SOUTH INDIAN Bank

STUDENTS' ECONOMIC FORUM

To kindle interest in economic affairs...
To empower the student community...

Open Access

www.sib.co.in

ho2099@sib.co.in

January 2012

Theme 242

FDI IN INDIAN RETAIL SECTOR

A monthly publication from South Indian Bank

20th Year of Publication


www.southindianbank.com
SIB JUNIOR
An exclusive SB account for students
SOUTH INDIAN Bank
Experience Next Generation Banking
The South Indian Bank Ltd. Regd. Office: SIB House, P. B. No. 28, Mission Quarters, Thrissur- 680 001,Kerala. Tel : 91-487-2420020, Fax: 91-487 2442021, Toll free 1800-843-1800 (India) e-mail : sibcorporate@sib.co.in

SOUTH INDIAN Bank
Experience Next Generation Banking
The South Indian Bank Ltd., H.O. : 'S.I.B. House', Thrissur, Kerala

SIB STUDENTS' ECONOMIC FORUM

JANUARY 2012

Theme No. 242 : FDI IN INDIAN RETAIL SECTOR

A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The "SIB Students' Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the "Forum". The existing policy in retail sector prohibits FDI in multi brand and allows only 51% FDI in single brand. On November 25, 2011 the Union Cabinet has permitted 51% FDI in multi-brand retail with Government approval and 100% FDI in single-brand retail. Even though the move on multi-brand is now put on hold, the Government is firm to release the guidelines on 100% FDI in single–brand.

What are the provisions of FDI policy in India?

FDI means inflow of capital from abroad for investment to enhance the production capacity of the economy. The country which attracts investment considers the investor as a "Foreign Direct Investor". Foreign investment in India is governed by the FDI policy announced by the Government of India under the provisions of the Foreign Exchange Management Act (FEMA) 1999. The Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy. The modifications in policy and changes in the equity cap for the various sectors in the economy are notified by the Ministry through its Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). FDI is considered as an important driver of growth in the country. The Government is making all efforts to attract and facilitate FDI from Non Resident (NRIs) including Overseas Corporate Bodies (OCBs). To make the investment in India attractive, investment and returns on them are freely repatriable, except where the approval is subject to specific conditions such as lock-in period on original investment, dividend cap, foreign-exchange neutrality and so on as per the notified FDI policy. Foreign direct investment is freely allowed in all sectors including the services sector, except a few sectors where the existing and notified policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the Automatic Route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB).

What is the present status of FDI in India?

In a recent UNCTAD (United Nations Conference on Trade and Development) survey, India has been projected as the second most important FDI destination, after China, for transnational corporations from the year 2010 to 2012. The major sectors which attracted higher FDI were services, telecom, infra-structure and information technology. Generally FDI in India is allowed through four routes namely 1) financial collaborations 2) technical collaborations through joint ventures 3) capital markets through Euro issue and 4) private placements/preferential allotments. FDI has benefited the country in economic growth, foreign trade, employment opportunities, technology up-gradation, technical know-how, knowledge outsourcing, establishment of joint ventures and foreign collaborations.

What is meant by retail?

Retailing is the interface between the producer and the individual consumer, buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. The retail market in India is considered as highly complex and competitive with the most dynamic combination of highly informed and demanding consumers and rapidly increasing consumption levels across the segment.

What are the salient features of Indian retail market?

Our country has emerged as the world's most attractive market for global retailers. The country is ranked at the top of the GRDI (Global Retail Development Index) with an estimated CAGR (Compounded Annual Growth Rate) of 35%for the retail sector .The major multi -national retailers like Carrefour of France, Metro of Germany, Tesco of UK and Wal-Mart of USA are waiting for an opportunity to get a share of the large Indian retail market. The Indian retail segment has always grown in tune with the on-going wealth generation amongst the middle class. A recent statistics reveals that over 50% of the Indian population is below the age of 24. The consumer segment in India is estimated to be around four hundred million people with steady and consistent rise in disposable income. The current valuation of the Indian retail market is at $350 billion with a future outlook of robust growth. Presently FDI is permitted only in the single –brand retail segment with a cap of 51%. The cabinet approved permission for FDI in multi-brand with a cap of 51% and in single- brand with enhancement to 100%. But there was stiff resistance from all corners, and as such the Government has decided to put on hold the move to allow FDI in multi-brand. But the Central Government is gearing up to notify 100% FDI in single- brand retail with some riders. With this move, the major brands like Marks & Spencer, Zara, Ikea, Gap and Armani may be given sole ownership rights to open own showrooms in the country. The retail policies in countries such as China, Russia, Brazil, Chile and so on, where 100% FDI is permitted in the sector, have posted impressive growth in retail, wholesale and agro-processing sectors. The Government is of the view that the entry of large retail led by transnational firms would not make a difference to net employment but would augment it substantially. The general apprehension is that there would be substantial loss of employment in the unorganised retail as well as the organised wholesale segments. Even though the Government has announced suspension of its decision, it is almost certain that 100% FDI in single-brand is likely to be implemented with a few riders along with stringent conditions for granting approvals. The Government may insist that foreign investors must own the brand, they intend to retail, and the brand must be present in other countries and the retailer must source 30% of the products to be retailed from small industries.

What are the prospects of the Indian Retail Market?

The majority of the population in the metros and cities earn higher income with growing career prospects in the IT sector, service industry and MNCs. The life style and attitude of the younger generation in the nuclear families as well as in multi income families have pushed up the spending spree. The Indian youth is attracted to the modern life style with high standard of living and international exposure. The foreign investors may attract the average consumer with their so called world class products .The share of the organised sector in our country is too low (around 2%) compared to China (20%) and Thailand (40%), leaving a huge market potential untapped.

What are the present Government guidelines on FDI in the Indian retail sector?

As of now, the regulatory regime permits FDI to the tune of 51% only in the single-brand product retailing under the Government route. The country has to open up the retail segment to foreign investment, in view of the General Agreement on Trade in Services, WTO. The first such move was made in 1997 allowing FDI under the approval route in the cash and carry (wholesale trade) with 100% ownership. It was brought under the automatic route in 2006. The recent decision of the cabinet was to enhance the FDI ceiling in single-brand to 100% and allowing 51% FDI in multi-brand. But due to stiff resistance from all corners, the multi-brand proposal is almost dropped, but the single- brand proposal is still on the move. The Government is of the view that the decision to put on hold FDI in multi-brand would hurt the country's economy.

What are the major benefits of the present move?

- FDI has been presented as the unique nostrum that would cure the infrastructural, inflationary and agrarian ailments of the country.
- FDI may help the farmers to avoid the loss of billions of rupees annually due to lack of proper storage facilities and the presence of multiple intermediaries in the supply chain.
- FDI in retail segment may boost the economic activities through increased competition resulting in improved productivity.
- FDI provides the average Indian consumer access to foreign brands.
- FDI may attract the youth to Indian markets than shopping abroad.
- FDI may help the foreign and local players to get better know-how on technology designs and management styles of both the countries.
- The present move by the Government demonstrates its intentions to their trading partners.
- FDI in retail sector may provide inflow of more capital into the different sectors which may spur growth in agriculture and real estate sectors.

- FDI may provide more income to producers and control inflation in consumer prices.
- FDI may enhance the quality standards and cost-effectiveness of Indian products.
- FDI may improve the retail distribution chain facilitating better and faster movement of goods from the producers to the consumers.
- In the last 5 years, with 51% FDI in retail single brand, the sector received only 0.03% of total FDI inflows. Enhancement in the ceiling to 100% may improve the position substantially. Global majors are reluctant to establish their presence in a restrictive policy environment.
- The policy of purchasing 30% goods from the small sectors may revamp the MSME segment.
- ICRIER (Indian Council of Research in International Economic Relations) views the Indian retail sector to reach $ 496 billion by 2011-12.
- ICRIER reports that the entry of large corporates in retail sector would be beneficial for the unorganised retailers in the long run.
- FDI in the retail segment may improve the economic activities and provide better employment opportunities and increased pay package in the unorganised sector.
- FDI will result in better returns to farmers, cheaper options for consumers, latest technology in retail infrastructure.

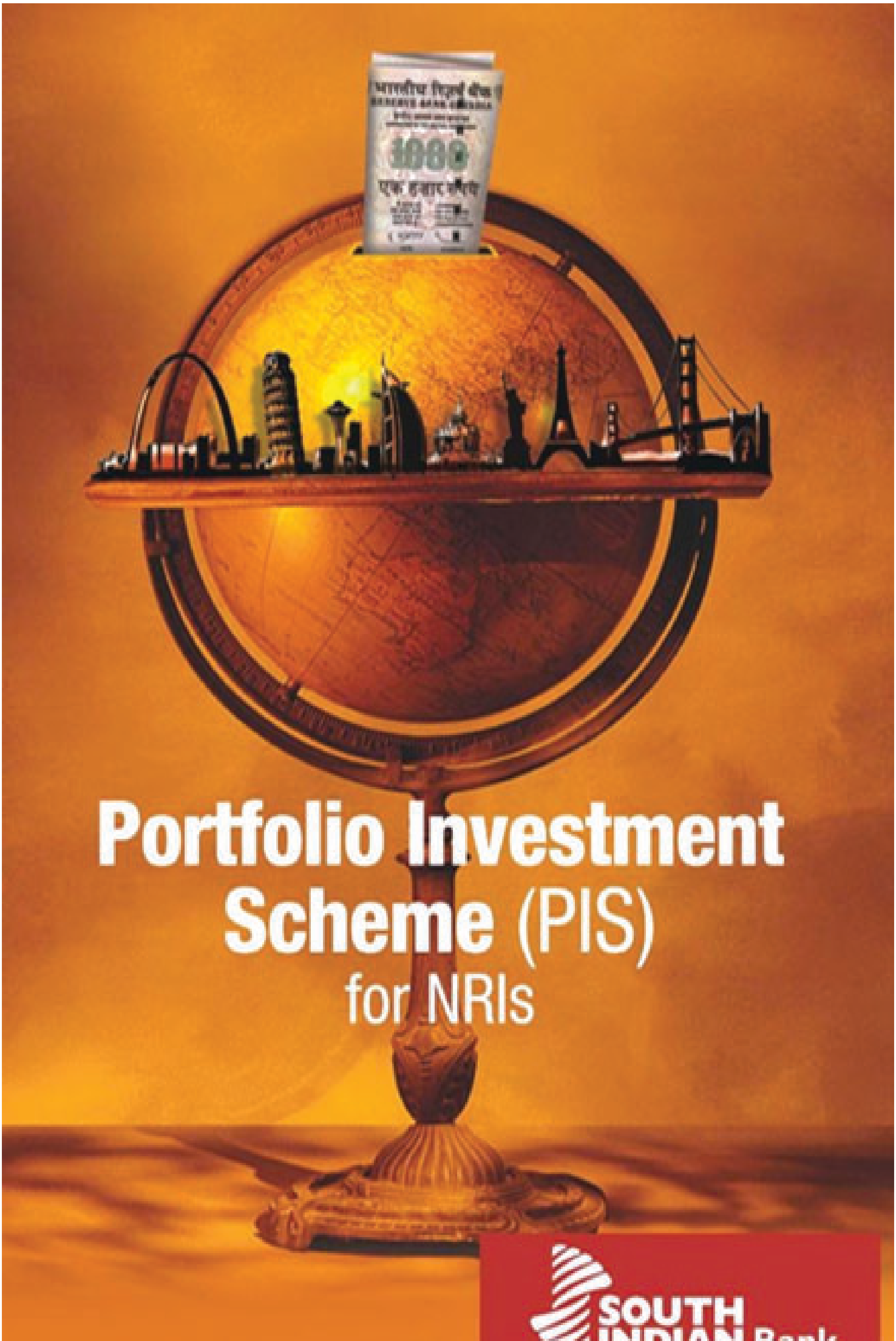
What are the concerns raised on FDI in retail sector?

- With deep pockets and international sourcing capabilities, global retailers will out-compete the domestic players.
- The western mega corporations are motivated by self -interest to look for global markets in developing countries.
- There is a general fear among the rural population that FDI may worsen the wave of suicides among the farmers.
- A few large firms may deal with a multitude of small and medium producers on the one side and a mass of consumers on the other.
- Jobs in manufacturing sector will be lost with major players making purchases internationally than from domestic sources.
- Higher margins to the new middle men.
- The prices to the small suppliers, especially in agriculture, may be depressed.
- The large conglomerates may displace not only the street vendors but also the large wholesale dealers.
- Loss of employment in the unorganised retail and wholesale sectors.
- The survey by National Sample Survey Office in 2009-10 reveals that the service sector (including wholesale and retail) provides jobs for 44 million out of 459 million workforce.
- The international retail giants may be able to sustain losses for years till its immediate competitor is wiped off.
- A recent report by OECD (Organisation for Economic Cooperation and Development) reveals that inequality in earnings has doubled in India over the last two decades with the top 10% of wage earners now making 12 times more than the bottom 10%. FDI in retail may lead to concentration of wealth among the elite.

TOP FDI CONTRIBUTORS TO INDIA:			TOP SECTORS RECEIVING FDI:		
Rank	Country	2010-11 (Apr. - Feb.)	Rank	Sector	2010-11 (Apr. - Feb.)
1	Mauritius	6.6	1	Services	3.27
2	Singapore	1.6	2	Telecom	1.41
3	Japan	1.5	3	Automobile	1.32
4	Netherlands	1.1	4	Power	1.24
5	USA	1.1	5	Real estate	1.10

Amount in $B

Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in


Portfolio Investment
Scheme (PIS)
for NRIs
SOUTH
INDIAN Bank
Experience Next Generation Banking