

# PRESENT SITUATIONAL POLICY OF FOREIGN DIRECT INVESTMENT IN SINGLE BRAND RETAILING

Chandra,  
Ph.D., Research Scholar,  
Research Centre in Commerce, Scott Christian College (Autonomous), Nagercoil -629 003

## Abstract

Allowing foreign firms free play in India's retail sector has always been a political hot scenario. The Indian Government has therefore been opening up this sector to foreign players in baby steps. The latest was allowing 100 per cent Foreign Direct Investment in single-brand retail trading through the automatic route a couple of months ago. But not everyone's cheering.

**Key words:** FDI, Single Brand Retail, MNC, Indian Policy.

## 1.1.Introduction

In the past, foreign players could own up to 49 per cent in a local single-brand retail chain but had to approach the Department of Industrial Policy and Promotion for a go-ahead to acquire the remaining 51 per cent. Now they can fully own their Indian operations without applying for permission.

But the new and present concessions apply only to single-brand retail chains. Foreign Direct Investment in multi-brand retail trading in India is still capped at 51 per cent. Generally, it is expected to sell all its products under only one label across its stores. Think Levi's, Starbucks or Ikea. A multi-brand retail store is like your typical Big Bazaar which sweeps many brands under one roof.

There are a few strings attached, though. If an Multinational Corporation operates a single-brand retail chain, the product must also be sold under the same brand name globally. The Multinational Corporation must also source 30 per cent of its purchases for the business from India. This rule was somewhat relaxed during the past month to allow an Multinational Corporation to set off any local sourcing for its global business, against this 30 per cent quota.

## 1.2. Single brand retail

The existing Foreign Direct Investment policy on Single Brand Retail Trading allows 49 per cent FDI under automatic route, and FDI beyond 49 per cent and up to 100 per cent through Government approval route. It has now been decided to permit 100 per cent Foreign Direct Investment under automatic route for SBRT.

It has been decided to permit single brand retail trading entity to set off its incremental sourcing of goods from India for global operations during initial 5 years, beginning April 1 of the year of the opening of first store against the mandatory sourcing requirement of 30 per cent of purchases from India.

For this purpose, incremental sourcing will mean the increase in terms of value of such global sourcing from India for that single brand in Indian Currency in a particular financial year over the preceding financial year, by

the non-resident entities undertaking single brand retail trading entity, either directly or through their group companies.

### 1.3. Policy of Indian Government for Foreign Direct Investment in Retail Sector

. Though there is 100 percent Foreign Direct Investment permitted in the cold chain sector but Foreign Direct Investment opening in single and multi brand retailing is expected to yield much better results. Moreover, there is less consolidation in retail sector, weaker competition and an ever growing middle class with a large appetite for consumer goods and services. The current Foreign Direct Investment in retail policy of Indian Government is being discussed below:

- i. 51 percent Foreign Direct Investment permitted in the multi brand retailing. The unbranded products are allowed for agricultural produce like fruits, vegetables, flowers, grain, pulses, fish and meat.
- ii. Minimum investment to be brought in, as Foreign Direct Investment, by the foreign investor would be US \$100 million.
- iii. Foreign Direct Investment is not likely under the automatic route implying that FIPB approval is needed on case by case basis.
- iv. 50 percent investment should be done at improving the back-end infrastructure. Back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehouse, agriculture market produce infrastructure etc.
- v. 30 percent of the raw materials should be procured from small and medium enterprises.
- vi. Permission to set up stores only in cities with a minimum population of 1 million which is 53 cities in India according to 2011 census
- vii. Government has the first right to procure materials from the farmers.
- viii. While the proposals for Foreign Direct Investment will be sanctioned by the Centre, approvals from each State Government will be required.
- ix. Retail trading, in any form, by means of e-commerce, would not be permitted, for companies with Foreign Direct Investment, engaged in the activity of multi brand retailing.

### 1.4 The Importance

While foreign investors may salivate at the thought of selling to a 1.3 billion population, retail trade in India is dominated by mom-and-pop outlets. Those opposed to Foreign Direct Investment worry that opening the door to 800-pound gorillas will draw away consumers from these tiny outlets to giant departmental stores, and squeeze their suppliers too.

The new proposal is a compromise solution which tries to protect such outlets while earning the Government brownie points for liberalising Foreign Direct Investment. The policy allows the Government

to test the waters on how Multinational Corporation presence affects Indian retailers. And given that many of the global single-brand retailers vend only premium or luxury goods, it was also hoped that their India foray won't impact the mom-and-pop stores much.

But there's a bit of hair-splitting here. For one, Multinational Corporations can sell both premium and mass-market products in these single-brand stores. Two, given that all retailers essentially compete for a share of the same consumer's wallet, spending on premium products or services can come at the cost of splurging on mass market products. One trip to Starbucks may equal your monthly bill at the Nair tea stall.

### 1.5 Conclusion

Single-brand retailers can offer new experiences too. Some concerns which plans to bring Madame to India, was one of the firms to secure the DIPP go-ahead for a single brand retail foray. The move may also help home-grown single brand e-tailers like Urban Ladder source more foreign venture capital to bankroll their expansion. But if you feel sympathy for your neighbourhood Indian store, you can thank your stars that 100 per cent Foreign Direct Investment in multi-brand retail isn't yet a reality.

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