

**An Analytical study of Foreign Direct Investment
In Indian Retail Sector****¹Dr. G.K Bengale ²Prof. T.D. Jadhav**¹Briham Maharashtra College of Commerce Pune,²Mamasaheb Mohol College Paud Road Pune**Introduction**

As per the current regulatory regime, retail trading except under single-brand product retailing- FDI up to 51%, under the government route is prohibited in India. Simply put, for a company to be able to get foreign fundings, products sold by it to the general public should only be of a 'single-brand', this condition being addition to a few other conditions to be adhered to. That explains why we do not have a Harrods in Delhi. India being a signatory to WTO's General Agreement on Trade in Services, which include wholesale and retailing services, had 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 interpreneurial opportunities. However, the government in series of moves has opened up the retail sector slowly to Foreign Direct Investment. In 1997, FDI in cash and carry with 100% ownership was allowed under the government approved route. It was brought under the automatic route in 2006. 51% investment in a single brand retail outlet was also permitted in 2006. FDI in Multi-Brand retailing is prohibited in India.

Definition of Retail-

The High Court of Delhi (2004) defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing i.e. wholesale. A sale to the ultimate consumer. Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. A retailer is involved act of

selling goods to the individual customer at a margin of profits.

The Indian retail sector is highly fragmented with 97% of its business being run by the unorganized retailers. The organized retailer however is at a very nascent stage. The sector is largest source of employment after agricultural and has deep penetration into rural india generating more than 10% of india's GDP.

FDI Policy 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 provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

- FDI up to 100% for cash and carry wholesale and export trading allowed under the automatic route.
- FDI up to 51% with prior government approval for retail trade of single brand products.
- FDI is not permitted in Multi Brand Retailing in India.

Entry Options for Foreigners prior to FDI-

FDI was not authorised in retailing, most general players had been operating in the country. Some of the entrance routes used by them have been discussed as below-

1. It is an easiest track to come in the indian market. In franchising and commission agents services, FDI is allowed with approval of RBI under the Foreign Exchange Management Act. This is most usual mode for entrance of quick food bondage opposite a world.
2. 100% FDI is allowed wholesale trading which involves buildings of large

distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not consumers.

3. Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sale it through there own stores or enter into shop-in-shop arrangements or distributes the brands to franchisees.
4. The foreign brand 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.

FDI in Single Brand Retail-

In single-brand retail, FDI up to 51% is allowed subject to Foreign Investment Promotion Board approval and subject to the conditions mentioned-

- i. Only single-brand products will be sold
- ii. Products should be sold under the same brand internationally.
- iii. Single-brand product retail would only cover products which are branded during manufacturing.
- iv. Any condition categories to be sold under “single-brand” would require fresh approval from the government.

While the phase ‘single-brand’ has not been defined, it implies that foreign companies will be allowed to sale goods internationally under a ‘single-brand’, viz., Reebok, Nokia, Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer will not allowed. FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand.

FDI in Multi Brand Retail-

The government has also not defined the term Multi Brand. FDI in multi brand retail implies that a retail store with a foreign investment can sale multiple brands under one roof. In July 2010 department of IPP, Ministry of Commerce circulated a discussion paper on

allowing FDI in multi brand retail. The paper does not suggest any upper limit on FDI in multi brand retail. If implimented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India.

Concerns for the Government for only Partially Allowing FDI in Retail Sector-

A number of concerns were expressed with regard to partial opening the retail sector for FDI. The Hon’ble Department Related Parliamentary Standing Committee on Commerce in its 90th Report, on ‘Foreign and Domestic Investment in Retail Sector’, laid in the Lok Sabha and the Rajya Sabha on 8th June 2009, had made an in depth study on the subject and identified a number of issues related to FDI in retail sector. It includes- it would lead to unfair competition and altimately result in large scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector.

Another concern is that the Indian retail sector, particularly organized retail, is still under developed and in a nascent stage and that, therefore it is important that retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors.

Antagonists of FDI in retail sector oppose the same on various grounds, like that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agricultural sector. Secondly that the global retailers would conspire an exercise monopolistic power to raise prices and to reduce the prices received by the suppliers. Thirdly, it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the customers and suppliers would lose, while the profit margins of such retail chains would go up.

Limitations of the Present Set-up-

- i. There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of the fruits and vegetables, it has very limited integrated cold-chain infrastructure. Only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT., 80% of this is used only for potatoes. Storage infrastructure is necessary for carry over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Though FDI is permitted in cold-chain to the extent of 100% through the automatic route in the absence of FDI in retailing.
- ii. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail.
- iii. There is a big question mark on the efficiency of the public procurement and PDS set-up and the bill on food subsidies in raising. In spite of such heavy subsidies overall food based inflation has been a matter of great concern.
- iv. The Micro Small and Medium Enterprises sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world market. While India has continued to provide emphasis on the development of MSME sector, the share of organized sector in overall manufacturing has declined from 34.5% to 30.3% in 1999-2000 to 2007-08 respectively. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

Rationale Behind Allowing FDI in Retail Sector-

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor

productivity. The policy of single-brand retail was adopted to allow Indian consumers access to foreign brands. 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% of ownership. Between then and May 2010, a total of 94 proposals have been received. Of these 57 proposals have been approved. An FDI inflow of US\$196.46 million under the category of single-brand retailing was received between April 2006 and September 2010, comprising 0.16% of the total FDI inflows during the period. Retail stocks rose by as much as 5%. Shares of Pantaloon Retail (India) Ltd, ended 4.84% up at Rs. 441 on the Bombay Stock Exchange. Shares of Shoppers Stop Ltd, rose 2.02% and Trent Ltd, 3.19%. The exchange key index rose 173.04 points, or 0.99% to 17614.48. But this is very less as compared to what it would have been had FDI up to 100% been allowed in India for single-brand.

The policy of allowing 100% FDI in single-brand retail can benefit both the foreign retailer and the Indian partner- foreign players get local market knowledge, while Indian companies can access global best management practices, designs and technological knowhow. Permitting foreign investment in food based retailing is likely to ensure adequate flow of capital into the country and its productive use, in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers.

Apart from this, by allowing FDI in retail trade, Indian retail will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost- competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade. Lastly, it is to be noted that Indian Council of Research in International

Economic Relations, a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach \$946 billion by 2011-12 and ICRIER has also come to conclusion that investment of 'big' money in the retail sector would in the long run not harm interests of small, traditional and retailers.

Conclusion-

Walmart has a joint venture with Bharti Enterprises for cash-and-carry business, which runs the 'Best Price' stores. It plans to have 15 stores by March and enter new states like Andhra Pradesh, Rajasthan, M.P., and Karnataka. Duke, WalMart's CEO opined that FDI in retail would contain inflation by reducing wastage of farm output as 30% to 40% of the produce does not reach the end-consumer. "In India, there is an opportunity to work all the way up to farmers the back end chain. Part of inflation is due to the fact that produce does not reach the end consumer", Duke said, adding, that a similar trend was noticed when organized retail became popular in the US.

It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China. It is also pertinent to note

here that it can be safely contended that with the possible advent of unrestrained FDI flows in the retail market, the interests of the retailers constituting the organized retail sector will not be gravely undermined, since nobody can force a consumer to visit a Megha Shoppo Complex or a small retailer/Sabji Mandi. Consumers will shop in the accordance with there at most convenience, wherever they get the lowest price, max variety and good consumer experience.

The Industrial policy 1991 had crafted a trajectory of change whereby every sectors of Indian economy at the one point of time or the other would be embraced by liberalization, privatization and globalization. FDI in multi-brand retailing and lifting the current cap of 51% on the single-brand retail 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 insured in the wake of the implementation of Industrial Policy 1991 through safety nets and social safe goods. 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 state is the stability of the vital pillars of the economy-retailing, agriculture and manufacturing.

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