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FOREIGN DIRECT INVESTMENT IN INDIA: CHALLENGES AND OPPORTUNITIES IN MULTI-BRAND RETAIL SECTOR

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ABSTRACT
In the year 1991 India faced severe balance of payments deficits and was forced to bring about changes in Foreign Direct Investment [FDI] policy. India is among the top most attractive destinations for FDI. The government has allowed FDI in the wholesale cash and carry companies to sell to retail outlets owned by their domestic partners in a limited way for on-selling to retail customers. This provides a window to them for benefitting from the retail boom in the country. The present study aims to understand and analyze the challenges and opportunities faced by FDI Inflow and the future outlook towards FDI in Multi – Brand Retail Sector. It concludes that inward FDI can enhance competition and accelerate the process of innovation in the local Retail Sector.

KEYWORDS
Foreign Direct Investment Policy, FDI inflows, Multi - Brand Retail Sector and Small Retailers

INTRODUCTION
India has witnessed a gradual change in the Government's attitude to Foreign Direct Investment since 1948. As India had severe scarcity of capital resources at the time of independence; it welcomed foreign investment in a restricted manner. Since the second five year plan period (1956-1961) greater emphases was given to Industrialization which led to development of the local industries. To protect the domestic industry from foreign competition, Government adopted a more restrictive attitude towards FDI in the late 1960s. In the 1980s, as a part of the industrial policy resolutions, the attitude towards FDI was liberalized. "The year 1991 was marked with severe balance of payments deficits. Foreign exchange reserves went down to US$ 1.1 billion in June 1991 – less than sufficient for two weeks of import requirements" (Misra, S.K. 2000). India was on the verge of default and it got financial assistance from IMF on certain terms and conditions. This involved "Structural Adjustment Programme (SAP)" by India. These "SAP" apart from bringing about changes in fiscal policy, industrial policy and changes in other important economic policies involved a major change in FDI policy of India. Under this scenario it was not possible for India to continue with its past policy of restrictions and it became essential to liberalize the economy. Liberalization involves free operation of international market forces. This led to removal of most of the restrictions in FDI. As a result, India is now among the top five most attractive destinations for FDI.

STATEMENT OF THE PROBLEM
Retail is the second largest sector next only to agriculture in terms of employment generation. It employs more than 33 million people and it contributes more than 5 percent to GDP of India (CSO 2009). It is highly unorganized and is dominated by Small Retailers. There is great potential of growth in this sector but it is not able to exploit its potential to the fullest due to infrastructural constraints. Retail sector is in dire need of investment to overcome this constraint. As of now FDI in Multi –Brand Retailing is completely prohibited and investment by local investors has not been able to bridge the gap between the need and actual investment. India's supply chains require substantial backend investment in order to build retail businesses.

This has greater implication for agriculture sector as a substantial percentage of agricultural output is lost, due to lack of proper infrastructure like cold chain storage and warehousing, food processing machinery etc. The retail back-end in India needs huge investments, therefore the Government can open its door to foreign investors in Multi Brand Retail Sector.

METHODOLOGY
As the study is exploratory and qualitative in nature an extensive use of secondary data is made. Further the secondary data pertaining to the study is fathered from Department of Industrial Policy & Promotion (DIPP) reports, leading journals and a number of news items. In order to compare the FDI inflow over the period under study, the percentage method is used.

OBJECTIVES OF THE STUDY
The overall objective of the study is to apply a micro approach to evolve an objective method for analysing FDI in Multi - Brand Retail Sector in India and specifically intend to identify the opportunities and challenges.

The following are the main objectives of the study:

To understand FDI inflow in India and to analyze the challenges and opportunities faced by FDI inflows in Multi Brand Retail Sector.

To explore the role of FDI in Multi Brand Retail Sector and its impact on Small Retailers.
To study the future outcome towards the phase of FDI initiated at Multi Brand Retail Sector.
To offer suggestions in FDI policy about FDI inflow in Multi Brand Retail Sector.

SCOPE OF THE STUDY

The study will highlight the current scenario of the FDI inflows in India. It is concerned with FDI in Multi Brand Retail Sector and discusses the relevant measures to formulate and force regulatory and legal reforms in this sector and achieve its aim of National Growth and quality services through the investor's dynamic relationship to attract India as their FDI destination. The study is confined to a period from 1991 to 2010. This study reviews existing studies conducted by the Government and other entities on this topic examines its likely impact on farmers, employment, consumers and small retailers.

FOREIGN DIRECT INVESTMENT: CURRENT SCENARIO

Presently FDI is allowed in India in almost all the sectors; except a few which are of strategic concerns. It is prohibited in Activities not opened to private sector investment including Atomic Energy and Railway Transport (other than Mass Rapid Transport Systems), Multi-Brand Retail Trading, Lottery Business including Government and private lottery, online lottery , Real Estate Business or Construction of Farm Houses , Gambling and Betting including casinos , Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes, Business of chit fund, Nidhi company and Trading in Transferable Development Rights (TDRs).

In all the other sectors it is permitted with different equity limits ranging from 26 percent to 100 percent subject to certain terms and conditions wherever applicable.

FDI is permitted in India through two routes; the Automatic Route and the Government Route. Under the Automatic Route, the non-resident investor or the Indian company does not require any approval from the RBI or Government of India for the investment. Under the Government Route, prior approval of the Government of India through Foreign Investment Promotion Board (FIPB) is required. Proposals for foreign investment under Government route as laid down in the FDI policy from time to time are considered by the Foreign Investment Promotion Board (FIPB) in Department of Economic Affairs (DEA), Ministry of Finance (DIPP). Table 1 depicts entry route and FDI caps in some selected sectors.

TABLE 1: ROUTE WISE FDI INFLOWS IN SPECIFIC SECTORS WITH EQUITY / CAP

S.NO.	Sector/Activity	Percent of FDI Cap/Equity	Entry Route
1.1	**Agriculture & Animal Husbandry**		
	Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture and Cultivation of Vegetables & Mushrooms under controlled conditions and services related to agro and allied sectors. **Note: Besides the above, FDI is not allowed in any other agricultural activity**	100	Automatic
1.2	**Tea Plantation**		
	Tea sector including tea plantations **Note: Besides the above, FDI is not allowed in any other plantation**	100	Government
2.	**MINING**		
2.1	Mining and Exploration of metal and non-metal ores but excluding titanium bearing minerals and its ores.	100	Automatic
2.2	**Coal and Lignite**		
	1. Coal & Lignite mining for captive consumption by power projects, iron & steel and cement units and other eligible activities .	100	Automatic
	(2) Setting up coal processing plants like washeries **subject to** the condition that the company shall not do coal mining and shall not sell washed coal or sized coal from its coal processing plants in the open market and shall supply the washed or sized coal to those parties who are supplying raw coal to coal processing plants for washing or sizing.	100	Automatic
2.3	Mining and mineral separation of titanium bearing minerals & ores, its value addition and integrated activities.	100	Government
3.	**Electric Generation, Transmission, Distribution and Trading** except in atomic power.	100	Automatic
4.	**Airports**		
	(a) Greenfield projects	100	Automatic
	(b) Existing projects	100	*
5.	**Air Transport Services**		
	Helicopter services/seaplane services requiring DGCA approval	100	Automatic
6.	**Other services under Civil Aviation sector**		
	Maintenance and Repair organizations; flying training institutes; and technical training institutions.	100	Automatic
7.	**Setting up hardware facilities such as up-linking, HUB etc.**		
	Up-linking a Non-News & Current Affairs TV Channel	100	Government

8.	**Development of Townships, Housing, Built-up infrastructure and Construction-development projects**		
	Townships, housing, built-up infrastructure and construction development projects	100	Automatic
9.	**Industrial Parks - both setting up and already established Industrial Parks**		
	Industrial Parks - both setting up and already established Industrial Parks	100	Automatic
10.	**Petroleum & Natural Gas Sector**		
	Exploration activities of oil and natural gas fields, infrastructure related to marketing of petroleum products, actual trading and marketing of petroleum products, petroleum product pipelines, natural Gas /LNG pipelines, market study and formulation and Petroleum refining in the private sector.	100	Automatic
11.	**Print Media**		
11.1	Publishing/printing of Scientific and Technical Magazines/specialty journals/ periodicals.	100	Government
11.2	Publication of facsimile edition of foreign newspapers	100	Government
12.	(a) Infrastructure provider providing dark fibre, right of way, duct space, tower (IP Category I) (b)Electronic Mail (c) Voice Mail	100	**
13.1	**Cash & Carry trading Wholesale Trading/ Wholesale Trading**	100	Automatic
13.2	**Trading for exports**	100	Automatic
13.3	**E-commerce activities**	100	Automatic
13.4	**Trading of items sourced from MSE sector**	100	Government
13.5	**Test marketing** of such items for which a company has approval for manufacture, provided such test marketing facility will be for a period of two years, and investment in setting up manufacturing facility commences simultaneously with test marketing.	100	Government
13.6	**Single Brand product trading**	51	Government
14.	**Non-Banking Finance Companies (NBFC)**		
	Foreign investment in NBFC in selected activities	100	Automatic
15.	**Courier services for carrying packages, parcels and other items which do not come within the ambit of the Indian Post Office Act,1898**	100	Government

Notes:
*Automatic up to 74 percent Government route beyond 74 percent.
**Automatic up to 49 percent Government route beyond 49 percent.
Source: Compiled from Consolidated FDI Policy-Circular 2 of 2010, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Govt. of India

Services sector has attracted the highest FDI equity inflows of 20.93 percent for the period April 2000 to June 2010. It is followed by Computer software & Hardware, Telecommunications, Housing & Real Estate, Construction Activities and Power having 8.78, 8.49, 7.50, 7.13, and 4.37 percentage shares respectively in total FDI inflows for the same period.

TABLE 2: SHOWS THE TOP TEN COUNTRIES HAVING THE HIGHEST PERCENTAGE SHARE IN TOTAL FDI INFLOWS IN INDIA
STATEMENT ON TOP TEN COUNTRY-WISE FDI INFLOWS (From April 2000 to June 2010) [Amounts in U.S. $ million]

S. No	Country	Total FDI Flows	Percentage with total FDI inflows
1	Mauritius	49106.45	42.32
2	Singapore	11127.76	9.53
3	U.S.A.	8533.28	7.40
4	U.K.	6039.49	5.15
5	Netherlands	4830.0	4.18
6	Cyprus	4151.67	3.64
7	Japan	4005.16	3.52
8	Germany	2840.73	2.44
9	U.A.E.	1663.46	1.16
10	France	1599.16	1.39
	Total	93897.2	

Source: Compiled from FDI in India Statistics, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Govt. of India

Table 3 highlights the fact that there has been positive growth in FDI inflows over most of the years for the period 1992-93 to 2010-2011(up to June 2010). During 1997-98, 2002-03, 2003-04 and 2009-10 a negative growth rate was found in the FDI inflow due to the economic downturn in the world.

TABLE 3: FACTS ON FOREIGN DIRECT INVESTMENT [FDI]

(As per DIPP's FDI data base - Equity capital components only): [U.S. $ million]

FDI Flows into India					
Financial Year (April -March)	**Total FDI Flows**	**Percent of growth over Previous year**	**Financial Year (April - March)**	**Total FDI Flows**	**Percent of growth over Previous year**
1992-1993	165	-	2001-2002	4222	(+) 45
1993-1994	393	(+) 138	2002-2003	3134	(-) 26
1994-1994	654	(+) 66	2003-2004	2634	(-) 16
1994-1995	1374	(+) 110	2004-2005	3759	(+) 43
1995-1996	2141	(+) 55	2005-2006	5546	(+) 48
1996-1997	2770	(+) 29	2006-2007	15726	(+) 184
1997-1998	2682	(-) 3	2007-2008*	24581	(+) 56
1998-1999	3083	(+) 15	2008-2009*	27331	(+) 11
1999-2000	2439	(+) 21	2009-2010**	25881	(-) 05
2000-2001	2908	(+) 19	2010-2011*** (up to june'10)	5807	NA
			Cumulative Total	137230	

Notes:
(i) including amount remitted through RBI's-NRI Schemes, stock swapped & advances pending for issue of shares)
(ii) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied, on the basis of monthly average rate provided by RBI (DEAP), Mumbai.
(iii) * Includes Stock Swap of Shares US$ 3.2 billion for the year 2006-2007 & US$ 5.0 Billion for the year 2007- 08.
(iv) Variation in equity inflows reported in above Table II-A & II-B for 2006-07, 2007-08, 2008-09, 2009-10 & 2010-11
(up to April 2010) is due to difference in reporting of inflows through Stock Swap by RBI in the monthly report to DIPP & monthly RBI bulletin.
(v) ** Includes US$ 40 million as Stock swapped during July 2009.
(vi) *** Includes US$ 35 million as stock swapped during the month of April 2010.
Source: Compiled from FDI in India Statistics, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Govt. of India

FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR

FDI in Multi Brand Retail Sector is completely prohibited in India. Since 2006 FDI up to 51 percent is allowed in Single Brand product trading through Government route. FDI inflows in Single Brand product trading forms a very small percentage of the total FDI inflows in India, but it is seen as a driver to attract investments in production and marketing, improving the availability of such goods for the consumers, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices. Table 4 shows FDI inflows in Single Brand Retail sector for the period Jan 2007 – July 2010. Till July 2010 an FDI inflow of US $ 196.13 million had been received by India in this sector, comprised 0.17 percent of total FDI inflows during the period April 2000 to July 2010. Single brand retail outlets with FDI generally comprise of high-end products and focus on brand conscious customers. (DIPP Discussion Paper 2010)

In 1997 India allowed FDI with 100 percent equity in Cash and Carry wholesale trading through government approval route. Since 2006 it is permitted under automatic route. From April, 2000 to March, 2010, this sector had received US $ 1.779 billion FDI inflows. This comprised 1.54 percent of the total FDI inflows received during this period.

TABLE 4

STATEMENT ON RETAIL TRADING (SINGLE BRAND) SECTOR FDI INFLOWS (From August 1991 to June 2010) [Amounts in U.S. $ million]

S. No	**year**	**FDI Flows** U.S. $
1	1991- 2006	-
2	Jan 2007 – Dec 2007	1.68
5	Jan 2008 - Dec 2008	23.32
6	Jan 2009- Dec 2009	162.78
7	Jan 2010 - June 2010	8.35
	Total till July -2010	196.13

Source: Compiled from FDI in India Statistics, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Govt. of India

FDI IN MULTI BRAND RETAIL SECTOR: CHALLENGES AND OPPORTUNITIES

Consumption pattern has drastically changed with urbanization. With emergence of a large middle and upper middle sector, substantial increase in the income of the people and growth in the nuclear families Indian retail sector has witnessed a sea change in attitude of the consumers. India has a large young population who is more trends conscious and is ready to pay a higher price for better quality and branded products. People are ready to spend on lifestyle improvement. Entertainment, leisure, food, and shopping all under one roof are highly welcome. All this makes India a very attractive destination for foreign investors.

The Department of Industrial Policy and Promotion has floated a discussion paper on the issue related with permitting FDI inflows in Multi Brand Retail Sector. It is pertinent to point out that technological development is always needed for a developing Country like India and therefore it is a boon that MNC'S are interested to bring their innovative technology and high end products to India. In order to build back-end infrastructure it is essentials to develop the front-end as well. FDI in Multi Brand Retail Sector needs to be declared laudable as it is expected to bring the most innovative technology to India which will benefit not only the retail traders but even the interest of people of other sections including farming, cooperative, service sector in non corporate enterprises and to end consumers as well. The best standards and the highest quality of the goods for which these global retailers are known, if brought, will change the face of retail trading in India.

Growth of the rural sector in general and agriculture in particular depends to a large extent on the infrastructural facilities and assured markets for the farm produce. In the absence of adequate markets for cash crops, most of the farmers remain confined to the production of wheat and other traditional crops, even though the soil conditions may not be suitable for their cultivation. FDI in MBR will create markets for cash crops and motivate the farmers to grow products like fruits, vegetables etc which may be more suitable to the soil and climatic conditions of that area. Bharti-Wal-Mart, the joint venture between Bharti Enterprises and US-based Wal-Mart Stores, said it plans to buy agriculture produce directly from 35,000 small and medium farmers in India by the end of 2015. The retail venture proposes to bring in the best farm management practices and train farmers to grow more with less water and optimum use of fertilizers and pesticides. Wal-Mart Stores Inc chief executive Mike Duke says, "We are confident that these initiatives would result in a 20 percent increase in the income of farmers and have a multiplier effect to benefit one million farmers and other workers associated with agriculture" (Economic Times 2010)

Investment in infrastructure like storage, transport, food processing etc will help in reducing the intermediaries and thus will help in reducing the gap between prices paid by the consumers and prices received by the farmers. Investment in back end infrastructure will reduce the wastage of farm output, time and quality deterioration. If the facilities are shared by farmers on reasonable prices will help in increase income for the farmers.

FDI in MBR will increase the competition leading to improvement in quality standard of the products offered for sale, more choices for consumers due to increase in variety of products offered and a reduction in prices. All this will increase the consumers' surplus.

It is feared that opening of the MBR to foreign competition would badly affect the small retailers and would lead to huge job losses. With a large economy like India this may not be true as there is room for both big as well as small retail outlets to grow. Another point to be considered is that when large modern domestic Multi Brand outlets start operating in the economy it is bound to shift some consumers from small retail outlets to the big ones. Thus FDI in MBR is not the sole culprit as far as adverse effects on them is concerned. If it is made mandatory for these foreign outlets to create a back end cash and carry for small retailers, then they will be able to reap the benefits of scale on the sourcing side. Mom and Pop shops will continue to have an advantage in their locality because of convenience factor.

LIMITATIONS OF THE STUDY

The study suffers from the following limitation

The study is limited to India. Hence, the result arrived from the study may or may not be applied to other countries. This study covers only the limited caps of the FDI flow.

The result cannot be generalized for the FDI flow in other challenging sectors.

This study does not cover the FDI inflow in unorganized sector.

The generalization of the finding of the study is subject to limitations.

SUGGESTIONS

To provide greater benefits to economy there should be stiff local sourcing requirements and investments in back end infrastructure should be compulsory. Opening of FDI should be done in a calibrated manner so that domestic retailers both organized and unorganized get breathing space and are able to upgrade their practices. FDI in MBR should not remain limited to big cities, to provide rural youths opportunities to get fruitful employment in Retail Sector.

CONCLUSION

Once India gets integrated into Global economy with FDI in Multi - Brand Retail Sector, it will be placed at an advantage if it is made mandatory for foreign retailers to bring with them technology and management know-how. Human Resource will be developed as these investors will provide education and training to the people employed by them. There is a great scope of employment generation as these retail outlets will need manpower to run them. Carrefour estimates its retail operations in India, in about 10 years, would provide direct and indirect employment opportunities to approximately 20,000 people in the stores itself (Abhishek Ranganathan 2010). Wal-Mart Stores Inc chief executive Mike Duke says that easing the rules of FDI in retail will create 3 million jobs in the next five years and helps contain inflation by 50-70 basis points (Images Food Bureau 2010).

Greater sourcing from India will give assured markets for farmers and thus will bring in increased income for them. Investment in cold chain facilities will reduce the post harvest losses to farmers leading to greater revenue generation. Increased income for Small and Medium Size Entities is also expected as the MNCs will turn to them to meet the standards of local tastes and product preferences. For successful operation of the retail trade, heavy investment in backend infrastructure is must thus it is expected that FDI in Multi - Brand Retail Sector will be conducive in building world class supply chain.

The move would present a massive opportunity to the world's biggest retailers such as Wal-Mart, France's Carrefour and Britain's Tesco to enter a market and near double-digit economic growth. Supporters say foreign money would ramp up investment in logistics such as cold storage and unclog supply bottlenecks. Between 30-40 percent of post-harvest produce goes to waste in a country where nearly half the people are malnourished (Thomson Reuters & Alistair Scrutton 2010). Consumers will get their share in the form of greater variety, better quality, and world – class customer services at lower prices.

DIPP has floated the discussion paper at the right time. It has got a positive feedback from many of the stakeholders. While the Ministry of Finance is opposed to any change in the existing retail FDI policy, the Agriculture and Consumer Affairs Ministries, along with the Planning Commission, are open to the proposal mooted by the Ministry of Commerce and Industry. Consensus on opening up of Multi-Brand Retail to foreign direct investment, or FDI, looks unlikely anytime soon, with many states opposing freeing up the sector. So far, 18-19 states have responded, including Kerala, West Bengal and Chhattisgarh, have opposed allowing FDI in Multi-Brand Retail. States' support is important, as they can always deny retailers permission to open stores within their boundaries on various grounds.

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Hoping an appropriate consideration.

With sincere regards

Thanking you profoundly

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Sd/-

Co-ordinator