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FDI IN RETAIL SECTOR – A BOON OR BANE IN INDIA

Dr. P.M.S. Abdul Gaffoor*   N.O. Aarif**
** Research Supervisor and Convener, The New College (Autonomous), Chennai .*
***Research Scholar,The New College (Autonomous),Chennai .*

Abstract
Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Key Words: FDI, GDP, MSRP, SWOT.

Preamble

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Most Indian shopping takes place in open markets or millions of small, independent grocery and retail shops. Shoppers typically stand outside the retail shop, ask for what they want, and cannot pick or examine a product from the shelf. Access to the shelf or product storage area is limited. Once the shopper requests the food staple or household product they are looking for, the shopkeeper goes to the container or shelf or to the back of the store, brings it out and offers it for sale to the shopper. Often the shopkeeper may substitute the product, claiming that it is similar or equivalent to the product the consumer is asking for. The product typically has no price label in these small retail shops; although some products do have a manufactured suggested retail price (MSRP) pre-printed on the packaging. The shopkeeper prices the food staple and household products arbitrarily, and two consumers may pay different prices for the same product on the same day. Price is sometimes negotiated between the shopper and shopkeeper. The shoppers do not have time to examine the product label, and do not have a choice to make an informed decision between competitive products.

India's retail and logistics industry, organized and unorganized in combination, employs about 40 million Indians (3.3% of Indian population).The typical Indian retail shops are very small. Over 14 million outlets operate in the country and only 4% of them being larger than 500 sq ft (46 m^2) in size. India has about 11 shop outlets for every 1000 people. Vast majority of the unorganized retail shops in India employ family members, do not have the scale to procure or transport products at high volume wholesale level, have limited to no quality control or fake-versus-authentic product screening technology and have no training on safe and hygienic storage, packaging or logistics. The unorganized retail shops source their products from a chain of middlemen who mark up the product as it moves from farmer or producer to the consumer. The unorganized retail shops typically offer no after-sales support or service. Finally, most transactions at unorganized retail shops are done with cash, with all sales being final.

Until 2011, foreign direct investment (FDI) was not allowed in multi-brand retail, forbidding foreign companies form any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51 per cent ownership. In January 2012, India allowed 100 per cent FDI investment in single-brand stores, but imposed the requirement that the single brand retailer would have to source 30 percent of its goods from India. On 7 December 2012, India allowed 51 per cent FDI in multi-brand retail. The previous prime minister of India felt that this would be beneficial for both consumers and farmers. Agricultural marketing was also expected to be benefited with the introduction of new technologies.

The prime minister of the previous National Democratic Party was credited with bringing about this policy change aimed at making India friendlier for businessmen. With this decision, international companies, especially the supermarkets, were able to increase their presence in the multi-brand retail sector of India. However, they were not allowed to own more than 51 per cent stakes in these establishments. This step was regarded as the most important one in the last two decades, especially with regard to reforms in India.

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Objectives of the Study

The present study highlights the following objectives

- To examine various reasons for promoting FDI in retail sector that results in benefitting various stakeholders in the country as a whole.
- To summarize political background that creates various challenges to the players of FDI in retail sector.
- To highlight FDI in single brand and the SWOT analysis multi brand products.
- To analyze the suggestions needed to recoup various instabilities prevalent in FDI in retail sector.

Reasons for promotion of FDI in Retail Sector

The major benefit of FDI is that it is both supplementary and complimentary with regards to local investment. FDI lets a company gain better access to top class technology and supplementary funds. They are also exposed to management practices in vogue around the world and also get the chance to become a part of the global market system. The Indian government had commissioned Indian Council for Research on International Economic Relations (ICRIER) to perform a study on the effect of organized retailing practices on its unorganized counterpart.

ICRIER submitted the report during 2008. The study hinted at the advantages that the growth of organized retail will have for various participants like the consumers, manufacturers, and farmers.

The government decided on the basis of the results in other countries and the ICRIER study that this decision would result in a greater influx of FDI in both back and front end infrastructure. It was expected that the agricultural sector would become more efficient and be in a better position to use technology. The Promotion of FDI can best be understood by the following tabular analysis:

Table 1: Amount of FDI inflows in retails from 2006-2015

Year	Amount of FDI flows In terms of Rs. Crores	growth In terms of US $ Million	% growth over previous year (in terms of US $)
2006-07	24,584	5540	+72%
2007-08	56390	12492	+125%
2008-09	98642	24575	+97%
2009-10	123025	27330	+11%
2010-11	123120	25834	-05%
2011-12	97320	21383	-17%
2012-13	165145	35121	+64%
2013-14	121907	22423	-36%
2014-15	12623	2321	-

Source: Department of Industrial Policy & Promotion Ministry of Commerce and Industry

From the above table, it is believed that % growth of FDI IN 2006-07 stood at 72%. It showed good mark for the retail sector. Whereas in the next immediate year in touched 125%, it was the good indication as it brought in inflow of FDI as much as possible. In the same way, it was the worst in the year 2013-14 as it did not mark any good impact on the inflow of FDI in terms of dollars.

It was also expected that this decision would result in more and better jobs being created and the best practices around the world will be introduced in India. Both farmers and consumers will see more convenient prices and higher quality in future and this will help both the classes.

The government also put in an obligatory condition before foreign companies for procuring 30 percent supplies from local producers in order to provide a fillip to the manufacturing sector in India. Jobs are expected to be available in both rural and urban areas thanks to greater back and frontal operations resulting from more FDI. Domestic retail entities and traders are expected to pull up their socks and increase their efficiency ever since this decision. Consequently, the consumers are expected to receive better services and the producers who provide the source products also get better payment.

- Government eases FDI norms in 15 major sectors.
- Townships, shopping complexes & business centres – all allow up to 100% FDI under the auto route. Conditions on minimum capitalization & floor area restrictions have now been removed for the construction development sector.

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- India's defence sector now allows consolidated FDI up to 49% under the automatic route. FDI beyond 49% will now be considered by the Foreign Investment Promotion Board. Govt approval route will be required only when FDI results in a change of ownership pattern.
- Private sector banks now allow consolidated FDI up to 74%.
- Up to 100% FDI is now allowed in coffee/rubber/cardamom/palm oil & olive oil plantations via the automatic route.
- 100% FDI is now allowed via the auto route in duty free shops located and operated in the customs bonded areas.
- Manufacturers can now sell their products through wholesale and/or retail, including through e-commerce without Government Approval.
- Foreign Equity caps have now been increased for establishment & operation of satellites, credit information companies, non-scheduled air transport & ground handling services from 74% to 100%.
- 100% FDI allowed in medical devices
- FDI cap increased in insurance & sub-activities from 26% to 49%
- FDI up to 49% has been permitted in the Pension Sector.
- Construction, operation and maintenance of specified activities of Railway sector opened to 100% foreign direct investment under automatic route.
- FDI policy on Construction Development sector has been liberalized by relaxing the norms pertaining to minimum area, minimum capitalization and repatriation of funds or exit from the project. To encourage investment in affordable housing, projects committing 30 percent of the total project cost for low cost affordable housing have been exempted from minimum area and capitalization norms.
- Investment by NRIs under Schedule 4 of FEMA (Transfer or Issue of Security by Persons Resident outside India) Regulations will be deemed to be domestic investment at par with the investment made by residents.
- Composite caps on foreign investments introduced to bring uniformity and simplicity is brought across the sectors in FDI policy.
- 100% FDI allowed in White Label ATM Operations.

Process of FDI in Retail
There is no such procedure for short listing the companies. International companies who are willing to invest in either single or multi-brand retail can put in their applications with the Department of Industrial Policy and Promotion.

Table 2: Process of Retail Trade in India and South Asia

Countries	Organized (%)	Unorganized (%)
India	2	98
China	20	80
South Korea	15	85
Indonesia	25	75
Philippines	35	65
Thailand	40	60
Malaysia	50	50

Source: CRISIL

The above Table shows that organized retail has ranged from 15% to 50% in South East Asian Countries except India, which is only 2%. Thus, unorganized trade makes up over 90% of the total trade in India. It is clear that India's retail is still in the unorganized sector

Here the applications are reviewed in an effort to determine their suitability as per the stated guidelines. Subsequently, the Foreign Investment Promotion Board, Ministry of Finance will consider the applications before providing the final approval.

Advantages of FDI in Retail Sector
India's retail industry is one of the biggest around the world when it comes to the privately owned ones. The industry has seen some major restructuring thanks to the FDI structure becoming more liberal than before. The benefits of FDI in retail, as per experts, carry greater weightage than the cost related implications.

With FDI in retail, operations in distribution and production cycles are expected to become better. Owing to factors such as economic operations, the cost of production facilities will come down as well. This will mean a greater choice of products at lesser and justifiable prices for the customers.

As a result of FDI, companies will be able to bring in technology and skills from other countries and this will help in infrastructural development of India. This will also help in creating more value for money for the buyers.

After FDI in retail, it is possible to set up a properly organized chain of retail stores as the capital to do is readily available. The investment can be regarded as a long term one as the physical capital put into a domestic company is not liquidated easily. This is its main difference from equity capital. ICRIER had also predicted that if FDI in retail was introduced in India during 2011-12, the Indian economy could have grown by 13 per cent, the unorganized sector could have seen a 10 per cent growth and the organized sector could have increased by 45 per cent.

Foreign players will bring in the necessary investment to upgrade the retail sector infrastructure across the country. Since their focus would be profit they would set up efficient supply chain management systems to ensure that product deliveries are on time. The emphasis would be on reduction in wastage of food items. This would bring down the food prices which have been a major cause of inflation in the country as well as a source of public dissent against the government.

The farmers would get a better price for their produce for two reasons. Foreign players would bring in the practice of contractual farming which would be beneficial for the farmers. It would also lead to the removal of the middle men which would provide additional revenue to the farmers (the retail chains would buy directly from the farmers). Contractual farming would also mean improved and efficient farming practices as well as higher output and better prices.
It would also generate employment opportunities in the wake of improved supply chains that would be set up to cater to these retail stores. It is mandated in the policy that 50% of any investment over a $100 million would be in the backend infrastructure which would benefit by creating jobs as well as infrastructure for a developing country like India.

Shortcomings of FDI in Retail Sector
Experts say that while analyzing the positives and drawbacks of FDI in retail, both the government and the opposition did not refer to the Parliament Committee report where its effects had been studied in great detail. The committee had taken into cognizance many witnesses, NGOs, individuals, and trade associations to come up with the said report.

The Committee visited various corners of India and also went through reports and gathered knowledge about the experience of similar decisions in other countries. It also enquired from several government departments regarding the matter.

The Committee had surmised in its report that the number of people getting jobs will be lesser than the amount of people losing the same as a substantial amount of marginal and small farmers will be wiped out. Some other problems expected out of this were aggressive pricing and prevalence of monopoly.

It will not benefit the farmers since the large foreign players will squeeze them for lower prices in order to earn higher margins. The large foreign players work on wafer thin margins since they offer their goods at low prices. In that scenario they would procure their goods at the lowest possible price to get the maximum benefit. Loss of livelihood for millions of small time traders who would not be able to compete with the large foreign players in terms of prices (foreign players have deep pockets which the small Indian traders cannot match). Manufacturing sector would suffer since the foreign players would source their products from international markets in order to get low prices.

A fragmented market is better than a consolidated market in India’s case simply because the retail sector in India is very small and a large number of small time independent traders and retailers are dependent on it for their survival. Also the middlemen will be replaced by large foreign players who would anyway squeeze the producer for lower prices.

The investment by these foreign players will only be in their supply chain and not in developing any other infrastructure (this point can be easily countered). The policy states that State Governments can take a decision about FDI in retail. But FDI is not a State Policy matter. Hence this is not possible. The central government will take the final call.

Challenges in introducing FDI in retail
Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90 per cent of trade is conducted through independent local stores. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, little use of IT systems, limitations of mass media and existence of counterfeit goods.

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General Reforms of FDI in Indian Retail Market

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.

The Prime Minister of previous NDA government announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalization reform passed by an Indian cabinet in years;
- Single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- Both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- All multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
- Multi-brand retailers must have a minimum investment of US$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;
- The opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure. A Wall Street Journal article claims that fresh investments in Indian organized retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.

Approval of Retail Reforms in FDI

FDI in Single Brand

On 11 January 2012, India approved increased competition and innovation in single-brand retail. The reform seeks to attract investments in operations and marketing, improve the availability of goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises through access to global designs, technologies and management practices. In this announcement, India requires single-brand retailer, with greater than 51% foreign ownership, to source at least 30% of the value of products from Indian small industries, village and cottage industries, artisans and craftsmen.

Mikael Ohlsson, chief executive of IKEA, announced IKEA is postponing its plan to open stores in India. He claimed that IKEA's decision reflects India's requirements that single-brand retailers such as IKEA source 30 percent of their goods from local small and medium-sized companies. This was an obstacle to IKEA's investment in India, and that it will take IKEA some time to source goods and develop reliable supply chains inside India. Ikea announced that it plans to double what it sources from India already for its global product range, to over $1 billion a year, within three years. IKEA in the near term plans to focus expansion instead in China and Russia, where such restrictions do not exist.

On 19 Feb 2013 Tamil Nadu became the first state in the country to stoutly resist MNC 'invasion' into the domestic retail sector. In Chennai, Tamil Nadu CMDA authorities placed a seal on the massive warehouse spreading across 7 acres that had reportedly been built for one of the world's leading multinational retail giants, Wal-mart.

FDI in Multi Brand

FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation . The growing dominance of multinational companies in the country's $200 billion retail business, had warned that any move to increase FDI in the retail sector would ruin the business of small and medium traders scattered over the country According to the economic advisor to the Prime Minister, Kaushik Basu , the government will allow FDI in three phases. In the first phase, foreign multi-brand retail chains will be allowed in the metros Delhi, Mumbai, Kolkata and Chennai. In the second phase other metros like Bangalore, Hyderabad and Pune will be included Conditions for investment in multi branding .

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- Minimum investment of $ 100 Million.
- 50% of investment to be borne by infrastructural development.
- 30% of raw material to be taken from Indian SME's.
- Permission given to set up malls in cities with a minimum population of 10 lakhs.
- Government will first procure materials from farmers.
- Products should be sold in the same brand.
- Foreign investor should be the owner of the brand.

Benefits of Multi Brand Retail

- Creation of 1.5 Million jobs in 5 years.
- Farmers will be on the upper hand to get more profits.
- It will help in wastage and control food inflation.
- Increase competition.
- Middle men will be removed.

Fdi In Multi - Brand Swot Analysis of FDI in Retail
Strength

- Major contributor to the GDP.
- High growth rate.
- High potential High employment generator.
- Creation of research and development.
- Improvement in supply chain.
- Progression in agriculture

Weakness

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

Opportunities

- More organizations Healthy competition.
- Transparent system.
- Direct link between farmers and producers.
- Quality control over wastage Foreign capital will build infrastructural development.
- **Sustainable development**

Threats

- Closure of Traditional stores Delay in approval of foreign investment.
- Corruption.
- Value of rupee will depreciate further.

Recent Policy Measures

- Government eases FDI norms in 15 major sectors.
- Townships, shopping complexes & business centres – all allow up to 100% FDI under the auto route. Conditions on minimum capitalization & floor area restrictions have now been removed for the construction development sector.
- India's defence sector now allows consolidated FDI up to 49% under the automatic route. FDI beyond 49% will now be considered by the Foreign Investment Promotion Board. Govt approval route will be required only when FDI results in a change of ownership pattern.
- Private sector banks now allow consolidated FDI up to 74%.
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- Composite caps on foreign investments introduced to bring uniformity and simplicity is brought across the sectors in FDI policy.
- 100% FDI allowed in White Label ATM Operations.

Suggestions and Conclusion

FDI in retail trading should be opened up to substantially improve productivity and distribution system through modern format retailing. FDI in retail is essential in our country. The study showed that the favorable impact is more than unfavorable impact. Allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP but overall economic development. The government should come out with a policy statement laying down the roadmap for modern retail and allowing foreign investment in retail. FDI in retail industry would help domestic players to capitalize MNC players supply chains and distribution network experiences. The grant of industry status will help companies borrow at lower costs, and will bestow them fiscal incentives etc. Furthermore, the country would be benefited from large foreign investment flows in recent years. These flows, especially FDI, need to be encouraged through an appropriate policy regime.

The expectation behind the opening of FDI in multi brand retail is gigantic. The decision on FDI should let go where the future of economy can't be forecasted so preciously. But the government should take precautionary measure framing the rules to ensure that any industry would not get affected. On the periodical manner, it should be checked how much it contributes towards the growth of the economy and impact in other industry.

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