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CONTENTS

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   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

FDI POLICY AND RETAILING IN INDIA: PROS AND CONS

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ABSTRACT

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. Indian retail industry is one of the sunrise 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 $660 billion by 2015. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organised retailing in India has been much slower as compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the on-going wave of incessant liberalization and globalization stems from the absence of an FDI encouraging policy in the Indian retail sector. In this context, the present paper attempts to analyse the strategic issues concerning the influx of foreign direct investment in the Indian retail industry. Moreover, with the latest move of the government to allow FDI in the multiband retailing sector.

KEYWORDS

Retail, FDI, Single Brand , Multi Brand.

INTRODUCTION

Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). Until 2011, Indian central government denied foreign direct investment (FDI) in multi brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple.

The Retail Industry is the sector of economy which is consisted of individuals, stores, commercial complexes, agencies, companies, and organizations, etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly. Goods and products of the retail industry or sector, are the finished final objects/products of all sectors of commerce and economy of a country.

The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. IKEA announced in January that it is putting on hold its plan to open stores in India because of the 30% requirement. Fitch believes that the 30% requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

ENTRY OPTIONS FOR FOREIGN PLAYERS PRIOR TO FDI POLICY

The FDI in India's retail business can be made through any of the following routes:

1. FRANCHISE AGREEMENTS

It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. CASH AND CARRY WHOLESALE TRADING

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers.The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

3. STRATEGIC LICENSING AGREEMENTS

Some foreign brands give exclusive licenses and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd

4. MANUFACTURING AND WHOLLY OWNED SUBSIDIARIES

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

FDI POLICY WITH REGARD TO RETAILING IN INDIA

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of Single Brand' products, subject to Press Note 3 (2006 Series).
c) FDI is not permitted in Multi Brand Retailing in India.

PROSPECTED CHANGES IN FDI POLICY FOR RETAIL SECTOR IN INDIA

The government has announced following prospective reforms in Indian Retail Sector

1. India will allow FDI of up to 51% in —multi-brand sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.

3. The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
4. All retail stores can open up their operations in population having over 1million.Out of approximately 7935 towns and cities in India, 55 suffice such Criteria
5. Multi-brand retailers must bring minimum investment of US$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
6. The opening of retail competition (policy) will be within parameters of state laws and regulations.

SINGLE AND MULTI-BRAND RETAILING

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 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3 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, and Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed. Going a step further, we examine the concept of single brand' and the associated conditions:

FDI in Single brand' retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

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 July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, 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.

GROWTH AND EVOLUTION OF INDIAN RETAIL SECTOR

The Indian Retail Industry is the 5th largest retail destination and the second most attractive market for investment in the globe after Vietnam as reported by AT Kearney's seventh annual Globe Retail Development Index (GRDI), in 2008.The growing popularity of Indian Retail sector has resulted in growing awareness of quality products and brands. As a whole Indian retail has made life convenient, easy, quick and affordable. Indian retail sector specially organized retail is growing rapidly, with customer spending growing in unprecedented manner. It is undergoing metamorphosis. Till 1980 retail continued in the form of kiranas that is unorganized retailing. Later in 1990s branded retail outlet like Food World, Nilgiris and local retail outlets like Apna Bazaar came into existence. Now big players like Reliance, Tata's, Bharti, ITC and other reputed companies have entered into organized retail business. The multinationals with 51% opening of FDI in single brand retail has led to direct entrance of companies like Nike, Reebok, Metro etc. or through joint ventures like Wal-mart with Bharti, Tata with Tesco etc.

EVOLUTION OF RETAIL SECTOR

Evolution of retail sector can be seen in the share of organized sector in 2007 was 7.5% of the total retail market. Organized retail business in India is very small but has tremendous scope. The total in 2005 stood at $225 billion, accounting for about 11% of GDP. In this total market, the organized retail accounts for only $8 billion of total revenue. According to A T Kearney, the organized retailing is expected to be more than $23 billion revenue by 2010. The retail industry in India is currently growing at a great pace and is expected to go up to US$ 833 billion by the year 2013. It is further expected to reach US$ 1.3 trillion by the year2018 at a CAGR of 10%. As the country has got a high growth rate, the consumer spending has also gone up and is also expected to go up further in the future. In the last four years, the consumer spending in India climbed up to 75%. As a result, the Indian retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%. The key factors that drive growth in retail industry are young demographic profile, increasing consumer aspirations, growing middle class incomes and improving demand from rural markets. Also, rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes. Liberalization of the Indian economy, increase in spending per capita income and the advent of dual income families also help in the growth of retail sector. Moreover, consumer preference for shopping in new environs, availability of quality real estate and mall management practices and a shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc. also contributes to the spiral of growth in this sector. Furthermore, the Internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains.

One report estimates the 2011 Indian retail market as generating sales of about $470 billion a year, of which a miniscule $27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 14 25% share.[17] A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers.,

The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020.

The projected increase alone is equivalent to the current retail market size of France. In 2011, food accounted for 70% of Indian retail, but was under-represented by organized retail. A.T. Kearney estimates India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30% per year. These data correspond to retail prospects prior to November announcement of the retail reform.

CHALLENGES OF RETAILING IN INDIA

In India the retailing industry has a long way to go and to become a truly flourishing industry, retailing needs to cross various hurdles. The first challenge facing the organized retail sector is the competition from unorganized sector. Needless to say, the Indian retail sector is overwhelmingly swarmed by the unorganized retailing with the dominance of small and medium enterprises in contradiction to the presence of few giant corporate retailing outlets.

The trading sector is also highly fragmented**,** with a large number of intermediaries who operate at a strictly local level and there is no barrier to entry', given the structure and scale of these operations (Singhal 1999).The tax structure in India favors small retail business. Organized retail sector has to pay huge taxes, which is negligible for small retail business. Thus, the cost of business operations is very high in India. Developed supply chain and integrated IT management is absent in retail sector. This lack of adequate infrastructure facilities, lack of trained work force and low skill level for retailing management further makes the sector quite complex. Also, the intrinsic complexity of retailing- rapid price changes, threat of product obsolescence, low margins, high cost of real estate and dissimilarity in consumer groups are the other challenges that the retail sector in India is facing. The status of the retail industry will depend mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailers and demands of the customers also show impact on retail industry. Even though economy across the globe is slowly emerging from recession, tough times lie ahead for the retail industry as consumer spending still has not seen a consistent increase. In fact, consumer spending could contract further as banks have been overcautious in lending. Thus, retailers are witnessing an uphill task in terms of wooing consumers, despite offering big discounts. Additionally, organised retailers have been facing a difficult time in attracting customers from traditional kirana stores, especially in the food and grocery segment.

While in some sectors the restrictions imposed by the government are comprehensible; the restrictions imposed in few others, including the retail sector, are utterly baseless and are acting as shackles in the progressive development of that particular sector and eventually the overall development of the Indian Inc. The scenario is kind of depressing and unappealing, since despite the on-going wave of incessant liberalization and globalization, the Indian retail sector is still aloof from progressive and ostentatious development. This dismal situation of the retail sector undoubtedly stems from the absence of an FDI encouraging policy in the Indian retail sector.

FDI ENCOURAGING POLICY CAN REMOVE THE PRESENT LIMITATIONS IN INDIAN SYSTEM

1. **Infrastructure:** There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT. , 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.
2. **Intermediaries dominate** the value chain Intermediaries often flout mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail.
3. **Improper Public Distribution System ("PDS")** There is a big question mark on the efficacy of the public procurement and PDS setup and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a 'farm-tofork' retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.
4. **No Global Reach** The Micro Small & Medium Enterprises (MSME) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganised sector in overall manufacturing has declined from34.5% in 1999-2000 to 30.3% in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

MERITS OF FDI IN RETAIL SECTOR

- Organized retail will need workers. Walmart employs 1.4 million people in United States alone. With United States population of about 300 million, and India's population of about 1200 million, if Walmart-like retail companies were to expand in India as much as their presence in the United States, and the staffing level in Indian stores kept at the same level as in the United
- States stores, Walmart alone would employ 5.6 million Indian citizens. In addition, millions of additional jobs will be created during the building of and the maintenance of retail stores, roads, cold storage centers, software industry, electronic cash registers and other retail supporting organizations. Instead of job losses, retail reforms are likely to be massive boost to Indian job availability.
- India needs trillions of dollars to build its infrastructure, hospitals, housing and schools for its growing population. Indian economy is small, with limited surplus capital. Indian government is already operating on budget deficits. It is simply not possible for Indian investors or Indian government to fund this expansion, job creation and growth at the rate India needs. Global investment capital through FDI is necessary. Beyond capital, Indian retail industry needs
- knowledge and global integration. Global retail leaders, some of which are partly owned by people of Indian origin, can bring this knowledge. Global integration can potentially open export markets for Indian farmers and producers. Walmart, for example, expects to source and export some $1 billion worth of goods from India every year, since it came into Indian wholesale retail market.
- Walmart, Carrefour, Tesco, Target, Metro, Coop are some of over 350 global retail companies with annual sales over $1 billion. These retail companies have operated for over 30 years in numerous countries. They have not become monopolies. Competition between Walmart-like retailers has kept food prices in check. Canada credits their very low inflation rates to Walmarteffect. Anti-trust laws and state regulations, such as those in Indian legal code, have prevented food monopolies from forming anywhere in the world. Price inflation in these countries has been 5 to 10 times lower than price inflation in India. The current consumer price inflation in Europe and the United States is less than 2%, compared to India's double digit inflation.
- Comparing 21st century to 18th century is inappropriate. Conditions today are not same as in the 18th century. India wasn't a democracy then, it is today. Global awareness and news media were not the same in 18th century as today. Consider China today. It has over 57 million square feet of retail space owned by foreigners, employing millions of Chinese citizens. Yet, China hasn't become a vassal of imperialists. It enjoys respect from all global powers. Other Asian countries like Malaysia, Taiwan, Thailand and Indonesia see foreign retailers as catalysts of new technology and price reduction; and they have benefitted immensely by welcoming FDI in retail. India too will benefit by integrating with the world, rather than isolating itself.
- With 51% FDI limit in multi-brand retailers, nearly half of any profits will remain in India. Any profits will be subject to taxes, and such taxes will reduce Indian government budget deficit
- States have a right to say no to retail FDI within their jurisdiction. States have the right to add restrictions to the retail policy announced before they implement them. Thus, they can place limits on number, market share, style, diversity, homogeneity and other factors to suit their cultural preferences.
- Finally, in future, states can always introduce regulations and India can change the law to ensure the benefits of retail reforms reach the poorest and weakest segments of Indian society, free and fair retail competition does indeed lead to sharply lower inflation than current levels, small farmers get better prices, jobs created by organized retail pay well, and healthier food
- becomes available to more households.
- Inbuilt inefficiencies and wastage in distribution and storage account for why, according to some estimates, as much as 40% of food production doesn't reach consumers. Fifty million children in India are malnourished.
- Food often rots at farms, in transit, or in antiquated state-run warehouses. Costconscious organized retail companies will avoid waste and loss, making food available to the weakest and poorest segment of Indian society, while increasing the income of small farmers. Walmart, for example, since its arrival in Indian wholesale retail market, has successfully introduced "Direct Farm Project" at Haider Nagar near Malerkotla in Punjab, where 110 farmers have been connected with Bharti Walmart for sourcing fresh vegetables directly, thereby reducing waste and bringing fresher produce to Indian consumers.
- Indian small shops employ workers without proper contracts, making them work long hours. Many unorganized small shops depend on child labour. A well-regulated retail sector will help curtail some of these abuses.
- The claim that there is no consensus is without merit. Retail reforms discussions are not new. Comments from a wide cross-section of Indian society including farmers' associations, industry bodies, consumer forums, academics, traders' associations, investors, economists were analysed in depth before the matter was discussed by the Committee of Secretaries. By early August 2011, the consensus from various segments of Indian society was overwhelming in favor of retail reforms.

ADVERSE EFFECT OF FDI ON RETAIL SECTOR

- Independent stores will close, leading to massive job losses. Walmart employs very few people in the United States. If allowed to expand in India as much as Walmart has expanded in the United States, few thousand jobs may be created but millions will be lost.
- Walmart will lower prices to dump goods, get competition out of the way, become a monopoly, and then raise prices. We have seen this in the case of the soft drinks industry. Pepsi and Coke came in and wiped out all the domestic brands.
- India doesn't need foreign retailers, since home grown companies and traditional markets may be able to do the job.
- Work will be done by Indians, profits will go to foreigners.
- Remember East India Company. It entered India as a trader and then took over politically.
- There will be sterile homogeneity and Indian cities will look like cities anywhere else.
- The government hasn't built consensus.

CONCLUSION

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP The Indian retail market is estimated to be US$450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail market in the world, with 1.2 billion people. Small retailers will not be crowded out, but would strengthen market positions by turning innovative/contemporary. Growing economy and increasing purchasing power would more than compensate for the loss of market share of the unorganised sector retailers. 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 organised retailing. Innovative government measures could further mitigate adverse effects on small retailers and traders Consumers would certainly gain from enhanced competition, better quality, assured weights and cash memos. The government revenues will rise on account of larger business as well as recorded sales. The Competition Commission of India would need to play a proactive role

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