An Analysis of Foreign Direct Investment in Indian Retail Sector

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ABSTRACT

The Indian retail industry is one of the important 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 $870 billion by 2019. The last decade has seen the entry of a no. of organized retailers for opening stores in various modern formats in metros and other important cities. But still, the overall share of organized retailing in total retail business has remained low in the present scenario. The grocery retail is the largest contributor to the total grocery retailing in India. But, more than that, it is one of the major employment provider accounting for 10 % of the total employment in the country. This became a major area of concern for the Indian government while deciding over the opening of FDI gates for India.

This paper is organized into four main sections – FDI in Indian Retail, Prospects of FDI in Retailing, Advantages & Disadvantages of FDI and SWOT Analysis of FDI " in the Indian retail sector.

Keywords: Retailers, FDI, SWOT

INTRODUCTION

Foreign Direct Investment (FDI) is defined as investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new site. In short, FDI means capital inflows from abroad that is invested in or to enhance the production capacity of the economy. Foreign direct investments (FDI's) are mainly made in open economies that offer a skilled workforce and above-average growth prospects for the investor, as opposed to tightly regulated economies. Foreign direct investment (FDI) frequently includes more than just a capital investment. It may include provisions of management or technology as well. The main feature of foreign direct investment is that it establishes either effective control of or at least substantial influence over the decision-making of a foreign business. In the month of November 2011, India's Central Government announced retail reforms for Multi Brand Stores and Single Brand Stores. The announcement sparked intense activism. In the month of July 2011 the GOI has recommended FDI in retail sector as – (a) 51% in Multi - Brand Retail. (b) 100% in Single - Brand Retail.

Foreign Direct Investment (FDI) is a way of introducing external finance into an economy. FDI encourages international trade and transfer of knowledge, skills and technology. Foreign Investment constituted a small per cent of Gross fixed capital formation in 1993 in India, which went up to 4 per cent in 1997.The Tenth Plan approach postulates a GDP growth rate of 8 per cent during 2012- 2017.1 This implies an increase in FDI from the present levels of $3.9 billion in 2012-2017 to at least around US$ 8 billion a year during 2007-2012. India is fast emerging as a key destination for FDI. As per FDI Confidence Index prepared by A T Kearney, India ranks second in FDI attractiveness ranking, the first being China. The Developing countries, emerging countries and countries in transition increasingly see foreign direct investment (FDI) as a source of economic development, modernization and employment generation and have liberalized their FDI regimes to attract investment. The liberalization of Foreign Direct Investment (FDI) policy of the Indian Economy in 1991, that has made most business sectors in India eligible to receive foreign investment, has opened up front doors to many a multinational corporation. But the framework of the policy for the retail and the trading sector has continued to be highly restricted. Since ever, the multinational corporations have been eagerly waiting for the opening of the Indian retail sector for the FDI. Discussions pertaining to FDI in retail trade in India have always yielded a mixed bag of reactions. In the recent times, FDI in retailing has been the most heard buzzword in the Indian Corporate World. And finally the big news seems to have arrived. India is ready to open up the doors for FDI in retailing.

OBJECTIVES

The objective of our study is to analyze the current retail situation in India, along with it to likely challenges and threats of FDI in retail sector in India. The specific objectives are:

i. To study the FDI Policy of Government of India in Indian Retail.
ii. To study the scope of FDI in retailing.
iii. To identify the opportunities and threats for retailing sector.

METHODOLOGY

The whole paper is based on secondary data through the understandings from various research papers, reports, journals, books, newspapers, conference proceedings, Government reports and websites.

FDI in Indian Retail

Meaning of Retail

Retailing includes all those business activities which are involved with the sale of goods and services to the final consumer for personal, family or household use. Retailing is the final stage in a channel of distribution. It is the interface between the producer and the individual consumer buying for personal consumption. This do not include direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. A retailer is a person who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

FOREIGN DIRECT INVESTMENT IN INDIA'S SINGLE AND MULTIBRAND RETAIL

a) FDI in "single-brand" retail Up to 100 percent FDI is permissible in single-brand retail conditions stipulate that: (i) Only single-brand products are sold (ii) Products are sold under the same brand internationally (iii) Single-brand products include only those identified during manufacturing (iv) Any additional product categories to be sold under single-brand retail must first receive additional government approval FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand.
b) FDI in "multi-brand" retail 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. In July 2010, the Department of Industrial Policy and Promotion (DIPP) and the Ministry of Commerce circulated a discussion paper on allowing FDI in multibrand retail. The Committee of Secretaries, led by Cabinet Secretary Ajit Seth, recommended opening the retail sector for FDI with a 51 percent cap on FDI, minimum investment of US$100 million and a mandatory 50 percent capital reinvestment into backend operations

There appears to be a broad consensus within the Committee of Secretaries that a 51 percent cap on FDI in multi brand retail is acceptable. Meanwhile the Department of Consumer Affairs has supported the case for a 49 percent cap and the Small and Medium Enterprises Ministry has said the government should limit FDI in multi-brand retail to 18 percent. In terms of location, the proposed scheme allows investment in towns with populations of at least 10 lakh (1 million), while retailers with large space requirements may also be allowed to open shop within a 10 kilometer radius of such cities.

Evolution of retail in India

It is essential to highlights on the evolution of the retail sector in India. Earlier, weekly markets, village fairs and melas evolved as a source of entertainment which was within the rural reach. Later on, these were transformed Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. After that we see government supported PDS outlets, khadi stores, cooperatives etc. Finally, with the liberalization a new large middle class with spending power had emerged and shaped this sector a new format. The vast middle class market demanded value for money products. This has fuelled the growth of supermarkets, departmental stores and shopping malls.

Division of Indian Retail Industry

Retailing in India is divided into organized and unorganized retailing.

a) **Organized retailing** refers to trade activities undertaken by the licensed retailers i.e., those who are registered for sales tax, income tax etc. These include the corporate backed hypermarket, retail chains and also the privately owned large retail business.

b) **Unorganized retailing**, on the other hand, refers to traditional format of low cost retailing, for example the grocery shops, owner manned general stores, cigarette shops, convenience store, pavement vendor etc. It is the most prolific and visible form of retailing in India while the organized retailing constitutes only a very small percentage (3-4%). The unorganized sector is thus not a profit oriented vocation but a mere source of livelihood. Naturally, the capital investment is very low and the infrastructure is rudimentary. It is estimated that less than 4% of Indian retailers have shops larger than 500 square feet.

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.

FDI POLCY IN INDIAN SCENARIO

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.

a) Foreign Direct Investment in Multi Brand Retail Trading (MBRT) was prohibited
b) Foreign Direct Investment (FDI) up to 51%, in the Single Brand Retail Trading (SBRT) sector was permitted, under the Government/ Foreign Investment Promotion Board (FIPB) route, subject to the following conditions:
   i. Products to be sold should be of a ‘Single Brand’ only.
   ii. Products should be sold under the same brand internationally.
   iii. It would cover only products which are branded during manufacturing.
   iv. The foreign investor should be the owner of the brand.
   v. Government allowed 100% FDI in single brand retail with a rider that foreign brands would mandatorily have to source 30% of their requirements from Small and Medium Enterprises.

PROSPECTS OF FDI IN RETAIL SECTOR

a) Moving away from intermediaries only benefits

Today’s intermediaries amid producers and customers add no value to the products, adding hugely to final costs instead. By the time products filter through various intermediaries and into the marketplace, they lose freshness and quality, and often go to waste. However, intermediaries garner huge profits by distributing these losses between producers and customers by buying products at low prices from producers, but selling at extremely marked-up prices to consumers. In an unbalanced system that incorporates multiple intermediaries simply for logistics, only intermediaries benefit.

With organized retail, every intermediate step –procurement, processing, transport and delivery –adds value to the product. This happens because it uses international best practices and modern technology, ensuring maximum efficiency and minimum waste. Organized retail enables on-site processing, scientific handling and quick transport through cold storage chains to the final consumer. Once modern retailers introduce an organized model, other vendors, including small retailers, would mechanically copy this model to improve efficiencies, boost margins and stay in business. Organized retail would thereby bring more stability to prices, unlike the present system where hoarding and artificial shortages by profiteering intermediaries push up product prices.

b) Job creation

Despite predictions from some analysts that millions of jobs would be lost due to FDI in retail, it may in fact be the other way around. With the entry of branded retailers, the market will increase, creating additional employment in retail and other tertiary sectors. Given their professional approach, organized retailers will allot some quantity of resources towards the training and development of the resources they employ.

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 organised retailing practices on its unorganised counterpart.

ICRIER submitted the report during 2008. The study hinted at the advantages that the growth of organised 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.

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.

SWOT ANALYSIS OF FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR.

SWOT analysis is one of the primary steps in strategic management. It contains an analysis of strengths, weaknesses, opportunities and threats. The strength and weaknesses of the FDI shows the present.

(a) Strengths of FDI Policy

i. Fast growing economy.

ii. Young and dynamic manpower. A large young working population with median age of 25 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the service sector are going to be the key growth drivers of the organized retail sector in India

iii. Highest shop density in the world. Customers will have access to greater variety of international quality branded goods.
iv. Employment opportunities both direct and indirect have been increased. Farmers get better prices for their products through improvement of value added food chain.
v. Increase in disposal income and customer aspirations are important factors; increase too in expenditure for luxury items.
vi. FDI has also contributed to large scale investments in the real estate sector.
vii. Large domestic market with an increasing middle class and potential customers with purchasing power.
viii. The consumers get a better product at cheaper price, so consumers get value for their money.
ix. High growth rate in retail & wholesale trade.
x. Presence of big industry houses which can absorb losses.

(b) Weaknesses of FDI Policy

i. Low capital investment in retail sector.
ii. Will mainly cater to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns.
iii. Retail chain are yet to settled down with proper merchandise mix for the mall outlets.
iv. Small size outlets are also one of the weaknesses in the Indian retailing, 96% of the outlets are lesser than 500 sq. ft.
v. Lack of trained & educated force.
vi. Lack of competition.
vii. More prices as compared to specialized shops.
viii. The volume of sales in Indian retailing is also very low.

(c) Opportunities of FDI Policy

i. Global retail giant take India as key market. It's rated fifth most attractive retail market. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyle, increase in income and favourable demographic outline. Food and apparel retailing are key drivers of growth.
ii. FDI can become one of the largest industries in terms of numbers of employees and establishments.
iii. Rural retailing is still unexploited Indian market. It will enhance the financial condition of farmers.
iv. Improve the competition.
v. Result in increasing retailer’s efficiency.
vi. Foreign capital inflows.

vii. Big market along with better technology and branding with latest managerial skills.
viii. Quality improvement with cost reduction.
ix. Increasing the export capacity.

(d) Threats of FDI Policy.

i. Threat to the survival of small retailers like ‘pan tapri’, ‘local kirana’.
ii. Jobs in the manufacturing sector will be lost.
iii. Started roadside bargains.
iv. Work will be done by Indians and profits will go to foreigners.
v. One of the greatest barriers to the growth of modern retail formats are the supply chain management issues. For perishables, the system is complex. Government regulations, lack of adequate infrastructure and inadequate investment are the bottlenecks for retail companies.
vi. Difficult to target all segments of society.
vii. Emerge of hyper and super markets trying to provide customer with value, variety and volume.
viii. Heavy initial investment is required to break even with other companies and compete with them.
ix. Labour rules and regulation are also not followed in the organized retails.
x. Lack of uniform tax system for organized retailing is also one of the obstacles.
xi. Problem of car parking in urban areas is serious concern.
xii. Sector is unable to employ retail staff on contract basis.
xiii. The unorganized sector has dominance over the organized sector because of low investment needs.

Investments/ Developments -

Some of the significant FDI announcements made recently are as follows:

- In the second quarter of Financial Year 2020 - 21, total FDI inflows amounted to US$ 28.10 billion, of which equity inflows were US$ 23.44 billion. This boosted FDI equity inflows to US$ 30 billion between April 2020 and September 2020, a 15% increase on y-o-y basis compared with the same period in Financial Year 2020 - 21.
- In November 2020, Rs. 2,480 crore (US$ 337.53 million) foreign direct investment (FDI) in ATC Telecom Infra Pvt Ltd. was approved by the Union Cabinet.
- In November 2020, Amazon Web Services (AWS) announced to invest US$ 2.77 billion (Rs. 20,761 crore) in Telangana to set up multiple data centres; this is the largest FDI in the history of the state.

- Since April 2020, the government has received over 120 foreign direct investment (FDI) proposals worth ~Rs. 12,000 crore (US$ 1.63 billion) from China. Between April 2000 and September 2020, India received US$ 2.43 billion FDI from China.
- According to data provided by Reserve Bank of India (RBI), India's Outward Foreign Direct Investment (OFDI) in equity, loan and guaranteed issue stood at ~US$ 1.06 billion in November 2020 vs. US$ 3.51 billion in October 2020.

Government Initiatives –

- In December 2020, the government of Uttar Pradesh decided to provide Samsung Display Noida Private Limited with special incentives to set up a mobile and IT display product manufacturing unit. Under the Central Government's scheme for promotion of manufacturing electronic components and semiconductors (SPECS), Samsung will also receive a financial incentive of Rs. 460 crore (US$ 62.61 million). This project will develop a global export hub in Uttar Pradesh and will help the state attract more foreign direct investments (FDI).
- In December 2020, changes in the guidelines for the provision of Direct-to-Home (DTH) services have been approved by the Union Cabinet, enabling 100% FDI in the DTH broadcasting services market.
- In October 2020, 16 qualifying applicants under the PLI scheme were approved by the Ministry of Electronics and Information Technology (MeitY). For five years, subsequent to the base year (FY2019-20), the PLI for large-scale electronics production will extend an incentive of 4-6% on the incremental sales of products manufactured in India to the qualifying firms. Samsung, Foxconn, Rising Star, Wistron and Pegatron are the foreign mobile phone manufacturing companies that have been approved in the mobile phone market.
- Under Magnetic Maharashtra 2.0, the state implemented core investment promotion recovery initiatives such as Plug & Play Infrastructure, Maha Jobs, Maha Parwana, Investor First Programme, Capacity Augmentation of MIDC Land Banks and Dedicated Country Desks. This accelerated the economic growth and improved consumer trust, placing the state as one of the country's most preferred investment destinations, flourishing the state's industrial sector.

CONCLUSION

FDI in retailing is going to attract retail players by Indian Government, but India should welcome them with a talented pool of human resources by promoting institution imparting knowledge in retailing. Protection must be given to Indian small and medium retailers as retailing is their source of livelihood. The Government must properly discuss the pros and cons of allowing 51% FDI and have a law in place to control unfair competition. Then the FDI Bill will be given definitely a positive impact on the retail industry and the country by attracting more foreign investment.

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 in the back-end chain. Part of inflation is due to the fact that produces do not reach the end-consumer. Many of the foreign brands would come to India if FDI If multi brand retail is permitted which can be a blessing in disguise for the economy. The initiatives of the government will boost up the proportion of FDI in various sectors and the current year shows the progressive report of the Foreign Direct Investment in India.

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