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FDI in Indian Retail Sector: An Analysis

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Introduction

India is a land of retail democracy in which thousands of weekly Hafts, Bazaars are located our country by people's owned self organizational capacities and interests. India has11shops per1000people and number around15millions, giving India the highest retail shop density in the world. Despite of that, India had severe scarcity of capital resources since independence. That welcomes foreign investment in a restricted manner, since these five year plan period since1956-1961greater emphases was given to Industrialization which led to development of the local industries. To protect the domestic industry from foreign competition, Government adopted various restrictive measures towards FDI inthelate1960s. Inthe1980s, as a part of the industrial policy resolutions, theme assure towards FDI was liberalized in a limited manner. "The year 1991was marked with severe balance of payments deficits. Foreign exchange reserves went down to US$1.1billion in June1991less than sufficient for two weeks of import requirements" .India was on the verge of default and it got financial assistance from IMF on certain terms and conditions. This involved "Structural Adjustment Program (SAP)"by India. These "SAP" apart from bringing about changes in major change in FDI policy of India. In these circumstances, it was not possible for India to continue with its past policy of restrictions and it became essential to liberalize the economy. Liberalization involves free operations of international market forces. This led to removal of most of the restrictions in FDI.The Indian retail market variously estimated at$400to450billion,is dominated by the highly unorganized sector As a result, India is now among the top five most attractive economies for FDI.

Statement of the problem

Retail is the second largest sector next to agriculture in terms of employment generation. It employs more than 40million people as on July2012 and it contributes more than 3.3 percent to GDP of India in last few years .There is great potential of growth in this sector butitis notable to exploit its potential to the fullest due to infrastructural constraints and some policy issue. Retail sector is in grim, need of investment to overcome this constraint. As of now FDI in multiband retailing is completely prohibited and investment by local investor has not been able to bridge the gap between the need and actual investment currently. India's supply chains require substantial backend investment in order to build retail businesses.

This has greater implication for agriculture sector as a substantial percentage of agricultural output is lost, due to lack of proper infrastructure like cold chain storage and warehousing, food processing machinery and equipments etc.There tailback-end in India needs huge investments, therefore the Government could open its door to foreign investors in multi brand retail sector.

Research Methodology

The study is exploratory and qualitative in nature. An extensive use of secondary data is made. Further the secondary data pertaining to the study is originated from various published sources, websites, Department of Industrial Policy & Promotion (DIPP) reports and number of leading journals. In order to compare the FDI inflow over the period under study, the percentage method is used.

Objective of the Study

The following are the main objectives of the study-

1. To study the need of opening up of FDI in multi brand retail.
2. To review the challenges faced by FDI in multiband retail sector recently.
3. To study the future prospects towards the phase of FDI initiated at multi brand Retail Sector.
4. Explore the roles of FDI in multibrand retail sector and its positive impact on Indian economy.
5. To offer suggestions in FDI policy about FDI inflow in multibrand retail sector.

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Scope of the Study

The study will highlight the current position of the FDI inflows in India. It is concerned with FDI in multibrand retail sector and discusses the relevant reforms to formulate, create and force regulatory and legal reforms in this sector and achieve its aim of economic growth and quality services through the investor's dynamic relationship to attract India as their FDI destination.

The study is confined to a period from1991to2012.This study reviews existing studies conducted by the government and other entities on this topic examines, it's likely impact on farmers,employment,consumers and retailers.

Foreign Direct Investment: Present Scenario

Presently FDI is allowed in India in almost all the sectors; except a few which are of strategic concerns. It is prohibited in activities not opened to private sector investment including Atomic Energy and Railway Transport,Multi-Brand Retail Trading, Lottery Business including Government and private lottery ,online lottery, Real Estate Business or Construction of Farm Houses ,Gambling and Betting including casinos, Manufacturing of Cigars,cheroots,cigarillos and cigarettes, or of tobacco substitutes,Businessofchitfund,NidhicompanyandTradinginTransferableDevelopmentRights(TDRs)In all the other sectors it is permitted with different equity limits ranging from26percent to100percent subject to certain terms and conditions whatsoever are applicable.FDI is permitted in India through two routes; the Automatic Route and the Government Route. Under the automatic route, then on-resident investor or the Indian company does not require any approval from the RBI or Government of India for the investment. Under the Government Route, prior approval of the Government of India through Foreign Investment Promotion Board (FIPB) is required. Proposals for foreign investment under Government route as laid down in the FDI policy from time to time are considered by the Foreign Investment Promotion Board (FIPB) in Department of Economic Affairs(DEA),Ministry of Finance(DIPP

Foreign Direct Investment in Retailing

FDI in multiband retail sector is completely prohibited in India. In 1997 India allowed FDI with100 percent equity in Cash and Carry wholesale trading through government approval route.Since2006 it is permitted under automatic route up to 51 percent in single brand retail.FDI inflows in single brand product trading form a very small percentage of the total FDI inflows in India, but it is seen as a driver to attract investments in production and marketing ,improving the availability of such good s for the consumers ,encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices. From August, 1991 to July, 2011 India had received US $227894million total FDI inflows (UNCTAD).

FDI in Multi Brand Retail Sector: Pros and Cons

The Union government, after the recent petrol price increase, may be in a mood for reforms. Opening multi-brand for foreign direct investment (FDI) seems to be the next logical step. Thinking about international retailers, the US-based retailer Wal-Mart often springs to mind. Wal-Mart is symbolic of foreign retailers so this is not surprising. It may, however, be useful to take Wal-Mart as a case in point and examine the implications of the possible "opening" of retail for Wal-Mart and other foreign retailers. For India, there is much to gain and little to lose.

Wal-Mart already has a presence in India, albeit as a joint venture with Bharti .Majority ownership is the thorn in the flesh for those opposed to foreign retail. Responding to concerns about its impact on small-scale industry, Union minister for micro, small and medium enterprises. The small sector is unlikely to remain unaffected if big retail chains enter the Indian market. But from the perspective of the Indian economy the gains to, or protection for, any particular group should be viewed in the context of losses or costs to the country as a whole. To the extent global retailers improve, the cost of protecting the neighborhood *kiranas,* or the small grocery stores, means that consumers —a far greater proportion of Indians —will be short-changed. Moreover, this concern for small-scale industry assumes that large retailers will necessarily drive away the traditional mom-and-pop stores. Evidence suggests otherwise. A 2008 study published in *Economic Inquiry* examines, in a spatial context, the effect of Wal-Mart on self-employed and small-scale industry in the US and finds no evidence of negative effects. This is not surprising. Even though small competing businesses in the geographical

vicinity will be affected, on aggregate, several small businesses that are not competing but are potential consumers benefit. And as these small businesses expand, additional employment will be generated. Of course, the retailers themselves generate employment as well.

Several features of the Indian retail market undermine the ability of international retailers to attract customers from local retailers. *Kiranas* can offer credit to local clients who may—often due to income constraints—trade-off bulk purchases with frequent shopping. Local groceries can also provide home delivery for orders for very few or inexpensive items—a feature unlikely to be matched by the global retail chains. Success for global retailers is by no means guaranteed. The success of any enterprise will necessarily imply an ability to provide goods and services more efficiently, be it the small grocery stores or large retailers.

Another concern is the degree of buyer concentration in the hands of global retailers, especially with respect to the food supply chain. Given competitive forces, it is far more likely that suppliers of food products will experience substantial gains.

On balance, benefits of further opening the retail market far outweigh the costs (perceived or otherwise). And the notion that individual entities as producers and consumers, when faced with choices that affect their well-being—be it about where to shop at or decisions regarding what goods to produce in response to changing economic milieu—will make decisions that are to their detriment seems both naive and paternalistic. The opportunity cost of shutting the door to FDI in the retail sector would be to say no to the gains that can be had. Surely India is wiser than that.

Government policy for FDI

Foreign direct investment (FDI) has become a key battleground for emerging markets and some developed countries. Government-level policies are needed to enable FDI inflows and maximize their returns for both investors and recipient countries. Foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key battleground in the emerging markets. Developed countries also seek to bring in more FDI and use various policies and incentives to attract overseas investors, particularly for capital-intensive industries and advanced technology. The primary aim of these policies is to create a friendly business environment where foreign investors feel comfortable with the legal and financial framework of the country, and have the potential to reap profits from economically viable businesses. The prospect of new growth opportunities and outsized profits encourages large capital inflows across a range of industry and opportunity types.

Investors tend to look for predictable environments where they understand how decision-making processes work. Governments therefore are incentivized to build up a track record of rational decision making. The business environment often requires work to remove onerous regulations, reduce corruption and encourage transparency. Governments often also seek to improve their domestic infrastructure to meet the operational needs of investors.

Providing fiscal incentives for attracting FDI is a subject of controversy – analysts have argued both in favor and against the idea. A general consensus is developing in favor of certain incentives which have been proven historically to grow profits and therefore foreign investments.

When policies are effective, significant FDI investments are injected into countries that help the domestic economy to grow. Different countries and regions offer various kinds of fiscal incentives, with a related variance in the level of FDI investments attracted.

Governments are increasingly setting up promotional agencies to foster foreign direct investment. These agencies promote FDI-friendly policies, identify prospective sectors and investors, and structure specific deals and incentives for major foreign investors such as multi-national corporations (MNCs).

Global trade associations also play a major role in some of these investment activities. These associations are tasked with creating a positive environment for foreign direct investors and ensuring that both investors and recipient countries enjoy a favorable environment.

The formation of human capital is vital for the continued growth of FDI inflows. To enable the most beneficial, technology and IP-driven FDI, highly skilled personnel are necessary. Governments must therefore enact policies to provide training and skills upgrading to develop their workforce and meet the employment needs of foreign investors.

Conclusion

As Indian democracy dealing with people mind and view as it has been reflected through executives implementing policies in government and With much discussed pros and cons of FDI in retail, India has a pioneer of many more economic reforms in country will not wait ahead of the era of liberalization and globalization. With huge changes initiated into world economy by developed countries. It's time for India to adapt and implement changes in the retail sectors by allowing FDI in retail. Government decision to allowing FDI in retail should be well come move for the growth of economy of India and World. In the economy reforms of the country as is it second largest sector providing employment to the skilled and unskilled people from lower strata of un organized sector, to make start of development of nation. It is a best time to initiate and adopt and utilize changes for economical growth and maintain financial deficit of country. Government should form the rules and regulation to control and maintain working of retail sector, so as to there should not be ill effect of FDI in retail in Indian Economy.

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