FDIs IN INDIAN RETAIL SECTOR: GOVERNMENT POLICIES PROS AND CONS - AN ANALYSIS

Dr. Bipin Bhogekar

Assistant Professor
Sau. Leena Kishor Mamidwar Institute of Management Studies & Research,
Kosara-Chandrapur.

Abstract
A corporation from another country makes a direct investment in the output of another country by either purchasing a company there or by expanding the operations of an already established company there. It is cross-border investment when foreign assets, with the exception of stock investments, are injected into domestic market organisations. A persistent managerial stake (10 percent or more of voting stock) in an organisation operating in a different economy from the investor is referred to as foreign direct investment (FDI). FDI refers to the net inflows of investment (inflow minus outflow). Participation in management, joint ventures, the transfer of technology, and experience are frequently involved. In the world of commerce, foreign direct investment (FDI) has a remarkable and expanding impact. It can give a business access to new markets and marketing channels, more affordable production facilities, new technologies, goods, and funding. Impact of FDI on India's Retail Sector: Private capital from abroad is invested in goods and services. Typically, the foreign firm investing the foreign currency controls the domestic company in which the investments are made. Thus, it is advantageous to the home country. The privatisation, liberalisation, trade, and investment policies of the GOI gave FDI a fresh viewpoint. Today, there is a lot of discussion concerning foreign direct investment in the retail industry (single and multi-brand). It has become a topic of conversation among politicians, economists, corporate leaders, retail workers, and most importantly, the rank and file. The government policies in India's retail sector that are relevant to FDI are interpreted in this study. The article offers a comprehensive analysis of the current state of FDI retailing in India. It looks at the condition of FDI retailing (single brand and multi brand) in India and assesses the benefits and costs of FDI flow to the Indian economy.

Keywords: FDI, Retailing, Government Policies, FDI-Pro, FDI-Cons

INTRODUCTION

In 2018, The High Court of Delhi defined the term ‘retail’ as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale).Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. The retail industry is mainly divided into:1) Organised and 2) Unorganised Retailing. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India’s GDP.

FDI IN RETAIL SECTOR FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law. Government of India has allowed FDI in retail of specific brand of products. Following this, foreign companies in certain categories can sell products through their own retail shops in the country. India's retail industry is estimated to be worth approximately US$411.28 billion and is still growing, expected to reach US$804.06 billion in 2019.

FDI in Single Brand Retail

The Government has not categorically defined the meaning of "Single Brand" anywhere neither in any of its circulars nor any notifications. In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval that (a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed), (b) products should be sold under the same brand internationally, (c) single-brand product retail would only cover products which are branded during manufacturing and (d) any addition to product categories to be sold under "single-brand" would require fresh approval from the government. While the phrase 'single brand' has not been defined, it implies that foreign companies would be allowed to sell goods sold 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, would not be allowed.

There is ambiguity in the interpretation of the term 'single brand'. The existing policy does not clearly codify whether retailing of goods with sub-brands bunched under a major parent brand can be considered as single-brand retailing and, accordingly, eligible for 51 per cent FDI. Additionally, the question on whether co-branded goods (specifically branded as such at the time of manufacturing) would qualify as single brand retail trading remains unanswered.

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 sell multiple brands under one roof.

In July 2015, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper] on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers.

LIBARALIZING POLICIES FOR FDIs in INDIAN RETAILING:

As part of the economic liberalization process set in place by the Industrial Policy of **1999**, the Indian government has opened the retail sector to FDI slowly through a series of steps. 2005**:** World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect. 2007**:** FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route. **2013:** FDI in cash and carry (wholesale) brought under the automatic route. Up to 51 percent investment in a single-brand retail outlet permitted.

It will be prudent to look into Press Note 4 of 2016 issued by DIPP and consolidated FDI Policy issued in October 2019, 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.

2019: 100% FDI in single brand retail permitted. The Indian government removed the 51 percent cap on FDI into single-brand retail outlets in December 2019, and opened the market fully to foreign investors by permitting 100 percent foreign investment in this area. Government has also made some, albeit limited, progress in allowing multi-brand retailing, which has so far been prohibited in India. At present, this is restricted to 49 percent foreign equity participation.

Until 2017, foreign direct investment (FDI) was not allowed in multi-brand retail, forbidding foreign companies from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51 per cent ownership. **In January 2017**, 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 2017**, India allowed 51 per cent FDI in multi-brand retail.

"Riding on huge expectations from the incoming Modi government, global investors are gung ho on the Indian economy which is expected to witness over 100 per cent increase in foreign investment inflows – both FDI and FIIs – to above US$ 60 billion in the current financial year, as against US$ 29 billion **during 2017-18,**" according to the study.

Based on the recommendations of Foreign Investment Promotion Board (FIPB) in its meeting held on **February 17, 2019**, the Government has approved ten proposals of FDI amounting to Rs. 2,857.83 crore (US$ 452.72 million) approximately.

PROs OF FDIs IN INDIAN RETAIL INDUSTRY

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. As a result of FDI, companies will be able to bring in technology and skills for other countries and this will help in infrastructural development of India. After FDI in retail, it is possible to set up a properly organised 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 2019-20, the Indian economy could have grown by 13 per cent, the unoganised sector could have seen a 10 per cent growth and the organised sector could have increased by 45 per cent.

CONs of FDIs in INDIAN RETAIL INDUSTRY:

Experts say that while analysing 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.

As per the Committee's report almost 8 percent of India's workforce is employed in the unorganised retail sector. This comes up to roughly 40 million people. It has been stated that FDI in retail will generate 2 million jobs. However, the Committee had stated that it is not a proper indication as it does not take into account the number of people who already work in the retail sector. ICRIER had executed a second study on the effects of FDI in retail during 2011 and in that it had stated that FDI will bring about a fantastic shopping experience for the consumers. It had actually interviewed 300 people from the middle and high income groups. Thus, in effect, the efforts of the Parliament Committee were overlooked for a private organisation.

The Parliamentary Committee report on FDI was never discussed in Parliament itself, and as per experts, it is not a good sign as far as the democratic system in India is concerned. Leading economic experts from outside India have also posed the question at the labour practices of Organisations such as Wal-Mart. Most of these are not exactly healthy for workers. This has also led them to ask if such processes were really required in India.

It is being said that the lobby favouring FDI in retail in India has invested at least Rs 52 crore and experts opine this could have had a major say in the way things turned out.

CONCLUSION:

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. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but per contra should be significantly encouraged. Allowing FDI in retail trade, in India 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. Further, India's local enterprises will potentially receive an up-gradation with the import of advanced technological and logistics management expertise from the foreign entities. FDI in single brand retail and multi-brand retail have been in news receiving both bouquets and brickbats from across the country and it has once again hogged the lime-light when Indian government issued a clarification by stating that foreign investors who invest 51% stake in multi-brand retail needs to put 50% of that investment in creating ‘a new backend infrastructure’. The government has an opportunity to utilize the liberalization for achieving certain of its own targets.

FDI would lead to a more comprehensive integration of India into the worldwide market and, as such, it is imperative for the government to promote this sector for the overall economic development and social welfare of the country. If done in the right manner, it can prove to be a boon and not a bane.

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