate the strategic arrangement diligently

ENABLING POLICY

The above policy is an enabling policy only and the State Governments Union Territories would be free to take their own decisions in regard to implementation of the policy. Therefore, retail sales outlets may be set up in those States Union Territories which have agreed, or agree in future, to allow FDI in MBRT under this policy. The list of States / Union Territories which have conveyed their agreement is annexed. Such agreement, in future, to permit establishment of retail outlets under this policy, would be conveyed to the Government of India through the Dept. of Industrial Policy & Promotion and additions would be made to the annexed list accordingly. The establishment of the retail sales outlets will be incompliance of applicable State/Union Territory laws/ regulations, such as the Shops and Establishments Act etc. Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of multilane retail trading.

STATES IN FAVOUR OF FDI IN MULTIBRAND RETAIL:
MAHARASHTRA, HARYANA, ANDHRA PRADESH, RAJASTHAN, JAMMU AND KASHMIR, UTRAKHAND, MANIPUR, ASSAM AND DELHI UTTRAKHAND, MANIPUR AND ASSAM HAVE NO CITIES WITH POPULATION OF ONE MILLLION BUT CAPITAL CITIES OF THESE STATES CAN BE CONSIDERED FOR OPENING MULTIBRAND RETAIL STORES. THESE STATES COVERS 19 CITIES LIKE DELHI, MUMBAI, PUNE, NAGPUR, JAIPUR HYDERABAD VIJAYWADA AND SRINAGAR STATES OPPOSING FDI IN MULTI BRAND RETAIL: GUJARAT, UTTARPRADESH, WEST BENGAL, BIHAR, TAMILNADU, KERLA, and CHATISHGARH ODISHA.

FDI Policy in Multi Brand Retail though approved by the Cabinet yet the final authority for granting the trade license rests with the states under the irrespective Shops and Establishment Acts. Also, foreign retailers will only be allowed to set up shop in cities with a population of more than one million.

MAJOR PLAYERS EXPECTED TO ENTER INDIAN RETAIL SECTOR

- WAL-MART STORES INC
- CARREFOUR SA
- TESCO PLC
- METRO AG
- IKEA

SWOT ANALYSIS OF INDIAN RETAIL SECTOR

STRENGTH

- Will boost economic development
- Young and dynamic manpower to take the challenge.
- Highest shop density in the world so no fear for small outlet
- High growth rate in retail and wholesale trade in India
- Presence of big business/industry house which can absorb losses.

WEAKNESS

- Low capital investment in retail sector
- Lack of trained and educated force
- Lack of competition
- More prices as compared to specialized shops
- Poor infrastructure
- Heavy wastage due to non availability of sufficient warehouses and cold storage facilities

OPPORTUNITIES

- Hope of Major employment generation in future
- Will improve the financial conditions of farmers
- Will add to retailer’s efficiency
- Foreign capital inflows
- Big markets with better technology and branding
- Quality improvement with cost reduction
- Increasing the export capacity
- Increase in lifestyle changes and status consciousness

THREATS

1. Kirana and retailers will may lose business in long run
2. Fear of controlling the retail sector by foreign investors/ Big stores
3. FDI in multiband retail may result in job losses in manufacturing sector
4. Roadside bargains may start which may harm the farmers
5. Work will be done by Indian and the profit will go to foreigners
6. Farmers will be exploited and will lose their fields and crops to foreign investors.

GOVERNMENT'S VIEW POINT ON FDI IN RETAIL SECTOR BENEFITING THE FARMERS:

1. At least 50% of total investment will be in villages
2. Transformation of rural India through improved agro processing and cold chain
3. Farm produce reach store directly thereby reducing wastage
4. Farmers will get their dues in the form of higher prices

DISTINCT INDIAIN IMPRINT:

• Only 51% Ownership is allowed to foreign investors and 49% will remain with Indian companies.
• Retail stores can be established in cities having population of 1 million or more
• States have the right to make their decision to allow or not to allow the FDI in Multi Brand Retail
• 50% investment in villages for infrastructure creation

CREATION OF NEW JOBS:

• Over one crores new jobs expected to be created
• FDI backed retailers will source 30% of all their products from small scale sector units.
• New manufacturing opportunities will open for the nation's micro small and medium enterprises
• The nation's youth will benefit from numerous employment opportunities in this sector

BENEFITING THE CONSUMERS:

• It is presumed that farm produce will reach in hygienic conditions to stores directly resulting in good quality, quantity and at lower prices as role of mediators will be negated.
• Product Choice to consumers to choose from variety of goods.

Conclusion

The future of foreign retail players is also uncertain like that of Indian retail players. The government which acts better than the one which does not. Apprehensions were raised on many such occasions in the past on virtually every measures of liberalization of Indian economy but most of the apprehensions proved wrong while many others come true. It is better to act and watch than not to act at all.

The Industrial policy 1991 had crafted a trajectory of change whereby every sectors of Indian economy at one point of time or the other would be embraced by liberalization, privatization and globalization. FDI in multi-brand retailing is in that sense a steady progression of that trajectory. But the government has by far cushioned the adverse impact of the change that has ensued in the wake of the implementation of Industrial Policy 1991 through safety nets and social safeguards. But the change that the movement of retailing sector into the FDI regime would bring about will require more involved and informed support from the government. One hopes that the government would stand up to its responsibility, because what is at stake is the stability of the vital pillars of the economy- retailing, agriculture, and manufacturing. In short, **the socio economic equilibrium of the entire country.**

The government has added an element of social benefit to its latest plan for calibrated opening of the multi-brand retail sector to foreign direct investment (FDI). Only those foreign retailers who first invest 50% of FDI amount in the back-end infrastructure development within three years from the date of first tranche of FDI received would be allowed to set up multi brand retail outlets in the country. The idea is that the firms must have already created jobs for rural India before they venture into multi-brand retailing.

REFERENCES:

[1] AC Nielsen (2008): Consumer and Designer Brands. AC Nielsen, April 2008
[2] A.T. Kearney (2011): "Retail Global Expansion: A Portfolio of Opportunities-2011 Global Retail Development Index", A.T. Kearney, 2011
[3] CBRE (2011): How Global is the Business of Retail. CB Richard Ellis, Global Research and Consulting, 2011 Edition.
[4] Department of Industrial Policy and Promotion, 2010. "Foreign Direct Investment (FDI) in Multi-
[5] Brand Retail Trading," Discussion paper. Available at http://www.dipp.nic.in.
[6] Basker, Emek, 2005a. "Job Creation or Destruction? Labor Market Effects of Wal-Mart Expansion,"
[7] Review of Economic Statistics, Vol. 87, No. 1, Pages 174-183.
[8] 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.
[9] Chari, Anusha. and T.C.A. Madhav Raghavan: "Foreign Direct Investment in India‟s Retail Bazaar: Opportunities and Challenges", March 2011.
[10] Confederation of Indian Industry (2012): "The Impact of FDI in Retail on SME Sector: A Survey Report".
[11] Joseph, M., N. Soundararajan, M.Gupta and S. Sahu (2008): "Impact of Organized Retailing on the Unorganized Sector", ICRIER, May, 2008.
[12] Joseph, M. and Nirupama Soundararajan (2009): "Retailing in India: A Critical Assessment", Academic Foundation, New Delhi.
[13] Kalhan, Anuradha, (2007), "Impact of Malls on Small Shops and Hawkers," Economic and Political
[14] Weekly, Vol.42, No.22, pp.2063-66.
[15] Kalhan, Anuradha and Martin Franz, (2009), "Regulation of Retail: Comparative Experience,"
[16] Economic and Political Weekly, Vol.44, No.32, pp.56-64.
[17] Kulkarni Keerti, Kulkarni Ramakant and Kulkarni Gururaj A.(2012): "Foreign Direct Investment In Indian Retail Sector: Issues And Implications", Indian Journal of Engineering and management Sciences, 2012; Vol. 3(3).
[18] McKinsey & Company (2007): "The „Bird of Gold‟: The Rise of India‟s Consumer Market", McKinsey Global Institute, 2007.
[19] Mukherjee, A, D. Satija, T.M.Goyal, M.K. Mantrala and S. Zou (2011): "Impact of the FDI Retail Policy on Indian Consumers and the Way Forward", ICRIER Policy Series Aug,2011; No. 5.
[20] Mukherjee, A. and Nitisha Patel (2005): "FDI in Retail Sector: India", Academic Foundation, New Delhi.
[21] Neumark, David, Junfu Zhang, and Stephen Ciccarella, 2008. "The Effects of Wal-Mart on Local
[22] Labor Markets," Journal of Urban Economics, Vol. 63, No. 2, pp. 405-430.
[23] Sarma, E.A.S, 2005, "Need for Caution in Retail FDI," Economic and Political Weekly, Vol.40, No.46, pp.4795-98.
[24] Sarthak Sarin, (Nov 23, 2010) Foreign Direct Investment in Retail Sector http://www.legalindia.in/foreign-direct-investment-in-retail-sector-others-surmounting-india-napping.
[25] Soundararaj, J (2012): "100% FDI in Single-Brand Retail Of India- A Boon or a Bane?" International Journal of Multidisciplinary Management Studies, May 2012; Vol.2 Issue 5.
[26] http://icm.icfai.org/casestudies/catalogue/marketing.
[27] http://www.cci.in /pdf/surveys _reports/ India‟s _ retail_sector.pdf.
[28] Harsh Mariwala, Retail FDI: A Win-Win Move, The Economic Times, Delhi 30-11-201

Websites:-

[1] www.dipp.nic.in
[2] www.Legalserviceindia.com
[3] www.Manupatra.com
[4] www.Scribd.com
[4] www.cci.in
[5] www.rbi.org.in
[6] www.dipp.nic.in
[7] www.legallyindia.com [8] www.icsi.edu