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Foreign Direct Investments - Its impact on Various Sectors in India with special reference to Retail Sectors

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Abstract: **The economic development of a country involves utilization of its resources for increasing the productive capacity of the country. But in most of the developing countries such utilization of resources is rather difficult due to the scarcity of domestic capital and hence there is a need to attract the foreign capital.**

Foreign direct investment is one of the oldest and recognised channels for importing capital and technology from the developed countries into the developing countries like India. Foreign direct investments especially through multinational corporate has been a subject of animated discussion both in home and host countries. Foreign is a nebulous concept. In wider sense it denotes wide spectrum of international business arrangements, but in essence it entails flow of capital, technology, skills and enterprises from one country to another. Such flows, although a new phenomenon, have assumed significant in the wake of the needs and desires of contemporary developing countries to push up their growth rates. In India, like any other developing countries, the role of foreign direct investment is debated tremendously and effortlessly.

Today, when all efforts are being made to develop the economy, the government and the people expect the foreign firms to play a more positive role in the economic development of India. But the entry of the foreign firms in Indian market has forced the retail sectors to face the immediate challenges given by them. Therefore, in this context it is needed to analyse critically the impact of foreign direct investment on the retail sectors in India. The issues like

increase in prices, sustainable growth, technology upgradation and employment generation need to be addressed.

Keywords: **sustainability, employment, technology upgradation, economic development.**

DEFINITION OF RETAIL

In 2004, 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), a sale to the ultimate consumer.

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. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

DIVISION OF RETAIL INDUSTRY – ORGANISED AND UNORGANISED RETAILING

The retail industry is mainly divided into: - 1) Organised and 2) Unorganised Retailing

Organised retailing refers to trading activities undertaken by licensed retailers, i.e., those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, etc.

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 POLICY IN INDIA

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new

(Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required.

FDI POLICY WITH REGARD TO RETAILING IN INDIA

It will be prudent to look into Press Note 1 & 5 of 2012 issued by DIPP and consolidated FDI Policy effected from April, 2012 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

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

b) FDI upto 100 % under the Government Approval route (i.e. FIPB) for retail trade of 'Single Brand' products, subject to Press Note No. 1 (2012 Series).

c) FDI is permitted upto 51%under the Government route in Multi Brand Retailing in India subject to specific conditions referred to Press Note No. 5 (2012 Series).

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 100 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 1 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.

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 April 2012, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper suggest upto 51 percent limit on FDI in multi-brand retail. Thus, 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 in the same way as the ubiquitous 'kirana' store.

RATIONALE BEHIND ALLOWING FDI IN RETAIL SECTOR

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity.

The policy of single-brand retail was adopted to allow Indian consumers access to foreign brands. Since Indians spend a lot of money shopping abroad, this policy enables them to spend the same money on the same goods in India. FDI in single-brand retailing was permitted in 2006, up to 51 per cent of ownership. Between then and May 2010, a total of 94 proposals have been received. Of these, 57 proposals have been approved. An FDI inflow of US$196.46 million under the category of single brand retailing was received between April 2006 and September 2010, comprising 0.16 per cent of the total FDI inflows during the period. Retail stocks rose by as much as 5%. Shares of Pantaloon Retail (India) Ltd ended 4.84% up at Rs 441 on the Bombay Stock Exchange. Shares of Shopper's Stop Ltd rose 2.02% and Trent Ltd, 3.19%. The exchange's key index rose 173.04 points, or 0.99%, to 17,614.48. But this is very less as compared to what it would have been had FDI upto 100% been allowed in India for single brand.

The policy of allowing 100% FDI in single brand retail will benefit both the foreign retailer and the Indian partner – foreign players get local market knowledge, while Indian companies can access global best management practices, designs and technological knowhow. By totally opening this sector, the government will be able to reduce the pressure from its trading partners in bilateral/ multilateral negotiations and will demonstrate India's intentions in liberalising this sector in a phased manner.

Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country & its productive use, in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmer income & agricultural growth and assist in lowering consumer prices inflation.

Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards, technology upgradation 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. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

Lastly, it is to be noted that the Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to conclusion that investment of 'big' money (large corporates and FDI) in the retail sector would in the long run not harm interests of small, traditional, retailers.

In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a sustainability in the country's GDP and overall economic development, but would inter alia also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them.

Industrial organisations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centres Association of India (a 44 member association of Indian multi-brand retailers and shopping malls) favoured a phased approach toward liberalising FDI in multi-brand retailing, and most of them agreed with considering a cap of 49-51 per cent to start with. The Government of India has reviewed the extant policy on FDI and decided to permit upto 51% under the Government route in multi-brand retail trading subject to specified conditions.

The international retail players such as Walmart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multinational retailers such as US-based Walmart, Germany's Metro AG and Woolworths Ltd, the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalisation of FDI rules on multi-brand retail for some time.

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 multi brand retail will bring about Supply Chain Improvement, Investment in Technology, Manpower and Skill Development, Tourism Development, Greater Sourcing From India, Technology Upgradation in Agriculture, Efficient Small and Medium Scale Industries, Growth in market size and Benefits to government through greater GDP, tax income and employment generation.

PROPER FOLLOW-UPS AFTER ALLOWING FDI IN MULTI BRAND RETAIL AND SINGLE BRAND RETAIL

FDI in multi-brand retailing must be dealt cautiously as it has direct impact on a large chunk of population.

Left alone foreign capital will seek ways through which it can only multiply itself, and unthinking application of capital for profit, given our peculiar socio-economic conditions, may spell doom and deepen the gap between the rich and the poor. Thus the proliferation of foreign capital into multi-brand retailing needs to be anchored in such a way that it results in a win-win situation for India. This can be done by integrating into the rules and regulations for FDI in multi-brand retailing certain inbuilt safety valves. For example FDI in multi –brand retailing can be allowed in a calibrated manner with social safeguards so that the effect of possible labour dislocation can be analyzed and policy fine tuned accordingly. To ensure that the foreign investors make a genuine contribution to the development of infrastructure and logistics, it can be stipulated that a percentage of FDI should be spent towards building up of back end infrastructure, logistics or agro processing units. Reconstituting the poverty stricken and stagnating rural sphere into a forward moving and prosperous rural sphere can be one of the justifications for introducing FDI in multi-brand retailing. To actualize this goal it can be stipulated that at least 50% of the jobs in the retail outlet should be reserved for rural youth and that a certain amount of farm produce be procured from the poor farmers. Similarly to develop our small and medium enterprise (SME), it can also be stipulated that a minimum percentage of manufactured products be sourced from the SME sector in India. Public Distribution System (PDS) is still in many ways the life line of the people living below the poverty line. To ensure that the system is not weakened the government may reserve the right to procure a certain amount of food grains for replenishing the buffer. To protect the interest of small retailers the government may also put in place an exclusive regulatory framework. It will ensure that the retailing giants do resort to predatory pricing or acquire monopolistic tendencies. Besides, the government and RBI need to evolve suitable policies to enable the retailers in the unorganized sector to expand and improve their efficiencies. Now, when Government is allowing FDI, it must have to do it in a calibrated fashion because it is politically sensitive and link it (with) up some caveat from creating some back-end infrastructure.

Further, To take care of the concerns of the Government by allowing 100% FDI in Single Brand Retail and 51% FDI in Multi- Brand Retail, the following recommendations are being proposed :-

- Preparation of a legal and regulatory framework and enforcement mechanism to ensure that large retailers are not able to dislocate small retailers by unfair means.
- Extension of institutional credit, at lower rates, by public sector banks, to help improve efficiencies of small retailers; undertaking of proactive programme for assisting small retailers to upgrade themselves.
- Enactment of a National Shopping Mall Regulation Act to regulate the fiscal and social aspects of the entire retail sector.
- Formulation of a Model Central Law regarding FDI of Retail Sector.

CONCLUSION

A Start Has Been Made

Walmart has a joint venture with Bharti Enterprises for cash-and-carry (wholesale) business, which runs the ‘Best Price’ stores. It plans to have 15 stores by March and enter new states like Andhra Pradesh, Rajasthan, Madhya Pradesh and Karnataka.

Duke, Walmart’s CEO opined that 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,” Duke said, adding, that a similar trend was noticed when organized retail became popular in the US.

Many of the foreign brands are expected come to India because FDI in multi brand retail is permitted which can be a blessing in disguise for the economy.

Back-end logistics must for FDI in multi-brand retail

The government has added an element of social benefit to its latest plan in the calibrated opening of the multi-brand retail sector to foreign direct investment (FDI). Only those foreign retailers who first invest in the back-end supply chain and infrastructure would be allowed to set up multi brand retail outlets in the country. The idea is that the firms must have already created jobs for rural India before they venture into multi-brand retailing.

It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP.

Moreover, in the fierce battle between the advocators and antagonist of unrestrained FDI flows in the Indian retail sector, the interests of the consumers have been blatantly and utterly disregarded. Therefore, one of the arguments which inevitably needs to be considered and addressed while deliberating upon the captioned issue is the interests of consumers at large in relation to the interests of retailers.

It is also pertinent to note here that it can be safely contended that with the possible advent of unrestrained FDI flows in retail market, the interests of the retailers constituting the unorganized retail sector will not be gravely undermined, since nobody can force a consumer to visit a mega shopping complex or a small retailer/sabji mandi. Consumers will shop in accordance with their utmost convenience, where ever they get the lowest price, max variety, and a good consumer experience.

The Industrial policy 1991 had crafted a trajectory of change whereby every sectors of Indian economy at one point of time or the other would be embraced by liberalization, privatization and globalization. FDI upto 51% in multi-brand retail and 100% on single-brand retail is in that sense a steady progression of that trajectory. But the government has by far cushioned the adverse impact of the change that has ensued in the wake of the implementation of Industrial Policy 1991 through safety nets and social safeguards. But the change that the movement of retailing sector into the FDI regime would bring about, will require more involved and informed support from the government. One hopes that the government would stand up to its responsibility, because what is at stake is the stability and sustainability of the vital pillars of the economy- retailing, agriculture, and manufacturing, in short, the socio economic equilibrium of the entire country.

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