ABHINAV
NATIONAL MONTHLY REFEREED JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT
www.abhinavjournal.com

A STUDY OF FOREIGN DIRECT INVESTMENT (FDI) IN MULTI-BRAND RETAIL WITH IMPLICATION

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ABSTRACT

FDI is the foreign direct investment it is in various sectors but we focused on the multi-brand retail. This is the in one roof we can sell number of brands items. Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision welcomed by economists and the markets, but caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law. The govt. of India has not also clearly defined the term "multi-brand retail," FDI in multi brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to maximum of 49% foreign equity participation.

Keywords: Foreign direct investment (FDI), multi-brand retail, government policy

INTRODUCTION

The recently declared policy of the Government of India regarding foreign direct investment in the Multi- brand Retail sector of India, is like a welcome and great boon to all foreign retailers and investors. The Government of India has now finally decided to allow FDI up to 51% in the Multi-brand Retail sector of India. For a long time, the vast $450 billion retail market of India has been striking and alluring to foreign investors and retailers of the world over, for making highly profitable and secure foreign direct investment. Now, they are fully enabled and well-facilitated to perform such lucrative investments in huge and constantly growing retail sector of India. Some of the most outstanding features of the retail sector of India are described below, as service to all foreign retailers, companies, and investors of diverse sectors of commerce and industry. Ours prestigious and globally reputed legal organization is well-equipped to provide prompt and impeccable services for most secure and productive foreign direct investment in Indian retail sector. Ours well-experience law firm has been offering refined and swift legal services to people and entities in almost all economic sectors in India and countries worldwide.

Today, the retail industry of India is estimated to be worth US $ 450 billion, and by dint of this economic value, it is regarded as one of the top five largest retail markets in the whole world. The constantly growing economy of India with an average rate of 8% and India's 1.2 billion people, together make the retail industry of India highly growth-oriented and immensely profitable in present and future times. As per an estimate by mellow and expert economists, the retail market of India can reach the level of around $ 650 billion by the year 2015. The latest decision of Indian Government is to boost the growth in retail, further more. According to percipient and discerning economists, the organized retail sector of India has potential to grow at the rate of over 15% every year, especially after this visionary decision of Indian Government.

Currently contributing to about 15% of the national GDP of India, the Indian retail sector is expected to entice huge FDI ranging from $2.5 - 3 billion in the next five year, after this liberalizing and visionary decision of Indian Government. Foreign investors, retailers, and companies of the world over, including the Wal-Mart of USA, Metro of Germany, Carrefour of France, Tesco of UK, etc., are now fully free and well-facilitated to make their majority stake investments in the multi-brand retail sector of India, for bright and promising future.

RESEARCH OBJECTIVE

Research objective are following

1. To find out government policy and multi-brand retailing.
2. To know the implication of FDI multi-brand retailing in Indian market.
3. To find out effectiveness of multi-brand retailing.

RESEARCH HYPOTHESIS

For this study research hypotheses are as follows

1. Mostly multi-brand retail companies are success effectively.
2. FDI in multi brand retail is better than single brand retail.

RESEARCH METHODOLOGY

This study is based on the only secondary data. The data is collected through Wikipedia and various search engines through internet. And also from some authors research papers and literature also. Government policies about multi-brand retail are also involved in this paper.

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), when liberalization, Privatization & Globalization (LPG) introduced. Which had driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI limit in retail sector is maximum 49%.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware.

History of Retailing in India

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians which is 3.3% of Indian population.

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's 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 single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In June 2012, IKEA announced it had applied for permission to invest $1.9 billion in India and set up 25 retail stores. An analyst from Group stated that the 30 percent requirement was likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision welcomed by economists and the markets, but caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi-brand retail, thereby making it effective under Indian law.

On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states will allow foreign supermarkets like Walmart, Tesco and Carrefour to open while other states will not.

Government Policy about FDI in "Multi-brand" Retail

The govt. of India has not also clearly defined the term "multi-brand retail," FDI in multi brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to maximum of 49% foreign equity participation. On July 2010, the department of industrial policy and promotion and the ministry of commerce circulated a discussion paper on allowing FDI in multi-brand retail. The committee of secretaries, led by cabinet secretary, recommended opening the retail sector for FDI with 51% cap on FDI. Minimum investment of US$100 million and mandatory 50% capital reinvestment into backend operation. The paper does not put forward any upper limit on FDI in multi brand retail.

The long awaited scheme has been send to the cabinet for approval, but no decision has yet been made. There appears to be a broad consensus within the committee of secretaries that a 51% cap on FDI in multi-brand retail is acceptable.

The significant recommendations of the latest FDI liberalization policies of India, in multi-brand retail sector, are the following:

- The minimum level of FDI in multi-brand retail sector will be worth $ 100 million
- Supermarkets are allowed in only those cities of India whose population is at least one million
- At least 50% of the total investment will be made on the Back-end Infrastructure
- And, at least 30% of their goods and products will be procured from the local companies and industries.

Implication of FDI in multi-brand retail:

1. Increased the selling purchasing procedure through one roof market.
2. Multi-brand shop is big so needful person can get various jobs.
3. Competition is increased in market.
4. Mall culture is increased.
5. Variety of goods available for customers.

Benefits of FDI in multi-brand retail:

- Job creation
- Increased the business and profit.

- Easy to shopping at one place.
- No threat to small shops like kirana.
- Moving away from intermediary.

FINDINGS

1. The government policies are effective in multi-brand retail.
2. Multi-brand is effective in retail through one roof more brand items selling.
3. Single brand retail is only one brand selling and multi-brand retail is selling alternative brands in one roof so it is effective.
4. Easy to sell and easy to purchase goods at one place.

CONCLUSION

Foreign direct investment (FDI) is the sector in which multi-brand retail is avail with maximum 49% FDI. Companies can sell various brand goods in one roof is the specialty of such multi-brand retail.

Minimum investment of US$100 million and mandatory 50% capital reinvestment into backend operation is the positive thing for FDI.

The important thing for FDI is that, Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), when liberalization, Privatization & Globalization (LPG) introduced. Which had driven by then finance minister Manmohan Singh. Means with the help of LPG it all about multi-brand retail is done.

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