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FDI in Organized Retail Sector and its impact on Indian Economy.

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Introduction

The Indian government has opened doors of FDI in the retail sector slowly and gradually. In the year 1995, the World Trade Organizations General Agreement on trade in services. Wholesale and retailing came in to effect. In the year 1997, FDI in cash and carry (whole sale) with 100 percent rights was allowed under government approval route whereas in the year 2007 FDI in cash and carry (whole sale) with 100 percent rights was brought under automatic route and up to 51 percent investment was permitted in single-brand retail subject to certain conditions. Later, 100 percent FDI in single brand retail was permitted with an added constraint that sourcing must be 30 percent local in December 2011. Further the decision to allow up to 51 percent investment in multi brand retail was originally cleared by the cabinet in November 2011, but it was withdrawn on account of the disagreements within the ruling united progressive Alliance government.

Table: FDI in Organized Retailing in India

Sector	Foreign Investment	Route
Multi- Brand Retail	51 Percent	Approval
Single- Brand Retail	100 Percent	Approval

Source: Compiled

Crisil Research has predicted there will be Foreign Direct Investment (FDI) inflows of \$2.5 – 3.0 billion of the total expected investment of \$10 billion in the Indian retail industry over the next five years, only if it is permitted across all state. In 2011-12, organized retail accounted for about seven percent of the \$430- billion Indian retail industry. However, the agency expected organized retail penetration (ORR) in increase moderately from nine percent to 10 percent in 2016-17, if all states permit FDI, taking into account the likely supply of quality retail space and the current ORR in large cities.

I – Foreign Direct Investment (FDI) in Organized Retail Sector will enhance the Efficiency of Sector and Benefit India in the following ways:

The organized retail sector share in total retail trade in developed countries is around 70 to 80 percent and the have huge experience. Their entry in Indian retail market will increase efficiency of this sector and benefit India in following ways.

- The foreign retailers are technically advanced. Their management of resources is a optimum. It will lead to wards:
 - Global standards and competition
 - Improved supply chain
 - Improved productivity and efficiency
 - Improved inventory management
 - Enhancement of modern Technology
- Improved technology and management will lead to:

- a) Lower prices due improvement and efficiency
 - b) Improved quality products
 - c) Better shopping experience and consumer will have choices
 - d) Safety standards will improve with better testing and aggregation facilities
- Back –end infrastructure facilities and modern amenities will improve
 - Standard of living will improve.
 - Investment and consumption will increase.
 - Employment avenues will increase.
 - There will be development in Retail Sector.
 - Share of Organized retailing in GDP will increase.
 - Inflation could be controlled to same extent.
 - Manufacturing technology and exports will be promoted.
 - Farm to fork efficiency will improve needless middleman will be eliminated leading to higher net price realization for farmers.
 - Small and medium enterprises (SMEs) would be able to produce in bulk as there would be assurance for the absorption of their produce. Further, they will also enhance their technology.
 - Small retailers will evolve and provide more products facilities, services to the consumer.
 - Rural areas will be connected to the urban markets.
 - There will be reduction in wastage and optimum utilization of resources

II) Perceived challenges to be faced by India from Foreign Direct Investment (FDI) in organized Retail Sector Foreign Direct Investment will be being in the retail industry and it is perceived that following challenges retail industry and India has a whole will have to face.

- 1) The foreign players will adversely affect existence of the family owned business.
- 2) The domestic players will find it difficult to face competition from international players.
- 3) Sales of unorganized sectors will come down.
- 4) Through the employment avenues will be opened it will grab literate or semiliterate population which will lead to unemployment for literate people in India.
- 5) If the supply chain is curtailed, earning of the mediators in the chain will be affected and they may becomes jobless.
- 6) Local farmers and vendors would be adversely affected.

- 7) The customers can lose bargaining power and may get refrigerated or frozen products instead fresh products from firm.
 - 8) All regulatory frameworks pertaining to retail trade have to be provided by respective state government which may lead to lack of uniformity.
 - 9) Indian culture and ethical values will be at stake.
 - 10) Quality product may be majority exported leading to lack of supply within the nation.
 - 11) Dominance of foreign players may lead to monopoly.
- II) Measure to overcome the challenges of Foreign Direct Investment (FDI):

The following measures will certainly reduce the challenges of Foreign Direct Investment (FDI) in organized retail sectors which are perceived to be faced in index.

- 1) Government must have strict control and timely intervention over the foreign players and their operation.
- 2) Certain restriction and limit for purchase from local and domestic market shall be improved.
- 3) Reservation and restriction for employment for local and rural youth personal shall be improved
- 4) Theoretical limit shall be given.
- 5) The recently constituted the computation commission precisely should monitor and check unhealthy practices in the market.

Organized retailers are powerful catalyst to the required growth in the retail industry and in long term, will prove beneficial to all the major stakeholders. The organized retail will result in growing malls in city and after some years they will reach to rural India and it will affect the culture of the country, the consumer shopping behaviour.

The future of Indian organized retail sector is very bright as it has immense growth opportunities and with increasing number of foreign retailers and Foreign Direct Investment in this sector will make this industry the largest contributors in Indian Economy in terms of growth, development, employment, and efficiency.

FDI in Indian Economy

Foreign investment in India or more precisely Foreign Direct Investment (FDI) in India is one the most talked about issues in the entire world economy in recent times. Rated among the top emerging nations, India's liberalization policies are paying rich dividends to the economy as a whole.

Foreign Direct Investment (FDI) is defined as "investment made to acquire lasting interest in enterprises operating outside of the economy of the investor." The FDI relationship consists of a parent enterprise and a foreign affiliate which together form a Trans – National Corporation (TNC). India post liberalization has not only

opened its door to foreign investors but also made investing easier for them by implementing the following measures.

- Foreign exchange controls have been eased on the account of trade.
- Companies can raise funds from overseas securities markets and now have considerable freedom to invest abroad for expanding global operation.
- Foreign investors can remit earnings from Indian operations.
- Foreign trade is largely free from regulation and tariff leaves have come down sharply in the last two years.
- While most Foreign investments in India (up to 51%) are allowed in most industries foreign equity up to 100% is encouraged in export – oriented units depending on the merit of the proposal in certain specified industries reserved for the small scale sector foreign equity up to 24% is being permitted now

As the industry progresses, opportunities abound in India which has the world's largest middle class population of over 300 million, is attracting foreign investors by assuring them good returns. The scope for foreign investment in India is unlimited India offers to foreign investors a well balanced package of fiscal incentives for exports and industrial investment that includes:

- Complete tax exemptions.
- Investment incentives are offered by both Central Government and the Government of the State in which the units is locked.
- India has tax treaties with 40 countries.

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