

FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR: CURRENT POSITION, IMPACT AND CHALLENGES

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INTRODUCTION

Foreign Direct Investment is a method of allowing financial resources, technology, and techniques raises in the diverse sector of economy. Basically it is considered as a tool to a economic development and also in various other sector of the techniques like in Defence sector, retail sector, agriculture sector, service sector and many more. Foreign direct investment is defined by the Reserve Bank of India as when a foreign country wants to establish any business operation in India which may include company under the company act, 1956(joint venture or wholly owned subsidiary) or set up a liaison office or project office or a branch office of the foreign company which can undertake activities permitted under the foreign exchange management regulation, 2000.

But Indian retail sector is one of which carry great potential for attracting FDI. After the opening of barriers through liberalization in 1991 foreign countries are more interesting to invest in India as India being second most-populous country in the world which led to immense scope of retail expansion. Further, India's GDP is the second fastest growing economy after the china due to which income is increases of the country and demand for goods also increases because there is ample relation between demand and income. Initially India imposed restriction on foreign countries to limit there investment but later on government of India open up it economy in various sector. India has been slow in opening economy for FDI in retail sector in 2006, the government of India first time relaxed retail

policy and since then there is gradual increase in FDI in the retail sector. But even then also it relaxed for the single brand retailing and not for the multi brand retailing. Presently FDI in single brand retailing allowed in full fledged that's 100%, in cash and carry also it is of 100% and in multi brand retailing it is allowed up-till 51 %. The entry of foreign retailers firstly led to the improvement in supply chain, especially for food items Secondly, it will increase surplus to small and medium farmers these are some positive aspect of FDI. The main reason behind the allowing of FDI in retail sector of government of India is that it ensure flow of capital into the country and to promote the welfare of all sections of society particularly farmers and consumers. Apart from this allowing FDI in retail sector increases quality standard, cost competitiveness, strengthening infrastructure, raising productivity, improve the supply chain technology with better skill and expertise knowledge and even raises new employment opportunities.

RESEARCH QUESTION

1. What is the Role of FDI in Indian Retail Sector?
2. What is Status of FDI in E-Commerce sector? Whether concept of 'Make in India' may also considered the E-Commerce sector for FDI?
3. What is the rationale behind FDI in India Retail Sector?
4. What is the Legal as well as Regulatory Frame Work for FDI in India?
5. What are the advantages and disadvantages of FDI in Indian Retail Market?

F.D.I IN INDIAN RETAIL

MEANING OF RETAIL

¹Retailing is defined as a set of all activities involved in selling goods or services directly to the final consumer for their personal, non-business use by the way of shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. So retailing is the direct interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between manufacturer and the institutional buyers. The term “Retail” came up in 2004 when the Delhi high court defined it as Sale for final consumption as compared to the sale for further sale.

So retailing is the type of link that connects the individual consumer with manufacturing and distributing chain.

EVOLUTION OF RETAIL SECTOR IN INDIA

Historically speaking at the very first stage itself that's **pre-liberalization era** retailing is considered as a source of entertainment as earlier even in present stage also there is some kind of melas, weekly markets (fixed day market in each week), and village fairs organized either on the eve of festival or as the member of that particular group decided. This contains retailing as people's were very interesting to go and buy. Later on time changes there were transformed mom and pop/kirana stores, and convenience stores were opened up which are considered as traditional variety neighborhood shops. After that government supported public distribution system outlets, khadi stores are organized in which products are available at very low cost.

Post liberalization era, the government of India in 1991 open-up its economy for the purpose of development in productivity, standard, infrastructure, etc. as the vast middle class market demanded value for money product, For this modern formats were adopted in retailing by in-culson of shopping malls, supermarkets, departmental stores which increased shopping experience as well as efficiency.

¹ Rajib Bhattacharyya (2012). The Opportunities and Challenges of FDI in retail in India. Journal of Humanities and social science(JHSS), 5(5), 99-109

TYPES OF RETAILING IN INDIA

To understand the types of retailing first of all we had to understand the division of Indian retail industry which is about how Indian retail industry is working i.e. how the product after manufacturing reach to the consumer. Indian retail sector here somewhat different from developed countries. In developed countries product and services normally reach to the consumer through two different channels:

- a). Through independent retailers
- b). Directly from the producer (in this case producer found their own chains of retail outlets or develop franchises)

Whereas in India the retail industry divided into two parts these are:-

a). Organized retail marketing:

It is refer to the trading carrying out by the licensed retailers these are basically those who are registered for sales tax, income tax, etc. It includes supermarket and retail chain, and also privately owned large retail business. Presently it constitute 5% of retail market which is very low that's why this is one of the objective of permitting FDI in this sector to increase organized retail about 20 to 30% as this is one of the major source in contributing fund through tax. Which increases GDP.

b). Unorganized retail marketing:

It is refer s to traditional format of low cost retailing. It is prevalent form of trade in india. In this the local kirana shops, general stores, paan and beedi shops, convenience store etc.

presently it constitute 95% of trade in retail market. ²It is also estimated that less than 4% of Indian retailers have shops larger than 500 square feet.

It is estimated that the retail market will grow to 1.3 trillion by 2020. To achieve such high growth of retail sector there will be need for capital inflow, infrastructure, latest techniques and expertise working etc.. this is achieved by FDI in retail sector.

The retail sector in India is a sunrise factor. There are three forms of retail trade in India which is:-

1. Single Brand Retailing-

It is also called as mono brand retailing in which number of different products are manufactured in the name of single brand name for example- Nike showroom in which number of products like shoes, t-shirt, slippers and other number of different accessories are sold in the name of one brand name.

These are the exclusive show-rooms which are either owned or franchised out by the manufacturer. If any additional product categories to be sold under single brand retailing it must first have to receive additional Government approval. So sale of multi brand goods is not allowed even if produced by the same manufacturer.

FDI in single brand retailing implies that a retail store with foreign investment can only sell one brand. Up to 100% FDI is permissible in it here government of India open the market fully to foreign investors in 2011. These investors are also subjected to the foreign investment promotion board which provide sanction and condition.

2. Multiple brand retailing-

² Rajib Bhattacharyya (2012). The Opportunities and Challenges of FDI in retail in India. Journal of Humanities and social science(JHSS), 5(5), 100-101

Generally, multiple brand retailing means selling of multiple brands under one roof. In it consumer of goods have very wide choice. This includes all firms in organized retail that seek to stock and sell multiple brands such as Wal-Mart and Carrefour these are international retailer's. This sector is the most disputed sector in India for permitting the FDI in it as there are many divergent views which are raised by the opposition and also some observation are made by the Standing Committee.

Standing Committee of parliament in its 90th report in 2009 made a major finding as to the impact of allowing FDI in Multi brand these are-

1. There is a risk of creating unfair competition and large scale exist of small scale.
2. Fear of creation of large scale unemployment in unorganized retail sector.
3. Indian Organized sector still in fledgling stage and require protection in order to settle down.

Due to this reason FDI in multi brand retailing is not permitted till 2011. Later on, in 2012 government of India allowed 51% FDI in this sector but this is subject to certain condition's:-

- ³a). At least 100 million U.S dolor as equity into Indian company
- b). At least 50% of the total FDI is to be invested in back end infrastructure within 3 years
- c). At least 30% of the value of procurement of processed product shall be sourced from Indian small industries
- d). Fresh agriculture produce is permitted to be sold unbranded
- e). Retail outlets to be set up in cities having population of at least 1 million.

3. Cash and Carry retailing:

³ Ritika, Neha Dangi (2013). FDI IN INDIAN RETAIL SECTOR: OPPORTUNITES AND CHALLENGES available at <http://www.innovativejournal.in/index.php/ijibm>

It is also refers to wholesale retail. The government defines this segment as the “sale of goods and merchandise to retailers, industrial, commercial, institutional, or other professional business users or to the other wholesalers and related subordinate service providers”.

FDI in cash and carry permitted in India 100%

Above these mentioned are business to business retailing sector in India which is allowed in most retailing 100%. But there is one issue regarding E-Commerce Retailing in which government has not allowed FDI various meetings were held for this but today even after the introduction of “**MAKE IN INDIA**” this issue remains untouched.

E-commerce is a growing concept in India currently there is no standard definition of E-Commerce but generally ⁴it means a method of conducting business through electronic media rather than physical means. This can be done either by computer online or through the smart phone.

Business models which are facilitated by E-Commerce

1. Business to business model

It is enabled various businesses to build new relationships with other businesses for efficiently managing several of their business functions. It may include distribution services, procurement services, digital / online market place like services etc. IndiaMART.com is one such B2B online market place which provides a platform for businesses to find other competitive suppliers.

2. Consumer to business model

⁴ Nishith Desai (July 2105). E-COMMERCE IN INDIA: LEGAL, TAX AND REGULATORY ANALYSIS. Page-1 available at www.nishithdesai.com

It is new model of commerce here consumers provide services/ goods to businesses and create value for the business. This type of transaction can be seen in internet forums where consumers provide product development ideas or in online platforms where consumers provide product reviews which are then used for advertisement purposes.

3. Consumer to consumer model

Traditionally consumers have had dealings with other consumers, but only few of those activities were in a commercial sense. E-commerce has made it possible to bring together strangers and providing a platform for them to trade on. For example, portals such as eBay and quikr enables consumers to transact with other consumers.

4. Business to consumer model

It is direct dealing between consumers and business. Here earlier method is that manufacturer manufactured the good and transfer to the retailer's or wholesalers after that retailer's sold them to consumers. So there is intermediary traditional method but with the development of internet and software online method of retailing is there in which role of intermediary is not there so that consumer had direct connection with business this method is better than traditional method as role of intermediary is less, cost of the product become cheaper. For example, Flipkart, one the most successful e-commerce portals provides a platform for consumers to purchase a wide variety of goods, Snapdeal, Myntra, amazon and Jabong some of the other online reatilers which provide better shopping experience.

Current status of FDI in E-Commerce

Currently role of FDI in E-Commerce is very limited as above already mentioned there are liberalization in the field of single brand retailing, cash and carry retailing even in Multi brand retailing also but barriers to E-Commerce continues still which are as follows:

1. 100% FDI is allowed under the automatic route (i.e. no FIPB approval is required) in companies engaged in B2B e-commerce.⁵

⁵ Para 6.2.16.2.1 of the Consolidated FDI Policy,2014

2. No FDI is allowed in companies which are engage in single brand retail trading by means of e-commerce.⁶

3. No FDI is allowed in companies which engage in multi brand retail trading by means of e-commerce.⁷

ENTRY OPTION FOR FOREIGN COMPANIES:

The foreign companies have various options to enter in retail sector. Some of these are:-

1.Franchising: Under this parent company lends its name and technology to a local partner and gets loyalty in return. For example Nike, pizza hut, are some of best known who have adopted this set of Operation.

It is approved by the RBI (Reserve Bank of India) under FEMA ACT.

2.Strategic licensing agreement: There are some foreign brand which give rights to Indian companies or retailers to distribute license through selling either from there own store or enter in to shop-in-shop arrangement.

3.Manufacturing and wholly owned subsidiaries: There are some companies who have subsidiaries in manufacturing are treated as Indian companies and therefore allowed to do retail. For example:- reebok, Adidas, Nike etc.

RATIONALE BEHIND FDI IN RETAIL SECTOR

There are number of factors which tend to growth of the FDI in retail sector-

⁶ Para 6.2.16.3 of the Consolidated FDI Policy,2014

⁷ Para 6.2.16.4 of the Consolidated FDI Policy,2014

1. Limited choice to the consumer and foul play on the part of shopkeeper

Most of the Indian shopping takes place outside the retail shop consumer ask the shopkeeper for the product which he needs and than the shopkeeper access to the storage area picked up and than handover to consumer after that consumer pay price of it. During this whole process there is no choice to the consumer to choose same product in different brand even there is no price tag on it. Sometimes during this process only shopkeeper may substitute the product claiming it is similar and equivalent to that product which is asked by consumer. This led to FDI in retail today consumer can access to shelf choose their choice of product even compare with similar product.

2. No quality control and training

Most of the retailer in India come under the unorganized retailing sector who do not have better supply chain of product, no quality control, no screening technology to check fake and authenticate product even no training on safety, storage, packaging etc. There is no after sale support service to the consumer.

3. Infrastructure

India is the second largest country in the world who produce fruits and vegetables but unfortunately it has very limited logistics facilities available. Moreover the goods which are of perishable nature find it difficult to travel distant markets as no cold-chain infrastructure. It also caused heavy loss to farmers in terms of quality and quantity of produce .

By permitting FDI in cold-chain to the extent of 100% through automatic route will enhance role FDI in retail sector.

LEGAL AS WELL AS REGULATORY FRAMEWORK FOR FDI IN INDIA:

The government of India and reserve bank of India together will go on to regulate 'capital account transaction' which is come through FDI. The regulation is done according to the FEMA ACT 1999(foreign exchange management act) earlier it was done by FERA ACT which has been replaced by the FEMA ACT. Basically the Reserve bank of India first of all notifies or make recommendation to the Department of Industrial Policy and Promotion (DIPP), and Ministry of Commerce & Industry for the purpose of making policy on subject after that government of India take notice of that and after discussion it makes policy pronouncement through press notes as amendment.

Working of each department in regulating foreign direct investment:

1. Ministry of Commerce and Industry-

It is an monitoring and reviewing agency for FDI policy on continuous basis. It also makes policy of FDI through press notes, which RBI has notified to it.

2. RBI (Reserve Bank of India)-

Its main function to regulate foreign exchange market in India through administering FEMA with the help of Ministry of finance, and another main function of it is to consolidate and amend the laws relating to foreign exchange.

3. FIPB (Foreign Exchange Promotion Board)-

It is a board set up under Department of economic affairs. It offers single window clearance for proposals on FDI in India, which are not allowed by automatic route. It has power to consider recommendation up to 1200 crore rupees. That's why it plays an important role in administration and implementation of government FDI policy.

4. DIPP (Department of Industrial Policy and Promotion)-

This department plays key role in Industrial development of the country by introducing formulation, implementation and other strategy measures. It also resolve problems which are faced by the foreign investor in implementation of their projects through foreign investment implementation authority.

The Indian companies can receive FDI under two routes-

1. Automatic route- Also called 'Entry route for investment' there are sectors where the government of India make's provision for FDI to enter without the approval of either RBI or Government.
2. Government route- It is in contrast of automatic route as in it prior approval for investment must be taken either from the Foreign Investment Promotion Board (FIPB), Ministry of Finance, DIPP as the case may be.

Following sectors require prior approval of Government of India.

- a). Retail trading, lottery business, atomic energy, gambling and betting, business of chit fund, agriculture and plantation, nidhi companies, housing and real estate business.
- b). Activities that require industrial license
- c). Proposals in which the foreign collaborator has existing financial /technical collaboration in India in the same field.

IMPACT OF FDI IN RETAIL SECTOR

Generally speaking foreign direct investment lays two kinds of impact positive impact and negative impact these positive and negative are also advantages and disadvantages of FDI. Further positive and negative further divided into subhead which are discussed below:

1. POSITIVE IMPACT

a). Growth in economy

In India there is gap between capital required and capital raised. India need huge capital to build infrastructure, hospital, and schools for its growing population. There are sources which are made by the indian investors but unfortunately it is not possible to them to fulfill growing needs of large section this acan be achieved by major source of investment through FDI wherein multinational companies create job, share their expertise, improve infrastructure in the host countries.

b). Giving employment opportunities

India is the second most populous country in the world due to which there are large number of human resources are available in India in youth as compared to the other countries. Such mass youth generation is lack in skill, knowledge and expertise for that FDI plays very important role by creating new employment opportunities which will increase not only increase the standard of life and living style but also ensure quality in them. According to the estimates done by the yes bank estimate⁸ 1.7 million jobs were there in coming 5 years.

c). It will Benefit to Farmers

In India large scale of contributing to the economy is agriculture sector but this sector already suffer with mandi norms, lack of transparency in prices and role of intermediaries. Intermediaries (i.e. middleman) custom is functioning from the past decades due to which farmers are not getting adequate cost for their product only 1/3 of consumer price given to farmer in which 1/3 is goes to middleman this will also increase price to the consumer as there is no direct interface between consumer and retailer. Even most of the good are lost or destroy due the inefficient supply chain, lack of logistic facilities and storage facilities. By permitting the FDI in this sector the farmers become the prime beneficiaries as the giant

⁸ YES BANK Ltd. And ASSOCHAM, FDI in Retail-Advantage farmers, food and Agribusiness Strategic Advisory and Research (FASAR) Team- YES BANK, October 2012, p.40.

shopkeepers improves and upcoming the need for logistic, infrastructure, direct interface with retailers without middleman and also provides goods in cheaper price to the consumer.

d). It will Benefit to consumers

Previously consumer buy the goods and take the services either through the organized retailer or through the unorganized retailer but in India huge section of service providers are unorganized sector in contrast to the organized sector and these unorganized sector are not legally pay tax to the government but by introduction of FDI Firstly, role of organized sector increased which will increase the growth rate of economy Secondly, by entering the foreign nationals in the market competition will gradually increased which will resulted in reducing price to the consumer, Thirdly it will provide better shopping experience to them and various other fringe benefits.

e). Controlling Food Inflation

India is the second largest country in the world in terms of producing fruits and vegetables but unfortunately it comes down as there is no better chain of supply, in India large section are unorganized sector they are short of funding as well as in management due to which lost occurred. After all India traditional agriculture also change to horticulture farming due to urbanization the goods which are produced are perishable in nature they need a cold storage transport facilities which is very less. This problem can be solve by permitting the FDI as they provide funding requirement for logistics, infrastructure, as well as better transport facility.

f). Increase Tax Revenue

The more the number of organized sector there is more increase in tax revenue as they are the licensed. But India the percentage of organized sector is less as compared to the unorganized sector this will be solved by the FDI.

NEGATIVE IMPACT

- a). Organized sector domination increased
- b). Effect on traditional benefits arising out of traditional store
- c). Employment opportunities to Semi-illiterate

SUGGESTION AND CONCLUSION:

FDI in retail is a very crucial step that is been undertaken to ensure further growth in the Retail Sector of India. This will transform the retail environment of the country in a significant way. As per Standard Chartered Research, 'The world has entered in its third super cycle characterized by Industrialization, Urbanization and International trade'. FDI in Indian Retail not only prove fruitful for the economy as a whole but it will also integrate this sector with the global retail market. The results of FDI in China are a case for example here. In Chinese market development of 100% FDI was done in 2004, today its retail sector is the second largest in value in the world. Further FDI in retail in India may also help bring in technical knowhow to set up efficient supply chains which could act as models of development.

Today most of the nations liberalize its economic policies in order to attract investments not only from domestic players rather also from foreign players. But before that thee is need to set-up policy which will going to do away with deficiencies. Some of the policy suggestion are:-

1. firstly, there is need to prepare legal framework to ensure that large retailer's are not be able to coerce domestic small retailers by unfair means.
2. Secondly, FDI must be allowed in such manner which will invest more in areas in which india is lacking.

CONCLUSION:

The retailers in organized and unorganized sector are adopting new strategies to enhance their market share. The present study was conducted with the purpose of identifying the impact of FDI in retailing with the perception of unemployed youth on employment opportunities in India. To conclude, FDI in retail will help integrate the Indian economy with the global economy. It will also help increase the experience in organized retailing sector and the availability of quality human resources at low costs. FDI in retail would reduce the intermediate costs and the costs of production and impose setting up of integrated supply chains that would minimize wastage, give producers a better price and will be beneficial to producers/manufactures and consumers. However, it can be said that the advantages of allowing FDI in the retail sector evidently outweigh the constraints attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China, where the issue of allowing FDI in retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led the enormous development of their country's GDP. Hence, from the above research study it is evident that FDI in retail will certainly create more job opportunities for unemployed for those youth who are skilled and trained. However, there is a lot workforce in India, who is unskilled. Skilled and trained persons have never been the problem for our policy makers. Therefore, FDI in retailing is need of the hour for creation of more jobs for unemployed youth in India, expansion of existing manufacturing industries, development of the new one and it would also help India in becoming 'developed country'.

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