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THE IMPLICATIONS OF FOREIGN DIRECT INVESTMENT ON RETAILING SECTOR

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ABSTRACT

This paper finds that FDI in retailing can be a powerful catalyst for development of organized retail and the fears being perceived by unorganized retail have no logical or historical base. Foreign direct investment (FDI) is always contributing in the positive growth toward the economy of one country due to the investment by another country or country's personnel's. Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. The last decade has witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Government of India gradually liberalized foreign investment in various sectors. Recently in 2011 India permitted 100% FDI in single brand retail and in 2012, 51% FDI permitted in multi brand.

KEYWORDS: *Foreign direct Investment (FDI), Indian economy, Economic growth, Implications*

INTRODUCTION

As per the International Monetary Fund (IMF), Foreign Direct Investment, commonly referred to as FDI is an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor. It is not 'portfolio foreign investment (supine investment in another country's securities like bonds and stocks)'. (http://business.mapsofindia.com/fdi-india/). 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

Foreign Direct Investment:

FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. Foreign Direct Investment is an investment made by a foreign company or entity into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. It is thus distinguished from foreign portfolio investment by a notion of direct control. Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facility, a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.[2] FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. *Stock* of FDI is the *net* (i.e., outward FDI minus inward FDI) cumulative FDI for any given period. Direct investment excludes investment through purchase of shares.[3] Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies. OECD has defined FDI as investment by a foreign investor in at least 10% or more of the voting stock or ordinary shares of the investee company.

Objectives:

The study is conducted by the researcher with the following objectives.

1. To analyse the implications of Foreign Direct Investment into Indian Retail Market
2. To discuss the Indian FDI policy
3. To study FDI root and scenario in Retail market in India

Research methodology:

The research depends on the secondary sources of data, like published articles, journals, books, Economic Times and Global Retail Development Index-2009.

Merits/demerits of foreign direct investment:

Merits:

Attracting foreign direct investment has become an integral part of the economic development strategies for India. FDI ensures a huge amount of domestic capital, production level, and employment opportunities in the developing countries, which is a major step towards the economic growth of the country. The effects of FDI are by and large transformative. The incorporation If a range of well-composed and relevant policies will boost up the profit ratio from Foreign Direct Investment higher.

Some of the biggest advantages of FDI enjoyed by India have been listed as under:

Economic growth- This is one of the major sectors, which is enormously benefited from foreign direct investment. A remarkable inflow of FDI in various industrial units in India has boosted the economic life of country.

Trade- Foreign Direct Investments have opened a wide spectrum of opportunities in the trading of goods and services in India both in terms of import and export production. Products of superior quality are manufactured by various industries in India due to greater amount of FDI inflows in the country.

Employment and skill levels- FDI have also ensured a number of employment opportunities by aiding the setting up of industrial units in various corners of India.

Technology diffusion and knowledge transfer- FDI apparently helps in the outsourcing of knowledge from India especially in the Information Technology sector. It helps in developing the know-how process in India in terms of enhancing the technological advancement in India.

Linkages and spillovers to domestic firms- Various foreign firms are now occupying a position in the Indian market through Joint Ventures and collaboration concerns. The maximum amount of the profits gained by the foreign firms through these joint ventures is spent on the Indian market.

Demerits:

One of the most indirect disadvantages of foreign direct investment is that the economically backward section of the host country is always inconvenienced when the stream of foreign direct investment is negatively affected.

The various disadvantages of foreign direct investment are understood where the host country has some sort of national secret – something that is not meant to be disclosed to the rest of the world. It has been observed that the defence of a country has faced risks as a result of the foreign direct investment in the country. At times it has been observed that certain foreign policies are adopted that are not appreciated by the workers of the recipient country. Foreign direct investment, at times, is also disadvantageous for the ones who are making the investment themselves. Foreign direct investment may entail high travel and communications expenses. The differences of language and culture that exist between the country of the investor and the host country could also pose problems in case of foreign direct investment.

Another major disadvantage of foreign direct investment is that there is a chance that a company may lose out on its ownership to an overseas company. This has often caused many companies to approach foreign direct investment with a certain amount of caution.

Types of Retailing in India:

The retail sector in India is organized into three categories, namely, 'single-brand', 'multi-brand' and 'cash and carry' retail.

(a) Single Brand- Single-brand retail comprises those retailers selling products "of a 'single brand' only, such that products should be sold under the same brand internationally and single-brand product retailing covers only products which are branded during manufacturing. FDI in 'Single brand' 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. No FDI is allowed in the multi-brand retail category. This includes all firms in organized retail that seek to stock and sell multiple brands, such as large international retailers like Wal-Mart and Carrefour. This is the sector that is most under dispute.

(c) Cash and Carry -The third segment, called 'cash and carry', 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 other wholesalers and related subordinated service providers". In India, FDI of 100 per cent is permitted in this segment. As per the 'cash and carry' structure commonly employed in India, the wholesale and retail entities are maintained as separate entities without any cross-shareholdings. The retail entity is owned and controlled by the Indian partner while the wholesale entity can be owned by the foreign partner up to 100 per cent. Wal-Mart, for example, has already established a successful presence in this category of wholesale operations by entering into a joint venture with Bharti Enterprises Ltd. of India. The new entity, Bharti-Wal-Mart, is in operation with stores opening around the country.

REVIEW OF LITERATURE:

FDI Culture

Many economists in the country have now realized the advantages of FDI to India. While the achievements of the Indian government are to be lauded, a willingness to attract FDI has resulted in what could be termed an "FDI Industry". While researching the economic reforms on FDI, it was discovered that there exists a plethora of boards, committees, and agencies that have been constituted to ease the flow of FDI.

The Initial research revealed four major bodies that have been constituted and could provide data pertaining to FDI

Narayana (2012) explained that one of the major concerns of planners and policy makers in India is attracting more and more Foreign Direct Investment. He analyzed the Foreign Direct Investment and its flows into India. He highlighted the basic constraints to investment in general and Foreign Direct Investment in particular.

Singh and Gupta (2013) discussed India's foreign capital policy since 1947. They concluded that the policy framework in India dealing with foreign private investment has changed from cautious welcome policy during 1948-66 to selective and restrictive policy during 1967 to 1979. In the decade of eighties, it was the policy having partial.

2004 Investment Commission:

• Headed by Ratan Tata, this commission seeks meetings and visits industrial groups and houses in India and large companies abroad in sectors where there was dire need for investment.

F.D.I - CURRENT SCENARIO:

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$ 500 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.

As of 2013, India's retailing industry was 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).

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, Reebok and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In June 2012, IKEA announced it had applied for permission to invest $1.9 billion in India and set up 25 retail stores. An analyst from Fitch Group stated that the 30 percent requirement was likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision was welcomed by economists[who?] and the markets, but caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition (the NDA and leftist parties).[which?] Some states will allow foreign supermarkets like Walmart, Tesco and Carrefour to open while other states will not.

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

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of Single Brand‘ products, subject to Press Note 3 (2006 Series).

c) FDI is not permitted in Multi Brand Retailing in India.

Forms of F.D.I incentives:

Foreign direct investment incentives may take the following forms.

- low corporate tax and individual income tax rates
- tax holidays
- other types of tax concessions
- preferential tariffs
- special economic zones
- EPZ – Export Processing Zones
- Bonded warehouses
- Maquiladoras
- investment financial subsidies

- soft loan or loan guarantees
- free land or land subsidies
- relocation & expatriation
- infrastructure subsidies
- R&D support
- derogation from regulations (usually for very large projects) Governmental Investment Promotion Agencies (IPAs) use various marketing strategies inspired by the private sector to try and attract inward FDI, including Diaspora marketing.
- by excluding the internal investment to get a profited downstream.

Growth after 2011:

Before 2011, India had prevented innovation and organized competition in its consumer retail industry. Several studies claim that the lack of infrastructure and competitive retail industry is a key cause of India's persistently high inflation. Furthermore, because of unorganized retail, in a nation where malnutrition remains a serious problem, food waste is rife. Well over 30% of food staples and perishable goods produced in India spoils because poor infrastructure and small retail outlets prevent hygienic storage and movement of the goods from the farmer to the consumer.,

One report estimates the 2011 Indian retail market as generating sales of about $470 billion a year, of which a minuscule $27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 25% share. A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers.,

The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020. In 2011, food accounted for 70% of Indian retail, but was under-represented by organized retail. A.T. Kearney estimates India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30% per year. These data correspond to retail prospects prior to November announcement of the retail reform.

CONCLUSION:

India being one of the major economies in the world has been enjoying huge and regular FDI from Investor of all around the world. Majority of this FDI in India has been made in the sectors of telecommunication, construction, computer software and hardware etc. At the time of independence India welcomed FDI cautiously but as it developed FDI has been liberalized gradually. FDI in retail sector has been permitted to enter in 2006 and gradually it liberalized and recently in 2011, 100% FDI in single brand retail permitted and in 2012, 51% FDI in multi brand retail permitted.

The concern about the competition to domestic companies, monopolization of market, loss of employment, procurement of produce from farmer at low price have been addressed properly through provisions in the scheme announced on FDI in retail . The international experience of FDI in retail and our own retail condition shows that doubts and rhetoric associated with the opposition of FDI need to be analyzed in proper perspective. Our regulatory system is strong enough and capable of handling most of the doubts associated with it. Government should facilitate the FDI so that we get maximum benefits of FDI that outweighs the losses we may suffer.

With the right vision, and the right policies, there is no reason to believe that a progressive and healthy retail ecosystem would not support various forms of retailers including the street vendors, independent small grocers and other retailers, medium size modern independent retail outlets, and corporatized retail behemoths. This dynamic and vibrant retail eco system can be developed through these policies which are going to beneficial to all stakeholders and will remove efficiency and make this industry more productive and competitive.

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