

## FDI in retail sector

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### ABSTRACT

*FDI- FOREIGN DIRECT INVESTMENT means injection of the funds into an enterprise by a company having its origin and operation in a different country. With the introduction of Foreign Direct Investment, the investor invests funds in the company directly and as a result of this ownership the owner is granted management rights.*

*Foreign Direct Investment plays a central role in the growth of Indian economy. It is essential part for the global economic system. With the help of various national policies and international investment architecture, benefits of the FDI can be availed to the larger extent. For the purpose of FDI, India is the second most important destination in the world followed by China in 2010-12. Various retail reforms were announced by the Central Government of India in November 2011, for Single Brand Stores and Multi Brand Stores. These reforms in the market lay the foundation for Innovations in retailing and competition with the single as well as multi brand retailers. Generally Foreign Direct Investment refers to the investment of foreign assets into domestic goods and services. Retail sector is emerging as one of the attractive sectors and is able to attract new foreign players. Number of Stakeholders emerged in the process of retailing, from retailers to end consumers having a bearing effect of FDI in retail.*

*This paper covers FDI in single brand, Retail sector in India, FDI policy in India, FDI policy in retail, FDI routes, Sectors in which FDI is prohibited in India, Foreign investor's concern Regarding FDI in single and multi brand.*

### Introduction

**Foreign Direct Investment** means injection of the funds into an enterprise by a company having its origin and operation in a different country. Hence, with the introduction of Foreign Direct Investment, the investor invests funds in the company directly and as a result of this ownership the owner is granted management rights. When Foreign Assets are invested into domestic goods and services, it will be termed as Foreign Direct Investment.



If the investor company has the ownership rights of 10% or more, it is regarded as Foreign Direct Investment. Consequently, the investing company gets the right to manage and vote in the affairs of the investee company. This 10% does not include foreign investment in stock markets. When this investment is less than 10% then it is regarded as Foreign Portfolio Investment. The investor therefore is not granted management rights.

### Retailing

In the process of Supply Chain Management Retailing is considered as the last loop. The origin of the 'Retail' word is derived from 'Retaillier' French word that means 'to break bulk' or 'to cut a piece of'. The Retailer unlike wholesaler didn't buy

products for further resale but to provide them to the end consumers. Retailers perform various types of activities like, assorting, storing, credit facilities, merchandising, packing, etc. They must have good knowledge about each and every aspect related to their product and its use, pricing policies and strategies, quality of product etc.

### Retail Sector in India: An Overview

In the ancient times of haats and melas, Retail sector was emerged for fulfilling the needs of the general public living thereby. After sometime, need felt for the establishment of mom and pop stores, and kiriyana stores. Government gives assistance to the Retail Sector and due to the fact various retail stores came into force.

We can classify Retail industry into two forms one is Organised Retailing and the other is Unorganised Retailing.

**Organised Retailing:** - Retailers who possess license and have registered their firms for GST and Income Tax are termed as Organised Retailing.

**Unorganised Retailing:** - Those Retailers who do not possess any license and didn't register their firm are termed as Unorganised Retailing.

### FDI Policy of India

For reviewing and monitoring the FDI policy on regular basis, Ministry of Commerce and Industry is appointed as a Nodal Agency. The FDI policy is notified through press note released from time to time by Secretariat for Industrial Assisatance (SIA), Department of Industrial Policy and Promotion (DIPP).

The foreign investors can freely invest, except in few sectors, where prior permission of FPB or RBI would be necessary.

## Foreign Direct Investment Routes

There are two routes for Foreign Direct Investment in India. These are automatic route and government route.

**Automatic Route:** - Before setting up business operations in India, prior permission of the RBI and Central Government is not necessary in case of automatic route. In case of automatic route, all the businesses that can be set up are mentioned in the FDI policy furnished by the Indian Government from time to time.

**Government Route:** -In case of Government Route, before setting up business operations in India, prior permission is necessary from Central Government of India, Ministry of Finance or Department of Industrial policy and promotion, Department of Economic Affairs. If we talk about government route, the Applications for establishment of business operations are considered by Foreign Investment Promotion Board (FIPB).

FDI received by any of the Indian companies whether from automatic route or from government route has to adhere with the norms of the FDI Policy regarding reporting about FDI and the RBI's issue of shares. In India Non-resident entity are also allowed to invest. However, they are not allowed to invest in prohibited goods. A citizen or any entity consolidated in Bangladesh and Pakistan can only invest in case of government route. Also the citizen or entities consolidated in Pakistan are not allowed to invest in industries related to defence, atomic energy, space, and the industries prohibited under FDI.

### In India FDI is restricted in various Sectors: -

The following are the sectors in India in which the Foreign Direct Investment is banned:

- i. Lottery Business, including government, private and online lotteries, etc.
- ii. Betting and Gambling involving casinos, etc.
- iii. Chit funds
- iv. Nidhi companies
- v. Trading in Transferable Development Rights (TDR)
- vi. Landholding Business or Construction of Farm Houses
- vii. Manufacturing of cigars, cheroots, cigarillos and cigarettes of tobacco or tobacco substitutes
- viii. Activities /sectors not open for private sector investment i.e. railways and atomic energy.

Foreign technology combination in any form involving licensing for franchise, trade mark, brand name, management contract is also banned for lottery business, betting and gambling activities.

### FDI Policy in Retail:

- (A) Single Brand Retail
- (B) Multi Brand Retail



**Single Brand Retail:** - Single brand retail means that a foreign company is allowed to sell goods internationally under a single brand. Therefore a Retail store with International investment can sell only a single brand. Examples of single brand retail are Sony, Nokia, LG, Nike and Adidas, etc.

### FDI policy regarding to Single Brand product Retail Trading

100% of FDI is allowed in single brand product retail trading 49% under automatic route and beyond 49% under Government route. The circular shows that the 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 in India, and enhancing competitiveness of Indian Enterprises through excess to global designs, technologies and management practices. Products to be sold should be of single brand only.

### Conditions for FDI in Single Brand Retail

- Products sell out must be of same brand Internationally
- 'Single Brand' covers those products only that becomes brand during the manufacturing process.
- Those proposals having 51% of FDI, 30% of sourcing of the value of goods purchased will be done from India, preferably MSME's, village and cottage industries, artisans and craftsman in all sectors.
- Processing of applications will be done by DIPP then followed by FIPB for approval of the govt.
- Retail trading through e-commerce in any form is not allowed in case of Single Brand Retail

**Multi brand Retail:** - Multi brand retail store is the one with foreign investment that can sell multiple goods under one roof only. Example of Multi brand retail stores are Walmart, Tesco etc. All these retail stores offered a huge variety of household items as well as grocery items. They serve the same purpose as is served by the local kiriyana stores in the unorganised sector in India.

### FDI policies regarding to Multi Brand Retail Trading

According to DIPP policy, up to 51% of FDI in Multi brand retail trading is allowed under government route.

### Conditions for FDI in Multi Brand Retail Trading

- Fresh Agriculture produce (Fruits, Vegetables, Flowers, Grains, Pulses, Fresh Poultry and Fishery & Meat Products) may be unbranded.
- The Foreign investor must bring a minimum amount of US \$ 100 million for investment

- Not less than 50% of the investment bought should be invested in (backend infrastructure) within 3 years.
- Expenditure on land cost and rentals are excluded from infrastructure development.
- Not less than 30% of the product purchased must be set out from Indian Micro, small and medium industries (total investment in plant and machinery up to US \$ 2.0 million)
- Government possesses 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 decision of the respective state governments.
- The policy for FDI is an enabling policy; the state government is set free for implementation of the policy.
- For Government approval, applications must be processed by DIPP and then by FIPB.

Retail trading in any form through e-commerce is restricted for FDI, engaged in multi brand or single brand trading.

#### Advantages of FDI: -

- i. **Inflow of funds:** - FDI causes inflow of the funds in the presenter country. These funds are generally in form of foreign exchange. Therefore FDI helps in bringing foreign exchange to the presenter country. Due to this reason various countries are opening up their economies and relaxing FDI norms.
- ii. **High Technology:** - FDI helps in bringing latest techniques to the presenter country. The companies that establish their businesses in various countries are usually very big in size and therefore are very high tech.
- iii. **New markets and marketing channels:** - FDI brings in dual benefits of exploring new market to the parent company and also gives new markets and the marketing channel to the presenter country company.
- iv. **Employment generation:** - Consequently a lot of employment is generated in the presenter country. Moreover, companies usually employ a lot of experienced and inexperienced labours also.
- v. **Capital formation:** - As the company bringing in FDI invests its money in the assets, goods and services of the host country, a lot of capital is generated and therefore formation of Capital is accelerated.
- vi. **Increased Tax Revenues:** - The government of the host country is also benefitted because the company establishing its business operations in the host country paid taxes on the income earned in such

countries to the government of that country. Therefore these companies are the sources of government revenues.

- vii. **High quality products:** - Generally due to FDI, there is an increase in the competition in the presenter country. Due to this increased competition, the high quality products are ensured.
- viii. **Cheap Prices:** - Due to the use of latest technology and the economies of scale, the goods are offered at cheap prices to the customers. Therefore, the customers are benefitted.

#### Disadvantages of Foreign Direct Investment: -

Following are the disadvantages of Foreign Direct Investment: -

- i. **Foreign Control:** - Due to the investment in FDI, the control and the management are vested in the foreign hands. And consequently, the foreign country becomes dictator of the domestic company.
- ii. **Harmful to domestic industry:** - The foreign countries bring in the latest techniques in the presenter country. Also due to large scale operations, the big companies enjoy economies of scale and hence sell goods at cheap prices. The domestic industry cannot fight the tough competition that these big companies give to them.
- iii. **Outside management and control:** - As a result of FDI, the management and control are vested in foreign hands. Therefore, all the decisions are taken by the foreigners. There is a dilution of control of the host country.
- iv. **Repatriation of Profits:** - The Company that establishes its business in the host country repatriates a part of its profits to the host country. As a result, there is an outflow of funds from the host country.
- v. **Dilution of Control:** - FDI results in dilution of control. As a result of FDI, the control of the companies goes from host country to the foreigners.

#### Conclusion

It can be concluded that with the new concept there is a big shift seen in the response of the customers. Liberalised FDI policy in retail sector has its own merits and demerits. No doubt FDI will bring changes in economy of India, but the interest of small retailers must be kept into view while formulation and implementation of the FDI policy. For the sake of small retailers, government should frame rigid policies so that, organised as well as unorganised sector may synchronize and proliferate.

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