

FDI IN RETAIL
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What is FDI ?

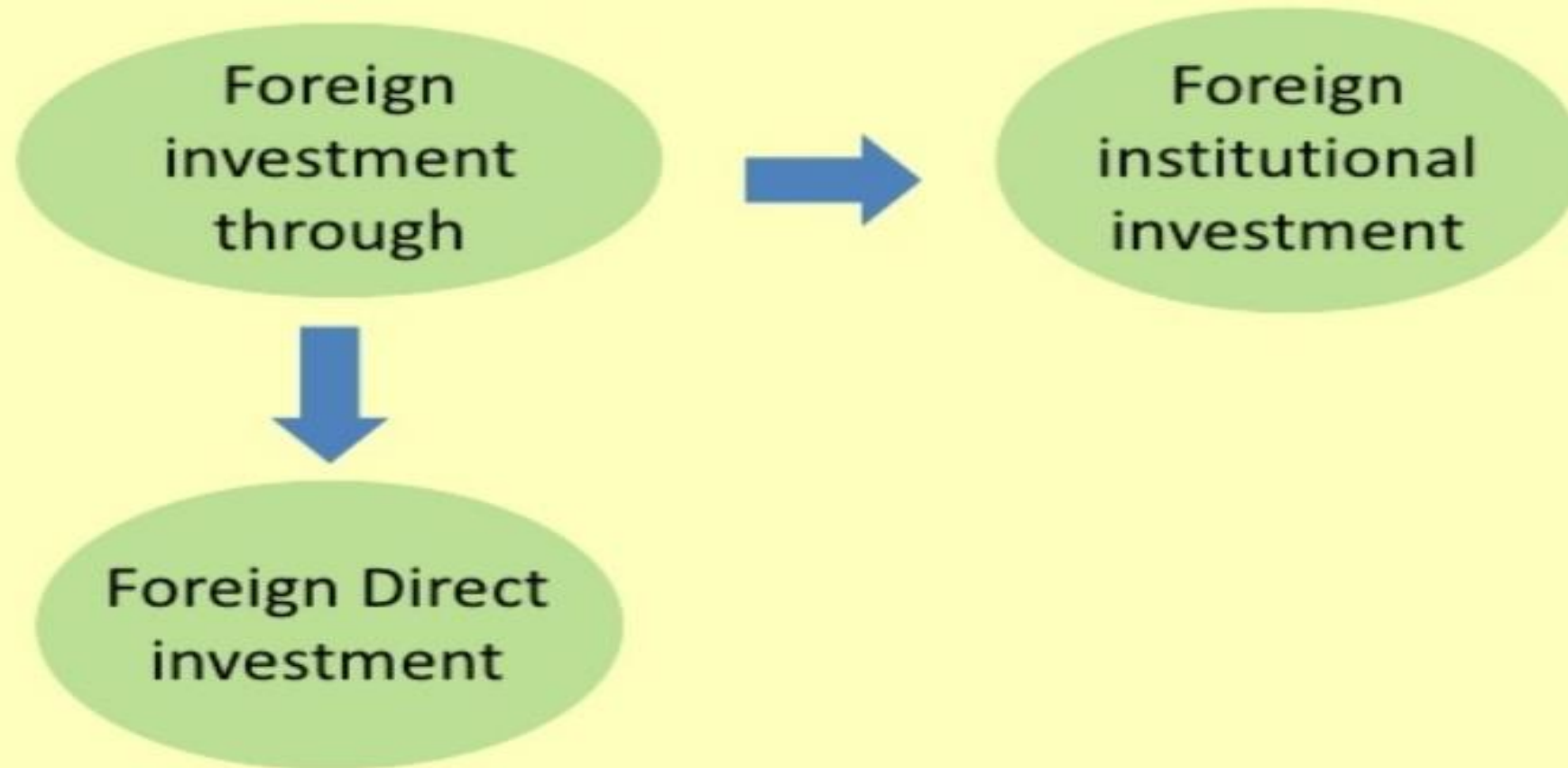
FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock.

What is FDI ?

Foreign investment – Investment done by citizens and government of one country (home country) invest in industries of another country (host country).

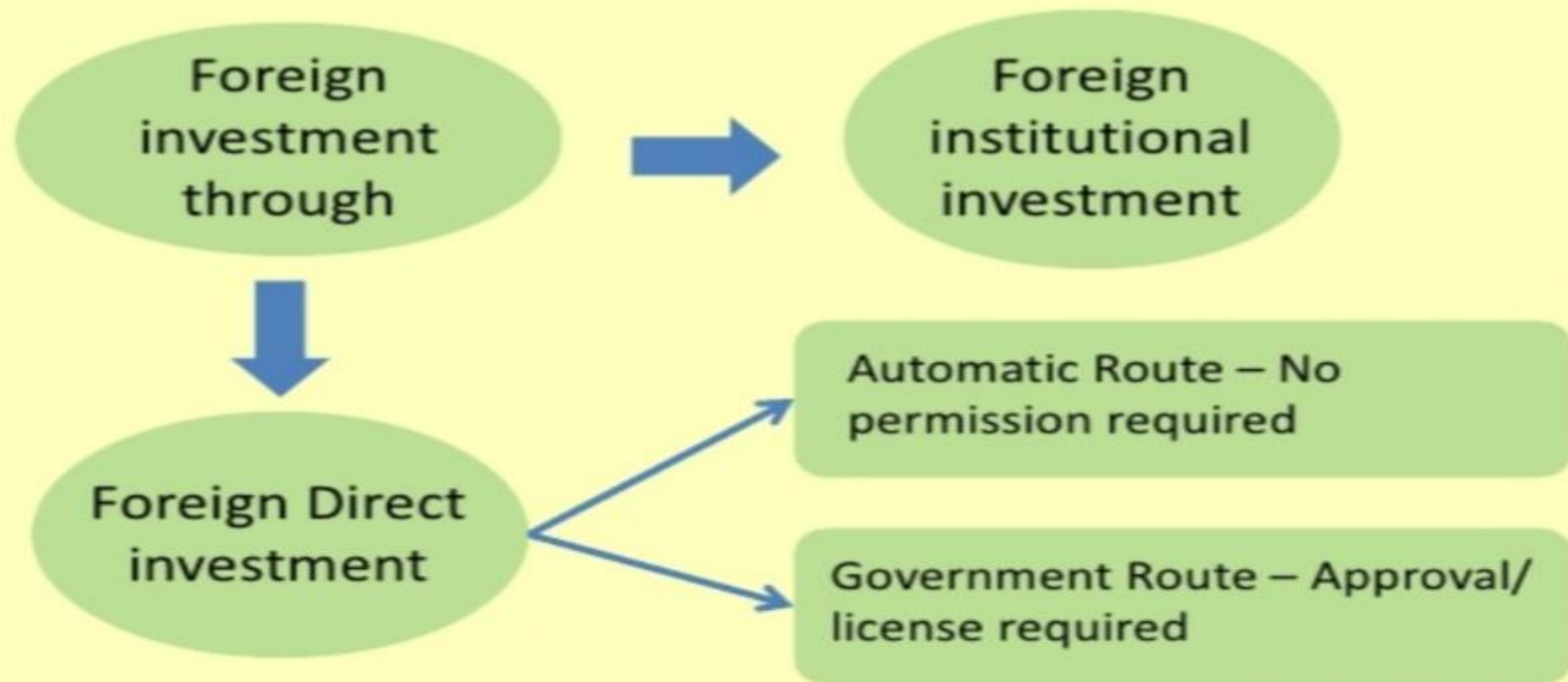
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MODES OF FDI

BY TARGET



Mergers and Acquisitions
Horizontal FDI
Vertical FDI.
*Backward Vertical FDI
*Forward Vertical FDI

BY MOTIVE



Resource-Seeking
Market-Seeking
Efficiency-Seeking
Strategic-Asset-Seeking

The Broad Retail Sector In India

Organized Retail

Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc basically involving the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganized Retail

- Unorganised retailing, on the other hand, refers to the traditional formats of the retail industry involving example, the local kirana shops the corner stores, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.
- The latter involves a large majority of the indian populace that is involved in the retail industry

FDI policy in Indian Retail Sector

Single brand retailing

51 % Allowed



Cash and carry model

100 % Allowed



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Multi-Brand Retail

Not Allowed

But what
exactly
does this
mean?

Single Brand Retail

Conditions for Single Brand Retail:

- Should be a single brand
- Should be sold under the same brand internationally
- It would only cover products branded during manufacture

Multi-Brand Retail

Conditions for Single Brand Retail:

- Sale of multiple brands under one brand
- Multi-brand retail comes in different formats like supermarket, hypermarket, compact hyper and the ubiquitous mall.
- Proposal to allow foreign investments upto the tune of 51% in this sector.

FDI in Retail: Challenges faced by Industry



Pros for Allowing FDI in Retail

- India's local enterprises will potentially receive an upgradation with the import of advanced technological and logistics management expertise from the foreign entities.

- The government has an opportunity to utilize the liberalization for achieving certain of its own targets:
 - I. improve its infrastructure
 - II. access sophisticated technologies
 - III. generate employment for those keen to work in this sector

- FDI would lead to a more comprehensive integration of India into the worldwide market and, as such, it is imperative for the government to promote this sector for the overall economic development and social welfare of the country.

Pros for Allowing FDI in Retail

- Employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail.
- 10 million jobs to be created in the next three years in the retail sector.
- Policy mandates a minimum investment of \$100 million with half the amount being invested in back-end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing.
- Salutary impact on food inflation from efficiencies in supply chain.

Benefits for Indian Agriculture from FDI in Retail

- Investment into warehouse and cold storage chain will result in significant efficiency on supply chain.
- Farmers benefited through direct marketing and contract farming programme.
- Improves farm production through modern techniques.
- Increasing availability of low interest credit for farmers.
- Helps farmers secure remunerative prices by eliminating exploitative middlemen.

Cons of FDI in India

- Move will lead to large-scale job losses.
- Global retail giants will resort to predatory pricing to create monopoly
- Jobs in the manufacturing sector will be lost because structured international retail makes purchases internationally and not from domestic sources.
- Opponents of the FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods.
- They also contend that the retail sector in India is one of the 2 the chain of food supply, from the farm where it is produced to the consumer major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood.