FDI IN RETAIL TRADE PROS AND CONS

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INTRODUCTION

As a party to the General Agreement on Commerce in Services of the World Trade Organization, India must allow foreign investment in the retail trade sector. It wasn't long before people were worried about losing jobs to foreigners or losing their entrepreneurship opportunities because of retail business openings. As a result, foreign direct investment in the retail sector has been increasingly liberalised by the government during the last several years ("FDI").

INDIAN RETAIL SCENARIO

- Only 3% of the $14 trillion global retail business is accounted for by the 18.673 billion rupees (US $410 billion) retail sector in India.
- We call them "Kirana shops," "mom-and-pop businesses," or "people on footpaths," although just 6% of this is organised retail as of 2010. The rest, 94%, is unorganised.
- It is a surprise however that India's wholesale and retail industry produces 22% of GDP and 8% of total employment in India.

THREATS OF ALLOWING GLOBAL RETAILERS IN INDIA

While writing about the East India Company for Nick Robbins in his book, "*The Company Could Buy Cheap And Sell Dear," he noted that "By controlling both ends of the chain*,"

- Walmart is more likely to get its raw materials from overseas and purchase items such as vegetables and fruits straight from farmers in predetermined quantities and specifications. Means an international firm will purchase in quantity from India and beyond, which means it will be able to significantly undercut the small shops in terms of price and volume.

- Everything at the supermarket, from fresh produce to the newest technological devices, is sold at rock-bottom prices that are often less expensive than those in the surrounding local shops offering comparable products.

- As a result, a monopoly would be established, allowing for the practise of purchasing cheap and selling high.

- To the degree that it can only grow by demolishing the old retail sector, FDI-driven contemporary retailing is labor-displacing.

- Any strategy that results in the destruction of employment in the unorganised retail sector should be put on hold until we are able to generate jobs on a significant scale in manufacturing.

- **Positive side of F.D.I.**

- Retail is a capital-intensive business, and as a result, it necessitates the use of flexible manufacturing equipment (FME).

- Up to 10 million employment may be generated.

- Public distribution system (PDS) practically dead with grains decaying and consumed by rodents, (2) food lost in FCI godowns could have fed 2500 lakhs for 10 years, (3) roughly 20 to 30 crore Indians sleeping hungry every night and over 7000 Indians dying of hunger every day.]

- A new estimate from the Ministry of Food Processing estimates that over 58000 crore worth of agricultural food products are wasted annually in the nation, i.e. almost 50% of the entire annual agricultural produce.

- It can guarantee a 10% to 13% increase in GDP.

- As a result of hypermarket open market operations and waste management, inflation will be less of a problem.

- There will be a reduction in prices for customers.

- Quality is guaranteed.

- In the future, small shops will be able to buy goods from hypermarkets at wholesale prices.

- It will monitor the movement of workers.
- In the future decades, protecting the interests of farmers, consumers, and micro-enterprises will benefit the whole country.
- Foreign currency will be brought in via FDIs, which will boost the country's foreign exchange reserves.
- FDI has the potential to alleviate the current financial situation.
- Foreign companies in the market's technology and expertise result in lower prices and a wider option for consumers.
- Increased production and domestic consumption are possible as a result of this.
- Indian suppliers must provide 30 percent of all items under the current FDI liberalization, which might provide much-needed jobs in India.

First and foremost, foreign direct investment (FDI) malls draw customers by guaranteeing low prices. Due to Kirana's credit options and emphasis on personalised service, the majority of customers are eager to shop there.

F.D.I. POLICY WITH REGARD TO RETAILING IN INDIA

- Investors who acquire a foreign firm or establish a new business on a greenfield site, as described in the Dictionary of Economics (Graham Bannock and others), are called foreign direct investors (FDI). To put it another way, foreign direct investment (FDI) is money that comes into a country with the intention of being invested in or used to boost the country's manufacturing capability.[2]
- The Foreign Exchange Management Act and Indian government policy on FDI restrict investment from outside the country (1999). Since its inception in 2000, India's central bank has made available a set of regulations governing the movement of foreign currency and securities by those who don't reside in the country (the "RBI"). This notification has been modified over time.
- The automated technique enables for FDI of up to 100% in cash and allows for wholesale and export commerce to be carried out.
- Retail commerce of "single brand" items may receive up to 51 percent foreign direct investment (FDI) with government authorisation (i.e. the FIPB).
- Multi-brand retail in India does not allow foreign direct investment (FDI).

Entry Options For Foreign Players prior to FDI Policy

- Foreign direct investment (FDI) was not permitted prior to January 24, 2006, however the majority of general players were already functioning in the nation. The following are a few of their preferred access points:

1. **Franchise Agreements**

In India, this is the simplest path to follow. Under the Foreign Exchange Management Act, the Reserve Bank of India (RBI) has the authority to authorise foreign direct investment (FDI) in franchising and commission agency services. This is the most common way that fast food chains introduce themselves to new markets. Players like Lacoste and Mango have also entered the Indian market through this way, as well as Marks & Spencer and other big-name brands like Nike and Lacoste.

2. **Cash And Carry Wholesale Trading**

Distributing goods in bulk requires the construction of a vast distribution network, which may be done with 100% foreign direct investment (FDI). Wholesalers do not sell directly to the general public. As the first major international company to use this path to enter India, Metro AG of Germany stands out.

3. **Strategic Licensing Agreements**

In certain cases, international brands provide Indian enterprises exclusive licences and distribution rights. They may sell their items in their own shops, engage into shop-in-shop partnerships, or distribute the brands to franchisees via these rights. Piramyd, Mumbai, has signed a deal with Mango to bring the Spanish clothing brand to India. Radhakrishna Foodlands Pvt. Ltd. and SPAR agreed to a similar arrangement.

4. **Manufacturing and Wholly Owned Subsidiaries.**

There is no restriction on retail sales for multinational brands that have wholly-owned manufacturing subsidiaries in India, such as Nike, Reebok, and Adidas. As a result, they may now offer their wares to Indian customers through a variety of channels, including franchising, internal distribution, existing Indian merchants, and even their own retail locations! When Nike first entered India, it did so as part of an exclusive licence arrangement with Sierra Enterprises; however, Nike India Private Limited is now an entirely owned subsidiary of Nike Inc.

FDI in Single Brand Retail

It's unclear what the word "one brand" implies since it hasn't been defined by the government in any of its circulars or announcements.

A 51 percent FDI cap on single-brand retail is possible if the Foreign Investment Promotion Board (FIPB) gives its approval, as long as only single-brand products are sold, even if they are made by the same manufacturer. The products must also be sold under the same brand internationally, and retail sales of single-brand products can only include products that are branded during manufacturing.

Reebok, Nokia, and Adidas are all examples of "single brands," which means that foreign corporations would be able to market their products worldwide under a single name. Even if the items were made by the same manufacturer, it would be illegal to sell them under different labels at the same time.

FDI in Multi Brand Retail

No definition of "multi-brand" has yet emerged from authorities in this country. For the purposes of this definition, "FDI in Multi-Brand Retail" refers to the sale of numerous brands by a single retail outlet that has received a foreign investment.

Discussion papers on enabling FDI in multi-brand retail were issued by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce in July 2010. In multi-brand retail, there is no maximum limit to the amount of FDI that may be invested. If enacted, it will enable retail giants from across the world to come and establish themselves in India's market. Foreign direct investment (FDI) in multi-brand retail will allow major retailers like Wal-Mart and Carrefour, as well as Tesco, to build shops that sell a wide variety of home goods and foodstuffs.

Foreign Investor's Concern Regarding FDI Policy in India

Companies that choose for a 51 percent partnership must work with a local partner to complete the transaction. The most important thing is to locate a trustworthy partner who can also educate you a thing or two about the Indian customer and the home market. Big corporations like Tata, RPG, Foodworld, Pantaloon, and Shopper's Stop have diversified into retailing in order to profit from the current retail boom, which has resulted in the dominance of the organised retail sector.

Over the government's decision to only partly open the retail sector to foreign direct investment

Controversy has erupted about permitting some foreign direct investment in the retail sector. On June 8, 2009, the Hon'ble Department Related Parliamentary Standing Committee of Commerce submitted its 90th Report on 'Foreign and Domestic Investment in the Retail Sector' to Parliament's Lok Sabha and Rajya Sabha. Only a few examples will suffice:

Thousands of people who work in retail would be laid off as a result of the unfair competition, especially small, family-run firms. In addition, people who are displaced from the retail sector will be unable to find job in the manufacturing sector since the latter has not developed rapidly enough.

That the Indian retail business is still in its infancy and requires time to grow and solidify before it can be opened up to overseas investors worries me.

Because the unorganised retail sector employs the second-highest percentage of the Indian population after agriculture, those who oppose FDI in the retail sector claim that large global retailers like Wal-Mart would destroy local businesses and millions of jobs. They also claim that global retailers would use their monopolistic power to raise prices and reduce tt's profits. Profit lines of retail chains would be bolstered while customers and suppliers are hurt.

Objectives of the study:-

- To look at the retail sector's issues for the next year.
- Examine India's retail industry for recent policy improvements
- Investigate the potential for additional jobs to be created through foreign direct investment (FDI).
- An investigation on the present retail landscape in India.

Research Methodology

The whole work is based on research papers, reports, books, journals, newspapers, and internet databases that have been thoroughly analysed and interpreted.

<u>Data Analysis</u>

Table 1:- Foreign Direct Investment Flows to India: Country-wise

	Foreign Direct Investment Flows to India: Country-wise	
	Source/Industry	**2015-16**
	Total FDI	**36,069**
	Singapore	12,478
	Mauritius	7,451
	Netherlands	2,331
	Cayman Islands	441
	U.S.A.	4,125
	Japan	1,817
	France	391
	United Kingdom	841
	South Korea	242
	Hongkong	343
	Cyprus	489
	Germany	926
	Belgium	56
	U.A.E.	962
	Luxembourg	783
	UK Virgin Islands	202
	China	462
	Others	1,724

Source: RBI.

Table 2:- Foreign Direct Investment Flows to India: Industry-wise

Sector-wise Inflows		
	Manufacturing	8,438
	Communication Services	2,639
	Retail & Wholesale Trade	3,997
	Financial Services	3,548
	Computer Services	4,318
	Business services	3,032
	Restaurants and Hotels	888
	Transport	1,362
	Construction	4,142
	Electricity and other energy Generation, Distribution & Transmission	1,363
	Real Estate Activities	111
	Education, Research & Development	393
	Miscellaneous Services	1,023
	Mining	598
	Trading	0
	Others	216

Source: RBI.

CONCLUSION

- Indian economic dominance appeared like an impossible goal only a decade and a half ago. But in the previous 14 years, the world's opinion of India has changed, as well as our own perspective of ourselves. The world has recognised the ‘arrival of India’. The topic of India's future is no longer on the table. We often declare that "India is the future."
- As a result, if the following guidelines are followed, FDI in the retail sector might be considered in India as well.
    - There has to be a National Commission to analyse the retail sector's challenges and devise regulations that will allow it to handle FDI when it arrives.
    - It is vital that India's manufacturing sector be developed and improved in order to solve the problem of dislocation.
    - Cooperative shops should be encouraged by the government to buy and stock their products and commodities from small businesses.
    - In order to guarantee that farmers are not overcharged for perishable goods, an Agricultural Perishable Produce Commission (APPC) should be established.

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