FDI IN MULTI BRAND RETAIL

Retail industry, being the fifth largest in the world, is one of the rising sectors with huge growth potential and accounts for 14-15% of the country's GDP.

Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India. According to one of the reports, the Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organised retailing formats. The industry is moving towards a modern concept of retailing. The size of India's retail market was estimated at US$ 435 billion in 2010. Of this, US$ 414 billion (95% of the market) was traditional retail and US$ 21 billion (5% of the market) was organized retail.

India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US$ 200 billion by 2020.

In simpler words, Indian Economy has achieved remarkable growth rates over the last few years. India's retail sector is one of them.

According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail.

The announcement by the Indian government with Foreign Direct Investment (FDI) in retail in September 2012, especially allowing 100% FDI in single brands and 51% in multi-brand FDI has generated a heated debate in the public as well as in Indian Parliament.

MNC's interest towards India:-

Many multinational companies are looking to enter India's retail market. On the other hand, Indian Government have shown positive interest towards them as it will benefit in domestic investment, manufacturing, trade, business, employment, demand, consumption and income. Government has also taken a number of policy measures in recent times for encouraging growth of retail business and other allied activities.

Government and FDI in India:-

Till last November 2011, Government of India allowed 51% FDI in single brand retail and 100% in cash & carry only but FDI in multi brand retail was still the part of question. One of the major steps taken by the Government in November 2011 to encourage the organized retailing in the country was the decision to allow 51% FDI in multi brand retail and 100% in single brand retail. Though the decision was delayed and held back for some time because of the absence of political consensus in the Government and controversies raised in the country.

Later on, the government took the bold decision and notified the much-awaited policy allowing 100 % FDI in single brand retail from the existing 51%. However, the government did not take the final decision for 51% FDI in multi-brand retail.

After all this, opting for big-bang reforms, the government allowed politically-risky 51% FDI in multi-brand retail in September 2012. For single brand, it was decided that any firm seeking waiver of the mandatory 30% local sourcing norms would have to set up a manufacturing facility in the country. This will help, in particular, foreign watch makers and textile manufacturers who want to enter India on their own.

In a clear signal of not going back on its reform decisions, **the Government on 20th September 2012 notified 51 per cent foreign direct investment in multi-brand retail.**

Some more from Govt.of India in FDI:-

The Government had announced a slew of reforms, including opening up the supermarket sector to foreign chains and allowing foreign investment in airlines and broadcasting. The move will eliminate middlemen and also help in taming inflation. At the same time, the Government has not made any change in the definition of micro, small and medium enterprises (MSME) for sourcing. It has stipulated a five-year timeframe for fulfilling 30 per cent sourcing norm, after which it has to be on an annual basis.

However, foreign retailers will only be allowed to set up shop in cities with a population of more than 1 million, and must source at least 30 per cent of the goods from local and small industries. The State Governments will have the freedom to decide whether to allow the supermarkets on their patch and the minimum investment will be $100 million.

As a result:-

Following the relaxation of FDI norms in retail, India is expected to see an investment of over Rs 40,000 crore in multi-brand segment and the organised market is likely to grow to Rs 4,80,000 crore by 2016-17, a report said.

51% FDI in multi-brand retail and also mandatory 30% local sourcing from SMEs is likely to bring some cheers to the smaller firms. However, government's decision to dilute this norm in single-brand retail has many worry that it may take a u-turn in case of multi-brand too.

FDI & its impact on MSME's:-

Reports suggest that FDI in retail is appreciable move but as MSMEs are considered the major contributor of country's economy, so to a certain extend the government should take their interest in account. Dilution of sourcing norms for FDI in multi-brand retail too is not likely to be accepted by all.

SMEs have already expressed their disappointment with the government's decision to do away with mandatory 30 per cent sourcing from small and medium firms in single brand retail. Although the move may boost country's economy, but for small enterprises the decision of removing the earlier proposed clause of making mandatory 30 per cent sourcing from SMEs comes as an adverse to MSME's. The entry of foreign giants will bring in cheapest products to Indian markets and thereby make India uncompetitive in global arena.

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