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Challenges and Opportunities of Foreign Direct Investment in Retail Sector In India

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Abstract:

India being a signatory to World Trade Organization's General Agreement on Trade in services, which include wholesale and retaining services, had to open up the retail trade sector to foreign investment. Foreign Direct Investment (FDI) in retail industry is called as foreign companies in certain categories can sell products through their own retail shop in the country. In the modern era, ", Liberalization ,Privatization and Globalization " are the buzz words. Retailing is the transaction between the seller and consumer for personal consumption. Retailing is the one of five largest sector in global economy is growing through a transaction not only in India but around the World. Therefore, Indian retail industry is gradually in changing to way towards becoming the next boom industry. The retail sector of India contributes of about 15% to the national GDP and employs a huge workforce of it, after the agriculture sector. In 2011 in India permitted 100% FDI in single brand retail and in 2012, 51% FDI permitted in multiband. The retail sector of India handles about $250 billion every year, and is expected by veteran economics to reach to $ 660 billion by the year 2015. This Paper initiates to throw light on the issues challenges, opportunities and benefits that would affects to the economy of India due to FDI in retail. So FDI must be promoted but must be kept under control as it can affect the economy of the country.

***Keywords** - FDI in Retail, GDP, LPG, Retail Sector, Liberalization, Privatization and Globalization.*

Introduction:

Foreign Direct Investment (FDI) is direct investment by a company in production located in another company either by baying company in the country or by expanding operation of an existing business in the country. Generally FDI is defined as a form of long term international capital movement made for the purpose of productive activity and accomplished by the intention of managerial control. FDI plays an important role in the development process of the country. Developing countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development.

In India the vast middle class and it almost untapped retail industries are the key attractive for global retail giants wanting to enter into mowers markets which in turn will help the India. So retail industry to grow faster. Retailing means the transaction between the seller and customer for personal consumption. It does not include transaction between manufacture government purchase, corporate purchase and other wholesale purchase. In short, a retailer stocks the goods from the manufacturer and then sells the same to the end user for a managerial profit. Indian retail market is the world's largest retail market, 1.5 Crore retailers are engaged in retailing. In this way the retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. In short, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

Research Methodology:

The researcher have adopted analytical, descriptive and comparative methodology for this study. The entire study is based on secondary source of data such as, reference books, journals, souvenir, newspapers and websites.

Objectives:

1. To study the structure of retail industry in India.
2. To evaluate the present FDI policy for retail sector in India.
3. To know the impact of FDI on India retail sector.
4. To analyze the challenges and opportunities to the country due to entry of FDI in Indian retail sector.

Present FDI Policy for Retail Sector in India:

The Ministry of Commerce and Industry Government of India is the nodal agency for motoring arid reviewing the FDI Policy on continued basis and changes in sectoral policy or sectoral equity up. The foreign investors are free to invest in India, except few sectors or activities, where prior approval from the RBI or Foreign Investment Promotion Board(FIPB) would be required.

The Following are the limits for FDI in various sectors:

1) 26% FDI is permitted in:

-Defence (In July 2013 there has been no change in FDI limit but higher investment may be considered in state of the art technology production by CCS)

-Tree Plantation (up to 49% through automatic route, 49-100% through FIPB route)

-Newspaper and media.

-Courier Services.

2) 49% FDI is permitted in:

-Petroleum Refining and Power Exchanges (49% allowed under automatic route).

-Insurance (in July 2013 it was rated to 49% from 20% subject to Parliament approval).

-Banking, Cable network, DTH, infrastructure investment, Telecom.

3) 51% FDI is permitted in:

-Multi-Brand retail (since Sep. 2012) petro-pipelines.

4) 74% FDI is permitted in:

-Petro marketing

-Credit information companies

-Atomic minerals

5) 100% FDI is permitted in:

-Single Brand Retail (100% FDI allowed in single brand retail).

-FDI up to 100% for cash and carry wholesale trading and expert trading allowed under the automatic route.

Structure of Indian Retail:

According to the High Court, Delhi, Retail as a sale for final consumption in contrast to a sale for further sale or processing. In this, way retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. The retail industry is mainly divided into the two types, such as:

(A) Organized Retailing: It refers to trading activities under taken by licensed retailers, that is those who are registered for sales fax, income tax etc. these includes the corporate backed hyper markets and retail chains and also the privately owned large retail business.

(B) Unorganized Retailing: On the other hands, refers to the traditional formats of low-cost retailing e.g. the local kirana shops, owner manned general stores, paan/Beedi shops, convenience stores, hand cart and pavement vendors etc. So, the Indian retail sector is highly fragmental with 97 percent of its business being run by the unorganized retailers. Therefore this sector is the largest source of employment after agriculture.

Retail Formats available in India

Mono Branded Retail Shop	Multi branded Retail Shop	Convergence Retail Outlets
Exclusive showrooms franchised manufacturer.	Focus on particular product categories & carry most of the brand available.	Usually have on display either owned or most of the convergence outlet by as well as consumer
		Products including Communication &IT goods.
Complete range available certificate on display	customer gets to have more choice as many brands are different brands on display.	One shop for customers, for a given brand, many product lines of productivity quality.

FDI in India:

India ushered in the biggest economic reforms in two decades on September 2012, allowing big foreign retailers like Walmart, Foreign broadcasters and foreign airlines to invest in the country among other reforms. According to the new reforms, 51 per cent FDI has been allowed in multi brand retail as part of a strategy to boost GDP growth. Indian retail market is expected to grow with the compounded annual growth rate of 12 percent by 2015: (Deloitte, 2011). The key caveats of the retail FDI policy are two-fold, firstly department stores being set up in cities with population of 10 lakh or more and cover an area of 10 kms around the urban aggregation of such cities and secondly minimum amount to be brought in as FDI shall be $100 (nearly Rs 500 crore) with 50 per cent to be invented in back end infrastructure.

Global Retailing Scenarios:

Retail sector has been playing a very important role in improving the productivity of the whole economy at large. The positive impact of organized retailing could be seen in USA, UK and Mexica and also China. Retailing sector is also known as the largest employment generators sectors in the world. It is also important to understand that, China, Brazil, Argentina, Chile, Malaysia, Russia, Indonesia, Singapore and Thailand have allowed 100% FDI in multi brand retail. So the quality of services they are providing has increased. For the example, Indonesia where still 90 percent of the business in the hand of small traders.

Opportunities of FDI in Retail in India:

- Inflow of investment and funds retail sector.
- Improvement of supply chain distribution, efficiencies, crumpled with capacity building and introduction of modern technology will help arrest wastage.
- Improvement in the quality of employment.
- Generating more employment opportunities. This helps the Indian human resource to find better quality jobs and to improve their standards of living and lifestyle.
- Increased local sourcing. That is increases competition within the local market and this brings higher efficiencies.

- FDI apparently helps in the out sourcing of knowledge from India especially in the information technology sector.
- FDI have opened a wide spectrum of opportunities in the trading of goods and services in India both in terms of import and export production.
- FDI creates the Integration into global economy that can gain access to a wider global and better platform in the world economy.
- Provide better value to the end consumers.
- Economic growth is one of the major sector which is enormously benefited from foreign direct investment. It is also remarkable inflow of FDI in various industrial units in India has boosted the economic life of the country.
- The biggest beneficiary of FDI in retail will be directly the farmers in India across the world the big retail giants buy the produce directly from the farmers, there by eliminating the middle men.
- India will earn a great amount of foreign exchange reserves from the investment which the mega multi brand retailers will do in India.
- The incoming of FDI will in strong competition amongst the retailers at the same time the elimination of middle men who are also the hoarders of stocks will help reducing the supply cost directly to consumers.
- A s per government approved policy it is compulsory for the mega retailers to have 30 percent of their sales from small retailers. The Punjab state is perfect example of this cash and carry model.

Challenges of FDI in Indian Retail:

- FDI in Indian retail would give rise to cut-throat competition rather than promoting incremental business.
- FDI in single brand retail well strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead a unfair competition and ultimately result to large scale exit of domestic retailers.
- Absence of proper regulatory provisions and guidelines would induce unfair trade practices like predatory pricing.
- Retail market in India has tremendous growth potential and it is second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front and retail but also the middle men who have been working in this industry will be directly thrown out of their jobs.
- The financial strength of foreign players would displace the unorganized players.
- Currently, indirect taxation structure is major complex part in India with verifying tax rates multiplicity of taxes and having multiple tax enforcement authorities.
- FDI in Indian retail sector promote cartels and will create monopoly.
- FDI in India increase in the real estate prices.
- The carry away items in varieties and in huge quantity and upgrading facilities.
- Retail selling requires skills in customer relations, simple mathematics an eye for merchandise and display and good memory for inventory information more over the skills of handling storing and packaging gas great impression on people minds.
- Indian road and railway are no where comparable to the international standards. Therefore the real time taken in execution of an order cycle is much more in Indian than its developed counter parts.
- Variety of risks not only the goods may be destroyed through fire and flood but also there is often the danger of theft deterioration or spoilage.

Future Outlook of FDI in India:

India is Asia's third largest retail market after China and Japan. Organized retailing has a very virgin space in India. It provides immense growth opportunity. Only 5% of the total sales are being done by organized retailer. Currently Indian Retail sector have sales of around $500 billion. Purchasing power of the Indian urban consumer is growing and branded merchandise in categories like Apparels, cosmetics, shoes, watches, beverages, food and even jewellery are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer.

In this way experts believe that India has fared really well over the past years and the similar macro economic trends would continue in 2013. Following the decisions taken in September 2012. The Government is also expected to further relax to FDI regime in sectors such as telecom and defence. India is anticipated to need about US $ 1 trillion from 1012-13 to 2016-17 to fund infrastructure development such as parts, airports and highways to boost growth.

Conclusion:

Considering the above information, it is concluded that, FDI in retail gets over soon and India should embrace new era of retailing And Govt. makes right kind of body to vigil these giants. It is also concluded that farmers will get another window of direct marketing and hence get better remuneration, but this would require affirmative action and creation of adequate safety nets as well as consumers would certainly gain from enhanced competition, better quality, assured weights and cash memos. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they are likely to be absorbed by increase in the food processing sector induced by organized retailing. Lastly it also concluded that FDI increases the level of employment opportunities, technological transformations and human resource mobility as well as leads healthy competition which boosts the economic life of the country.

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