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Foreign Direct Investment (FDI) in India: Challenges and Prospects

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Abstract: The Indian retail industry is one of the fastest growing economies in the world. Foreign capital is seen as a way of filling in gaps between domestic savings and investment.Foreign direct investment is one of the measures of growing economic globalization. Investment has always been an issue for the developing economies such as India.The world has been globalizing and all the countries are liberalizing their policies for welcoming investment from countries which are abundant in capital resources. Government has put in place an investor friendly policy on FDI, under which FDI up to 100%, is permitted on the automatic route in most sectors/ activities.It has been felt that the country has potential to attract far more foreign investment which can be achieved by further liberalizing and simplifying the FDI regime. Accordingly, the Government has decided to introduce a number of amendments in the FDI Policy

INTRODUCTION

Foreign Direct investment plays a very important role in the development of the nation. Sometimes domestically available capital is inadequate for the purpose of overall development of the country.Retail sector is emerging as one of the attractive sector and is able to attract foreign players. FDI in retail bears an effect on a number of stakeholders engaged in the process of retailing, from retailers to end consumers. The initiative of the Government of India to attract FDI in retail by liberalizing FDI policy must be significantly encouraged but should not be freely allowed. Extant FDI policy on SBRT allows 49% FDI under automatic route, and FDI beyond 49% and up to 100% through Government approval route. It has now been decided to permit 100% FDI under automatic route for SBRT. It has been decided to permit single brand retail trading entity to set off its incremental sourcing of goods from India for global operations during initial 5 years, beginning 1st April of the year of the opening of first store against the mandatory sourcing requirement of 30% of purchases from India.After completion of this 5 year period the SBRT entityshall contribute directly towards itsIndia'soperation on an annual basis. Retail industry reached to Rs 66.39 lakh crore (US$ 950 billion) in 2018 at CAGR of 13 per cent and expected to reach Rs 76.87 lakh crore (US$ 1.1 trillion) by 2020. India ranked 63rd in World Bank's Doing Business 2019. India ranked 73rd in the United Nations Conference on Trade and Development'sBusiness-to-Consumer (B2C) E-commerce Index 2019.The Government of India has introduced reforms

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to attract Foreign Direct Investment (FDI) in retail The government has approved 51 per cent FDI in multi-brand retail and 100 per cent in single brand retail under the automatic route which is expected to give a boost to ease of doing business and Make in India and plans to allow 100 per cent FDI in e-commerce.

This paper takes into light on the overall growth and impact of FDI in -retail sector, impact of FDI in retail to customers as well as to domestic retailers. The main aim of this study is to make some research oriented paths and to suggest whether the unorganized retailers are required to upgrade their retail stores to meet the challenges of the dynamic retail environment. This paper covers retail sector in India, FDI policy reforms, foreign investors' concern regarding FDI in retail.

Background Retail Sector in India

Retail is a French word which means to "cut it again" and essentially mean a sale to the consumer for direct consumption. 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). Thus the retail is an 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.The shopping experience of today's consumers continues to be seamless across every channel, whether it's a brick-and-mortar store, an e-commerce website, a mobile app, or even a phone call with customer service. Both organized as well as unorganized retail companies have to work together to ensure better prospects for the overall retail industry, while generating new benefits for their customers. The retail sector in India continues to be on an ever-changing mode and is suited well in the backdrop of the growth trajectory. The next generation of Retail Technology is indicating the rise of the digitally influenced shopping experience and a tidal wave of exponential technologies on the horizon. One digital 'size' does not fit all customers within a marketplace.

Retail Models and opportunities they offer are :

1. **Cash & Carry/Wholesale trading in India**, consumer goods/FMCG products retailing is clearly divided between urban and rural markets. While global businesses will focus on urban markets, the impact of ease of FDI regulations on existing businesses both in urban and rural zones is to be seen in the future. So far, this segment has had automatic investments to the tune of 100% per the regulations set by the government.

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2. **Single Brand Retail Trading (SBRT)** The government has eased the sourcing norms in this segment and allowed single brand retail outlets by international brands. The Government has now permitted 100% FDI under automatic route of SBRT. This immediately opens up opportunities for consumer durables especially the global technology products companies for starting retail operations of their globally successful products in India. The single brand retail model will now be allowed to operate on the e-commerce front which was not allowed previously as part of the Government regulations.

3. **Multi Brand Retail Trade (MBRT):**These are traditional styled shops or retail chains established across India, historically known as 'Bazaars' or "Mom and Pop" stores as known in most countries. The impact of the government-approved route in retailing by grocery chains or consumer goods retailing is perceived to be strong in various analyses done on this market. The global businesses in this segment tend to operate in the urban landscapes with fairly large investments on infrastructure and emphasis on generating high volumes ofbusiness. The competition in this segment is expected to be rising significantly in the urban markets. Nevertheless, there will be enough room for growth in the organised retailing of multi-brand establishments.
4. **E-commerce (Marketplace model)** This segment is allowed to bring in investments in the automatic mode to the tune of 100%. Some of the largest brands of the world are operational in this segment and have had significant success nationally. However this segment is facing immense competition from several other domestic companies. The developments in this area included mergers and acquisitions in a short span of time. Over the last decade, growth in this space had been in triple digits and continues to grow. There is a tremendous level of innovation that this segment is driving with modern retail concepts and use of technology in almost every part of their retail sale process.

FDI POLICY WITH REGARD TO RETAILING IN INDIA

'FDI' means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000. In India, the Ministry of Commerce and Industry acts as a nodal agency for monitoring and reviewing FDI policy on a continuous basis. The FDI policy is noticed through Press Notes released from time to time by Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest, except in few sectors, where prior approval from RBI or FIPB would be required.

FDI policy related to Single product Retail Trading

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FDI in Single Brand product retail trading is allowed 100% viz. automatic up to 49% and Government route beyond 49%. The circular shows that Foreign Investment in Single Brand retail trading aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices, as per DIPP consolidated FDI policy circular of 2015. FDI in single brand product retail trading is subject to certain conditions such as:

- Products to be sold should be of single brand only.
- Products sold should be of same brand internationally.
- Single Brand' covers only products which are branded during manufacturing.
- In case of proposals involving FDI beyond 51%, sourcing of 30% of the value of goods purchased will be done from India, preferably MSME's village and cottage industries, artisans and craftsmen, in all sectors.
- Applications would be processed firstly by DIPP and then by the FIPB for Government approval.

FDI policy related to Multi Brand Retail Trading

FDI in Multi Brand Retail Trading is allowed upto 51% through Government route, as per DIPP policy.FDI in Multi brand retail trading is subject to certain conditions such as:

- Fresh agriculture produce (fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products)may be unbranded.
- The foreign investor must bring a minimum amount of US $ 100 million for investment.
- At least 50% of the investment bought should be invested in 'back-end infrastructure' within three years. Expenditure on land cost and rentals will not be included in infrastructure development.
- At least 30% of the products purchased must be sourced from Indian micro, small and medium industries (total investment in plant and machinery not exceeding US $ 2.0million)
- Government possess the first right of procurement on agriculture produce.
- Retail outlets are allowed to be set up in cities with a population of more than 10 lakh as per 2011 census survey, or any other cities as per the decisions of the respectiveState Governments.

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- The policy for FDI is an enabling policy, the State Governments are set free for the implementation of the policy.
- Applications are to be processed firstly by DIPP followedby the FIPB for Government approval.

Retail trading in any form by means of e-commerce is notpermissible for FDI, engaged in multi brand or single brandretail trading.

MAJOR PLAYERS IN INDIAN RETAIL SECTOR

- Walmart
- Amazon.com
- McDonald's
- Apple Stores/iTunes
- YUM!Brands
- Starbucks
- Subway
- Gap
- Burger King Worldwide
- Wendy's

RATIONALE OF THE STUDY:

FDI in retail still remains a widely debated issue in India's economic and political circles. There are several groups who are against FDI in the retail sector as they are of strong opinion that FDI in retail will be a catastrophic for the sector as well as for the Indian economy. The decision by the government to allow 100% FDI in single brand retail and allow 51% FDI in multi brand retail was taken with an intention to hasten the development of the retail sector. There was a strong resistance to FDI in Multi brand retailing from all sections of society including political parties, traders' associations and social organisations.

This study addresses the following pertinent questions:

1. What are the challenges and possible threats posed by the foreign brand retailers to unorganised domestic retailers?
2. Is there any increase or decrease in the inflow of FDI in the concerned sector ?
3. Would 100% FDI helps global retailers to capture Indian market?

OBJECTIVES OF THE STUDY

- To study the present regulatory framework for FDI in the retail sector .

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- To study the impact of allowing 100% FDI in Single Brand Retail Trade through automatic route in the sector.
- To evaluate the flow of foreign investment into the country before and after the amendment in FDI policy.

LITERATURE REVIEW

- Sunil Kumar (2012)68 reveals that the Indian retail sector is one among the world's fastest growing sector with several players. The new FDI policy of the government will creates tough competition to the small retailers. The survival is only possible if the small retailers should acquire some competitive advantages over the entrants, or else they will be put out of the retail game. As the foreign players have enough financial strength they will soon engage in unfair trade practices. The have capacity to influence the market, which will adversely affect the unorganised retailers
- Dhamayanthi& S. Pradeep Kumar (2009)52 indicated the importance of allowing FDI in Retailing. The paper has high lightened the factors for not allowing the FDI in retail sector but at the same time has quoted the example of China which was able to achieve the great result by allowing 100% FDI in the sector. The paper discusses India's current position in the sector and implication if the sector is opened for FDI. The paper concludes with strong argument that FDI should be allowed in the Retail.
- Opponents of the entry of foreign direct investment (FDI) in Indian retail trade generally point to its adverse impact on employment. This is indeed an important issue, as around 40 million people are engaged in retail trade in India, and even a Review of Literature 20 small percentage loss of employment in this sector amounts to lakhs of unemployed. Guruswamy, K. Sharma, J.P. Mohanty, and T.Korah (2005)
- Kumar &Bansal (2015) highlighted that farmers, consumers, cottage industries and rural people will benefit from FDI. On the other hand, FDI has a negative impact on local retailers. They concluded that local retailers can survive the competition from big foreign players by using their regional knowledge of consumer preference.

DATA AND METHODOLOGY

This study is based on secondary data. The secondary data for this research study will be from journals, articles, publications, press releases, previous studies, university e resources and internet. Extensive survey of literature including a variety of secondary sources had examinedto find the challenges and opportunities that FDI in retail has posed for the domestic retailers.

INFLOW OF FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR

Foreign Direct Investment flows to Indian retail sector(US$Million)

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2008-2009	294
2009-2010	536
2010-2011	391
2011-2012	567
2012-2013	551
2013-2014	1139
2014-2015	2551
2015-2016	3998
2016-2017	2771
2017-2018	4478
2018-2019	4311

Source :RBI Annual Report Publication

IMPACT OF ALLOWING 100%FDI IN SINGLE BRAND RETAIL

Opportunities For Global Retailers

Local sourcing: The Government has provided a relaxation in terms of sourcing norms, whereby, the condition of sourcing 30% of goods purchased will not be applicable up to 3 years beginning from opening of the first store of entities undertaking SBRT of products having 'state-of-the-art' and 'cutting edge' technology and where local sourcing is not possible. Further, entities engaged in SBRT may be allowed to set off their incremental sourcing of goods from India for global operations during initial 5 years beginning from 1st April of the year of the opening of first store against the mandatory sourcing requirement of 30% of purchases from India. Thus, global brands, particularly those offering technology products, will now be able to seek a waiver from the government if local supply chain is inadequate to meet their required high-tech specifications. This provides some relief to foreign retailers because by counting the time to comply with this rule from store opening, they will have more time to comply with the requirement and to build long-term sustainable supply chains that would benefit not only the businesses but also India and Indian consumers.

Timely and effective implementation of GST: The implementation of GST is witnessing the beginning of market integration—streamlining the barriers for

inter-state movements and removal of all octroi and sales tax check points.

◘Single brand retailers allowed to undertake e-commerce activities:Going forward, foreign single brand stores with permission to undertake Single Brand Retail (i.e., sell through brick-and-mortar stores) in India will be permitted to engage in e-commerce activities and sell products through online channels. With e-commerce business booming in India in recent years, this opens up a significant investment opportunity for foreign retailers.

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Same entity can carry out both Single Brand Retail and Wholesale: This opens up a significant opportunity for global single brand retailers interested in operating a mix of retail and wholesale activities in India.

Indian manufacturers with 70% FDI can now sell online: Indian manufacturers with foreign investment that are controlled by Indians can now sell their products in any manner, i.e., wholesale, retail, including through online channels, provided they make 70% of the products and source the remainder from local companies. However, there has been some relaxation in the sourcing norms as discussed in the section above. Earlier, they could sell online only if they made 100% products in house.

IMPACT OF FDI ON RETAIL SECTOR IN INDIA – SWOT ANALYSIS

Strengths :

Ushers in competition: Allowing of FDI into the retail sector will be highly beneficial to India. The flow of FDI into retail sector increases healthy competition in the retail chain at domestic level which leads to the innovation of new models, improvement of quality etc. Increasing of competition in a healthy manner leads to providing qualitative products at reasonable price. Hence, the Customer will have access to greater variety of internationally qualitative branded goods.

Better Employment Opportunities: A large and young working population gets more employment opportunities with development of retail sector. At present, the retail sector occupies the second place in employment generation after the agriculture sector. Once the reforms get implemented automatically, that will increase the employment opportunities substantially. For example, Bharati Walmart Training Centre (a joint venture of Bharati Enterprises and Walmart Stores) bridges the gap by providing training in various aspects of retailing to the under privileged youth providing them employment in the retail sector.

Contribution to GDP: Generally, the retail sector contributes much to the GDP of India. At present, this sector contributes around 33 – 35% to GDP which is higher than the American retail sector contribution which stood at 20% of the American GDP. Therefore, allowing of FDI into the retail sector may boost its share in GDP in a rapid manner.

Free Flow of Technology: With the advent of FDI, we can expect free flow of technology from one country to another. It also helps in capital formation and improvement of managerial skills by adopting new technology from foreign countries.

Improvement in purchasing power: Introduction of FDI in the Indian retail sector reduces the number of middlemen (who are benefited and are the link between the manufacturer and the ultimate consumer) in the retail sector, which ensures abundant

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availability of goods at reasonable price. Thereby, the purchasing power of consumers will be increased.

High Potential: The Kearny study on Global Retail Market reveals that the Indian retail market sector is considered to be a sector with a lot of potential. It was ranked as the 2nd in Global Retail Development Index among thirty developing countries.

Weaknesses

Lack of Infrastructure: The major problem faced by the Indian retail sector is lack of infrastructure facilities. It is a major stumbling block to develop competent market mechanism. Welcoming FDI into the retail sector leads to improvement in infrastructural facilities. FDI will help India to overcome such drawbacks, by utilizing the available resources in a more fruitful manner.

Caters to High EndCustomers: Generally Walmarts provides services to high-end customers. In other words, they will cater to high-end customers living in the metros and will not deliver mass consumer goods for customers in the rural areas and small towns.

Small Size Outlets: Small size retail shops/outlets is one of the major drawbacks of the Indian retail sector. More than 90% of marts are of less than 500 square feet area. At the same time, they are smaller than the outlets of developed countries.

Low Sales Volume: Even though India is the second largest in the World after China in terms of population and its economy is growing rapidly, its retail sector sales volume is very low.

Industrial Status: In India more than 95% retail shops are functioning under unorganized sector. The retail sector in India does not enjoy the status of an Industry. That prevents the retailer from raising funds for various purposes.

Opportunities

Quality Improvement: The flow of FDI into retail sector will help the Indian consumers by improving the quality of a product. This will lead to cost competitive measures helping Indian producers in all the segments of the Indian Economy to flourish in a significant manner. This will ultimately benefit the consumers also.

Improvement of Infrastructural Facilities: Free flow of FDI will help in building up the infrastructural base in the sphere of retail sector proving opportunities to growing population. Therefore, for capital formation, the foreign capital has to be allowed into India.

High Potential Markets: In our country, the retail sector has high potentiality. Thereby, many foreign business houses are attracted. The organized retail sector is expected to grow

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stronger and faster in the next few years being driven by changing life styles, increase in income levels etc. which boost up the purchasing power of consumers. The most key drivers of the Indian Retail Sector are food and apparel retailing. Therefore, the global retail giants are choosing the Indian retail sector as a key market segment among the developing countries.

Creating Transparency in the System: Presently intermediaries are operating as per norms of Mandi system which are not transparent in terms of their pricing. According to the reports of many surveys, an average Indian farmer realizes only one-third of the price, which an ultimate consumer pays in the market. This drawback is overcome by allowing FDI which ensures direct linkage between the marts and the farmers. Therefore, farmers and producers are benefited much by evicting the intermediaries.

Technology Import: The flow of FDI and engaging the personnel from foreign countries into the Indian retail sector leads to flow of the Technical-know-how from global firms. The term technical knowhow includes warehousing technology (cold storage) and technology relating to distribution system which ensures improvement of supply chain in India.

Rural Retail Market: The Indian rural retail market is not yet exploited; still it is fresh and attracting the global firms into it. Global retail giants have an opportunity to venture into rural market.

Threats

Problems of Supply Chain Management: One of the greatest barriers to welcoming of FDI into the Indian retail market is mismanagement of supply chain management with corresponding changes in retail trade after the flow of FDI. In addition to that problem, the government policies and lack of infrastructural facilities are creating bottlenecks to retail companies.

Loss of Job Opportunities: Presently, the Indian retailers are engaging the work-force for all kinds of works. Once the Global retail giants enter, automatically, they implement office automation (mechanization) which reduces the manpower required. This will lead to massive loss of jobs. This is a major threat we have to face on permitting of FDI into the India.

Concentration of Economic Power: When FDI is allowed into the Indian retail market, the so called big global giants of retail sector follow the penetration pricing policy with a view to capture the market, which increases the competition to the domestic retailers and damages their position. Thus, the global giants become monopolists in such a sector which paves the way for the concentration of economic power in the hands of a few.

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Drains out the Country's share of Revenue: Admittance of FDI into the Indian Economy will drain out the country's share of revenue to foreign nations which may create a negative impact on the Indian Economy

CONCLUSION

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 noticed through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and (DIPP). The foreign investors are free to invest in India, except few sectors Promotion /activities, where prior approval from the RBI or Foreign Investment Promotion Board (FIPB) would be required. 100% FDI being permitted in cash & carry wholesale trading under the government approval route, subsequently brought under the automatic route in 2006. As a step ahead, FDI in single brand retail was permitted to the extent of 51% in 2006, while FDI in multi-brand retail remained prohibited till recently. Despite changes in consumer behaviour and retail modernization, India is one of the few countries where FDI was prohibited in multi-brand retail (until 2011), primarily to protect the traditional momand- pop retailers. This policy restricts global low-cost multiband retailers such as Wal-Mart, Tesco and Metro AG from catering directly to Indian consumers. The Economy Survey of 2010-11 mentioned that a phased opening of FDI in multi-brand retail is likely to benefit the consumers, but did not state the exact benefits. In July 2011, a Committee of Secretaries (CoS) had cleared the proposal to allow up to 51% FDI in multi-brand retail, which has been approved by the Union Cabinet in November 2011, albeit with a few riders to set up the supply chain and reduce inflation. The Union Cabinet has also approved increasing the FDI limit in single brand retail to 100% with government approval. while no parliamentary approval is needed for the decision, State Governments have the prerogative to disallow the same in their respective states.

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