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FDP in India Organized Retail Sector

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Abstract: *The Indian retail industry is one of the important sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $870 billion by 2019. The last decade has seen the entry of a no. of organized retailers for opening stores in various modern formats in metros and other important cities. But still, the overall share of organized retailing in total retail business has remained low in the present scenario. The grocery retail is the largest contributor to the total grocery retailing in India. But, more than that, it is one of the major employment provider accounting for 10 % of the total employment in the country. This became a major area of concern for the Indian government while deciding over the opening of FDI gates for India. This paper is organized into four main sections – FDI in Indian Retail, Prospects of FDI in Retailing, Advantages & Disadvantages of FDI and SWOT Analysis of FDI " in the Indian retail sector*

Keywords: FDI

I. INTRODUCTION

FDI implies allowing external financial investments into an economy. It covers cross border investments made by investors with a view to establishing lasting financial interest in an enterprise and thereby exercising a significant management influence. FDI facilitates growth of international trade and transfer of knowledge, skills, knowhow i.e. technology, etc.

FDI is a key component of national development for almost all countries, especially developing economies. With a good economic growth and rising GDP. India has become a key destination for FDI.

OBJECTIVES:-

The objective of our study is to analyse the current retail situation in India, along with it to
Likely challenges and threats of FDI in retail sector in India. The specific objectives are:
i. To study the FDI Policy of Government of India in Indian Retail.
ii. To study the scope of FDI in retailing.
iii. To identify the opportunities and threats for retailing sector.

METHODOLOGY:-

The whole paper is based on secondary data through the understandings from various
Research papers, reports, journals, books, newspapers, conference proceedings, Government
Reports and websites.

Foreign Direct Investment (FDI) is investment directly into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.

Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region.

Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bond.

As a part of the national accounts of a country FDI refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

It is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payment.

It usually involves participation in management, joint venture, transfer of technology and expertise. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements.

An international retailer in India till Nov. 2011 was able to enter the Indian market through any of the following routes/methods.

- Social sector items
- Medical and diagnostic items sourced from Indian small sector (manufactured with technology provided by the foreign collaborators)
- Hi-tech products or items requiring specialized after sales-services.
- 2-years test marketing (simultaneous commencement of investments in manufacturing facility required).
- 100% FDI is permitted on specific approval basis in case of trading companies in India, for carrying out:
- Export Trading
- Bulk imports with sales either through custom bonded warehouses/high seas sales.
- Cash and carry wholesale trading, Or
- Sales substantially to group companies.
- Prior to 1997, FDP was allowed in retailing to end-users, but all applicants were considered on case-to –case basis.

The broader benefits of FDI are:

Benefits of Larger FDI

1. Improved human capital
2. Competition effect
3. Manufacturing employment
4. New technology

Finally we can conclude with some important benefits of FDI in Retail sector in India.

- Higher competition which would lead to higher quality in products and services.
- Exports would increase due to great sourcing of major players.
- Investment in supply chain would increase.
- Technology would be upgraded in terms of logistic, production, and distribution channels.
- The markets of the sector would flourish and develop.
- Employment would increase and skills and manpower will develop.
- A strong retailing sector would promote tourism.
- Economies of scale would help lower consumer prices and increase the purchasing power of consumer.
- In long term it will be beneficial in the up-grading of agriculture and small scale and medium scale industries.

So it is but natural to understand the need of unrestricted FDI in Retail Industry in India. The choice basket for Indian consumers will only get better, bigger, wider and cheaper.

Organized retail provides higher quality of goods on account of the pre-defined and stringent standards adopted by the retailers.

Challenges Facing Larger FDI

No doubt, FDIs generate employment opportunities, income, and economic stability but there are a few Challenges Facing Larger FDI.in India, such as

I. Resource Challenge: India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working espial. At the same time, there are some underexploited or unexploited resources.

The resources are well available in the rural as well as the urban areas.

II. Infrastructure: To overcome other challenges facing larger FDI the first step should be to increase infrastructure.
L. Resource Challenge
ii. Infrastructure
iii. Equity Challenge
iv. Political Challenge
v. Federal Challenges.

III. Equity Challenge: To achieve growth, it is essential to make sure that the round section has more or less the same amount of development as the urbanized ones thus fostering social equality and at the same time, a balance economic growth.
IV. Political Challenge: The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So there has to be a common ground between the Parliament and the foreign countries investing in India. This would increase the reforms in the FDI area of the country.
V. Federal Challenge: Very important among the major challenges facing larger FDI is the need to speed up the implementation of policies, rules and regulations. The vital part is to keep the implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.

Benefits of Larger FDI
- The benefits of larger FDI can be tangibly felt in the domains pertaining to technological advancement, generation of export, production improvements, and hastening of manufacturing employment.
- Capital inflow into India has increased and so have the exports from the country Thanks to the economic boom India is experiencing, some Indian companies are doing better than even the multinational corporations.
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II. CONCLUSION

FDI in retailing is going to attract retail players by Indian Government, but India should welcome them with a talented pool of human resources by promoting institution imparting knowledge in Retailing. Protection must be given to Indian small and medium retailers as retailing is their source of Livelihood. The Government must properly discuss the pros and cons of allowing 51% FDI and have a Law in place to control unfair competition. Then the FDI Bill will be given definitely a positive impact on the retail industry and the country by attracting more foreign investment.
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. Many of the foreign brands would come to India if FDI If multi brand retail is permitted which can be a blessing in disguise for the economy. The initiatives of the government will boost up the proportion of FDI in various sectors and the current year shows the progressive report of the Foreign Direct Investment in India.