



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 3.4
IJAR 2015; 1(3): 114-116
www.allresearchjournal.com
Received: 15-12-2014
Accepted: 16-01-2015

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Role and challenges of FDI in retail in India

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Abstract

Retailing is India's major occupation. Retailing is the largest private industry in India. Retail consists of the sale of Physical goods or merchandise from a fixed location such as a department store, boutique or Kiosk, or by Mall, in small or individual lots for direct consumption by the purchaser. Purchaser may be individual or businesses. A retailer' buy goods or products in large quantities from manufacturer or wholesaler and sells smaller quantities to end users. India is the one of the most appealing investment area for domestic as well as foreign investors because of the growth in Indian Market, Rise in purchasing power, growing consumerism etc. The composition and types of FDI has changed since liberation. Now FDI has changed since liberisation. Now FDI has become an integral part of India's growth. FDI plays important role in growth of economic by expanding the market through reducing transaction and transformation cost, by providing employment and development of infrastructure etc. There are mixed response (positives and negatives) about FDI. Despite its positive efforts on economy there are negative effects also like as FDI is harmful to local retailers, creates unhealthy competition and job loss in the economy. This paper focus on the importance of FDI and the major challenges that it faces.

Keywords: FDI, Retail, liberalisation, Economic growth.

Introduction

The retail industry is one of the main pillar of the growth of Indian Economy. Liberalisation of trade policies during first reform period has led India to become an investment friendly country. Among the various form of investment FDI flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depends on the performance of the projects financed by the investors. There were initial reservation towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to foreign direct investment. There are two types of retailing in India is governed by the FDI policy announced by the Government of India and provisions of the FEMA Act 1999 (Foreign Exchange Management Act), the Ministry of Commerce and Industry and Government of India is a nodal agency for monitoring and review the FDI policy on continuous basis. The foreign investors are free to invest in India, except in few sectors where prior approval from the RBI or Foreign Investment Promotion Board (FIPB) would be required. Now Government eased FDI Norms in 15 major sectors. FDI has raised the foreign investment limit from Rs. 3000 to Rs. 5000 crore approved by Foreign Investment Promotion Board.

Review of Literature

Nayak & Archana (2007) intend to study the qualitative shift in the FDI inflows in India in-depth in the last fourteen odd years as the bold new policy on Economic front makes the country progress in both quantity and the way country attracted FDI. The study also reveals strong negative influence of corporate tax on FDI inflow. Ravi Subramaniam (2010) discuss the trends in India's outward FDI over the last decade and then attempts to identify the driving factors for the same and provide policy makers with insights regarding levers which would help in encouraging FDI outflows and to stimulate further research in foreign investment from emerging economics. Tanay Kumar Nandi and Ritankar Saher (2007) in then work made an attempt to study the FDI in India with a special focus on Retail trade, this

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paper stresses the need of FDI in India in retail sector and uses the argument that FDI is allowed in Multiple sectors and the study also suggests that FDI in retail sector must be allowed. Bose, Jayashree (2007), the book studied the sectoral analysis of India & China related to FDI inflows. In this book, he lights on emerging issues on FDI inflows in India & China comparatively and also on the globalization, Foreign, trends & issues on FDI outflow from Indian and China. Patil (2012) examines the prospects of FDI in multi-brand retail in India. He conducted that Direct Investment in multi-brand retail will start a better integration of Indian Economy into the global markets and, as such, it is important for the Government of India to develop retail sector for the total economic development of country and welfare of society in the country. Chandu. K.L. (2012) attempts at outlining the Government's policy of FDI in retailing and tries to examine its pros and cons while examining the perceptions of small retailers on the government decisions. He concludes that through the small retailers are not so apprehensive about the big stores, they oppose allowing FDI in retailing in India. This may be because they are not well informed about pros and cons of the proposed policy change. Thus, a country wide discussion through the mass media is highly pertinent regarding this issue. Bhanagada B.D., Shah A. Pallavi (2011), they said in their paper that the impact of FDI on Indian Economy where they also emphasize on the investments, sectors attracting highest FDI inflow and FDI lead to General of employment opportunities. Therefore the growth of inflow of FDI would lead to positive growth of gross capital formation. In India, the growth of GDP is largely influenced by FDI.

Objectives

1. To examine the various challenges faced by FDI in retailing.
2. To analyze the benefits and concerns with regard to opening of retail sector for FDI.
3. On the basis of finding of the study suggest the measure to bridge the gap.

Methodology

Secondary data were collected from published sources like Journals, Magazines, Internet, annual report of FDI in retailing and earlier studies.

Finding of study

FID Policy regarding Retailing in India

India has already market its presence as one of the fastest growing economies of the world. It has been ranked among the top three attractive destinations for inbound investments. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it Investor friendly.

Recent Policy Measures

Govt. eased FDI norms in 15 major sectors like Townships, Shopping Complexes and business centres – all allow upto 100% FDI under the auto – route.

1. 100% FDI is now allowed via the auto route in duty free shops located and operated in the custom bounded area.
2. Manufacturers can now sell their products through wholesale and retails including through e-commerce without Government approval.
3. Single brand retail beyond 49% required approval of

Central Government.

4. Until 2011, FDI was not allowed in multi-brand retail and any ownership in super markets, convenience stores or any retail outlets as denied by Indian Central Government. In Nov. 2011, India 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 as single brand major such as IKEA, Mike and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In Dec. 2011, under the pressure from the opposition India Government placed the retail reforms on hold. On 14 Sept. 2014, the Government of India announced the opening of FDI in multi-brand retail subject to approval by individual states. On 7 Dec 2012, the Federal Government of India allowed 51% FDI in multi brand retail in India. The Government managed to get approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states have allowed foreign super market like Walmart, Tesco, Carrefour to open while other states haven't.

Benefits of FDI

1. To achieve expected growth of GDP in India.
2. FDI may help address social concerns by acting as a tool, to alleviate poverty and unemployment in India.
3. Benefits of FDI to customer in form of better quality of products and in raising the standard of living.
4. Improvement in the supply chain Infrastructure by bringing in technical know-how and capital.

Concerns

Major concern which have been expressed with regard to opening of the retail sector for FDI.

1. It may lead to unfair competition and it ultimately results in large scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector.
2. FDI – Induced Economic change may produce some adverse distributional and employment effects in the host country. Both categories of problems should be temporary, but they can be prolonged and aggravated in the absence of appropriate policy responses.
3. Treat to the organized retail sector players in the domestic sector. Therefore it is important that the domestic sector is allowed to grow and consolidate first, before opening sector to foreign investor.

Suggestion for Improvements

1. The FID regulatory policy should be formulated properly in the light of interest of all the stakeholders and timely implementation of the same.
2. FDI should be allowed in a restrictive manner in India.
3. FDI should be allowed in such a manner that it should provide maximum employment to India and qualitative products in India.
4. FDI in multi brand retail should not be limited to big cities only it should be open or allowed in small cities also to get fruitful employment opportunities in retail sector.
5. It should enhance economic growth of the country and appreciation of the currency.

Conclusion

FDI in retail sector has changed the lifestyle of the India consumers drastically. The liberalization policy of Indian trade and Economy has allowed Foreign Participation in retail sector and registered substantial growth in the retail sector. The result of substantial growth is because of consumerism in the young generation, Urbanization, growth of personal disposable Income, growth of the infrastructure etc. It leads to economic growth and development. Human resource has also developed by training and education. It brings capital and technical knowhow in India despite its benefits it should be noted that FDI policy should be formulated carefully. For this various steps can be taken like FDI should be encouraged in the form of Joint venture only, FDI should not be encouraged in that product categories where Indian Players are already established, Entry of Foreign players should be restricted by the format type and number of stores. In the Nutsell FDI should be encouraged with strict, feasible and mutually beneficial regulations.

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