IOSR Journal Of Humanities And Social Science (JHSS)
ISSN: 2279-0837, ISBN: 2279-0845. Volume 5, Issue 5 (Nov. - Dec. 2012), PP 99-109
www.Iosrjournals.Org

The Opportunities and Challenges of FDI in Retail in India

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Abstract: *The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major challenges that it faces.*
Key Words: *FDI, Indian retail sector, Opportunities and Challenges, Impact on Stakeholders.*

I. Introduction

Widespread liberalization and deregulation of financial markets, cross-border mergers and acquisitions (M&As), increasing role of investors willing to invest abroad, rapid advances in modern telecommunication and computer network – have all resulted in a tremendous upsurge of international capital flows in India, particularly private capital flows, as compared to official capital flows over the last two decades. Among the various forms of foreign investment, foreign direct investment (FDI) flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depends on the performance of projects financed by the investors. In fact, FDI provides a win – win situation to both the host and the home countries. The 'home' countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the 'host' countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, in order to overcome the deficiencies of all kinds of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets-abroad - in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities.

Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space. Retail modernization in India depicts a similar story.

According to A.T. Kearney's Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. Being encouraged by India's growing retail boom many multinational companies also started to enter India's retail market. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

II. Objective Of The Study And Methodology

The objective of our study is to analyze the current retail scenario in India, investigate the controversial views of the various stakeholders and evaluate the likely challenges and threats of FDI in both single and multi-brand retail in India. The whole paper is based on descriptive arguments, statistical data, case studies, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

III. Indian Retail Sector: An Overview And Current Position

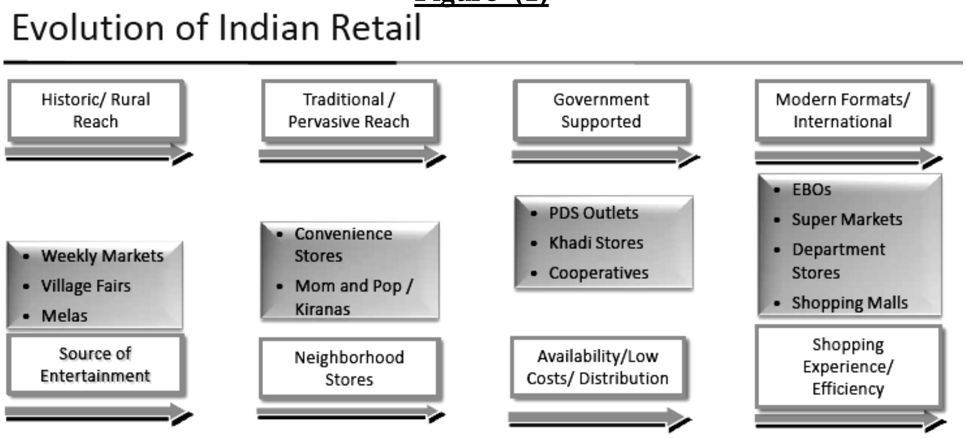
1.1 ***Meaning of retail***

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. In 2004, The High Court of Delhi defined the term ‘retail’ as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

1.2 ***Evolution of Indian Retail Industry***

It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were transformed Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc has brought a great revolution to the Indian retail market (figure-1)

Figure- (1)



Source: Technopak Research

1.3 ***Distinction of Indian Retail***

The Indian trading sector, as it has developed over centuries, is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent retailers (‘vertical separation’) and (b) directly from the producer (‘vertical integration’). In India, however, the above two modes of operation are not very common. Small and medium enterprises dominate the Indian retail scene. The trading sector is highly fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Retail giants like US-based Wal-Mart and French Carrefour are very keen to enter in the segment. Bharti Enterprises and Wal-Mart Stores entered into a joint venture in August 2007 and started cash-and-carry stores named 'Best Price Modern Wholesale' in 2009.

1.4 ***Division of Indian Retail Industry***

The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing.

(a) Organized Retailing - refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

(b) Unorganized Retailing - refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

Table-1
Share of Organized Retail in Selected Countries, 2006

Country	Total Retail Sales (US$ bn)	Share of Organized Retail (%)
USA	2,983	85
Japan	1,182	66
China	785	20
United Kingdom	475	80
France	436	80
Germany	421	80
India	**322**	**4**
Brazil	284	36
Russia	276	33
Korea, South	201	15
Indonesia	150	30
Poland	120	20
Thailand	68	40
Pakistan	67	1
Argentina	53	40
Philippines	51	35
Malaysia	34	55
Czech Republic	34	30
Vietnam	26	22
Hungary	24	30

Source: Planet Retail and Technopak Advisers Pvt. Ltd.

In the developed economies, organized retail is in the range of 75-80 per cent of total retail, whereas in developing economies, the unorganized sector dominates the retail business. The share of organized retail varies widely from just one per cent in Pakistan and 4 per cent in India to 36 per cent in Brazil and 55 per cent in Malaysia (Table-1). Modern retail formats, such as hypermarkets, superstores, supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by family-run neighbourhood shops and open markets. As a consequence, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain in these countries.

Recent statistics states that though organized retail in India constituted a meager 4 percent of total retail in 2006, but it is expanding at a much faster pace of 45-50 percent per annum and has quadrupled it share to 16 percent by2011-12. The unorganized retail sector is also growing at about 10 percent per annum with sales rising from US $ 309 billion in 2006-07 to US $ 496 billion in 2011-12.

1.5 *Types of Retailing in India*

(a) Single Brand- Single brand implies that foreign companies would be allowed to sell goods sold internationally under a ‘single brand’, viz., Reebok, Nokia and Adidas. FDI in ‘Single brand’ retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

(b) Multi Brand- FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ’kirana’ store.

The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

While the minimum capital requirement of US$ 100 million is unlikely to be an issue for the large foreign players vying to enter India in the supermarket/ hypermarket segment, it could make it difficult for foreign investors planning to enter specialty formats such as music, mobile, electronics goods, among others, as these formats require relatively lower investments. Further, the approval requirements from State Governments could limit the cities that FDI backed retailers can operate in. The current opposition raised by a number of political parties, if persists, may pose a major roadblock in the entry of the foreign retailers in India. Besides restricting the number of cities these retailers can operate in, it could also lead to problems in creating supply chain efficiency.

Table- 2: A Comparison of Norms under Single-brand and Multi-brand Retail in India

Parameters	Multi-brand	Single-brand
Ownership/ Investment Requirement	Minimum investment of US$ 100million by the foreign investor	The foreign investor should be an owner of the brand
Investment towards back-end infrastructure	At least 50% of the investment by the foreign company to be in back-end infrastructure[1]	No condition
Location of stores	Stores to be restricted to cities with a population of one million or more (53 cities as per 2011 Census); given constraints around real estate, retailers are allowed to set up stores within 10 km of such cities	No Condition
Sourcing	At least 30% of manufactured items procured should be through domestic small and medium enterprises (SMEs)	In respect of proposals involving FDI beyond 51%, 30% sourcing would mandatorily have to be done from domestic SMEs and cottage industries artisans and craftsmen
Sales	No Condition	Products to be sold should be of a 'single brand' (only those brands which are branded during manufacturing) only; sold under the same brand name internationally
Approval of State Governments required	While the proposals on FDI will be sanctioned by the Centre, approvals from each State Government would be required	While the proposals on FDI will be sanctioned by the Centre, approvals from each State Government would be required

Source: Press Information Bureau, ICRA

[**Note:** [1] Back-end infrastructure will include capital expenditure on all activities, excluding that on front-end units; i.e. it will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehouse, agriculture market produce infrastructure, etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of back-end infrastructure]

1.6 *Rationale Behind Allowing FDI in Retail Sector*

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country, & its productive use in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmers' income & agricultural growth and assist in lowering consumer prices inflation.10 Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

Indian Council of Research in International Economic Relations (ICRIER) has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to the conclusion that investment of 'big' money (large corporate and FDI) in the retail sector would in the long run not harm interests of small traditional retailers.

1.7 ***Entry Options for Foreign Players Prior to FDI Policy (2006)***

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

(a) Franchise Agreements:

It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

(b) Cash And Carry Wholesale Trading:

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

(c) Strategic Licensing Agreements:

Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd.

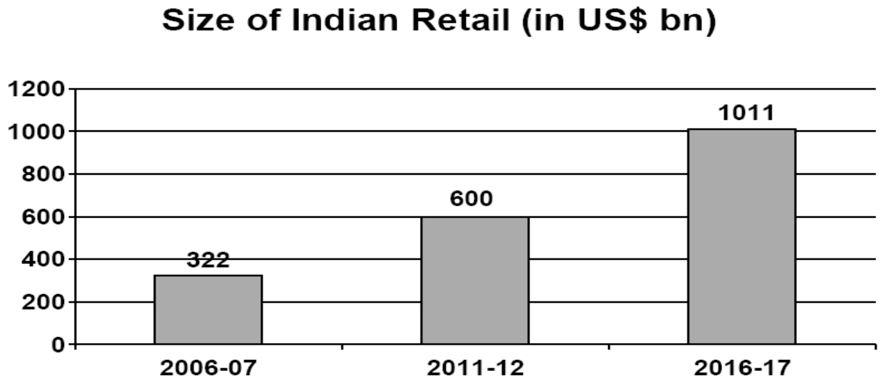
(d) Manufacturing and Wholly Owned Subsidiaries:

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

1.8 ***Current Position and FDI Norms in Indian Retail***

In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011). According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17 (figure-2)

Figure- (2)



Source: Technopak Analysis, CSO and other sources.

Being aware of the large market, growing consumerism and brand-consciousness and to provide a greater fillip to high economic growth, in 1997, the Indian retail sector witnessed the first footprints of FDI with

100% FDI being permitted in cash & carry wholesale trading under the government approval route, subsequently brought under the automatic route in 2006. As a step ahead, FDI in single brand retail was permitted to the extent of 51% in 2006, while FDI in multi-brand retail remained prohibited till recently. Despite changes in consumer behaviour and retail modernization, India is one of the few countries where FDI was prohibited in multi-brand retail (until 2011), primarily to protect the traditional mom-and-pop retailers. This policy restricts global low-cost multi-brand retailers such as Wal-Mart, Tesco and Metro AG from catering directly to Indian consumers. Within the country, there has been significant debate on whether FDI should be allowed in multi-brand retail. In July 2010, the Department of Industrial Policy and Promotion (DIPP) released a Discussion Paper on *'Foreign Direct Investment (FDI) in Multi-Brand Retail Trading'* to facilitate discussion and debate on whether FDI should be allowed in multi-brand retail and, if so, what conditions should be imposed on FDI. Although a number of issues have been discussed in the Discussion Paper, the implications of the liberalization for Indian consumers have not been discussed. The Economic Survey of 2010-11 mentioned that a phased opening of FDI in multi-brand retail is likely to benefit the consumers, but did not state the exact benefits. In July 2011, a Committee of Secretaries (CoS) had cleared the proposal to allow up to 51% FDI in multi-brand retail, which has been approved by the Union Cabinet in November 2011, albeit with a few riders to set up the supply chain and reduce inflation. The Union Cabinet has also approved increasing the FDI limit in single brand retail to 100% with government approval. While no parliamentary approval is needed for the decision, State Governments have the prerogative to disallow the same in their respective states.

As a part of the economic liberalization process set in place by the Industrial Policy of 1991, the government of India opened up the retail sector to FDI through a series of steps:

- 1995 – World Trade Organization's (WTO) General Agreement on Trade in Services (GATS) which included both wholesale and retail trade in services came into effect.
- 1997 – FDI in cash and carry (wholesale) allowed up to 100% under the government approval route.
- 2006 **-** FDI in single brand retail was permitted to the extent of 51%; FDI in cash and carry brought under automatic route.
- 2011 – 100% FDI in single-brand retail permitted with government approval; 51% FDI in multi-brand retail with few conditions.

IV. Opportunities And Threats Of Fdi In Retail In India

Market liberalization, a growing middle-class, and increasingly assertive consumers are sowing the seeds for a retail transformation that will bring more Indian and multinational players on the scene. India is tipped as the second largest retail market after China, and the total size of the Indian retail industry is expected to touch the $300 billion mark in the next five years from the current $200 billion. But the recent debate has centered on the issue of whether FDI in retail in India will be a "boon or a bane". Many studies and surveys were conducted to analyze the impact of FDI in retail sector in various segments of the economy. According to a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP, 2010), FDI in retail must result in backward linkages of production and manufacturing and spur domestic retailing as well as exports. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits.

Key Perceived Opportunities

The following may be regarded as major perceived benefits of allowing FDI in retail in India:

1. Capital Infusion- This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

2. Boost Healthy Competition and check inflation- Supporters of FDI argue that entry of the many multi-national corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

3. Improvement in Supply Chain- Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).

4. Improvement in Customer Satisfaction- Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.

5. Improved technology and logistics- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

6. Benefits for the Farmers- Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can benefit with the "farm-to fork" ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

7. Creation of More And Better Employment Opportunities- The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

Key Potential Threats

Critics of 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 major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood. The major threats to the domestic retailers in India are specified below:

1. Domination of Organized Retailers- FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets (local "mom and pop" stores will be compelled to close down).

2. Create Unemployment- Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.

3. Loss of Self Competitive Strength- The Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.

4. Indirectly Leads to Increase in Real Estate Cost- It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

5. Distortion of Culture: Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

V. Impact Of Fdi On Various Stakeholders:

The Confederation of Indian Industry (CII) conducted a survey during December 2011 to January 2012 on the impact of FDI on Small and Medium Enterprises (SMEs) based on a large sample size of 250 companies covering different categories of SMEs according to sales turnover. A majority of the SME companies, surveyed have supported the government's decision and the notification allowing 100% FDI in single brand retail and about 52 percent of respondents hope for early implementation of 51% FDI in multi-brand retail. On the question how the SME industry consider entry of MNC retailers as a threat or opportunity, majority of respondents (66.7%) see it as an opportunity for their sector while around 21 % of respondents perceive it as a threat. About 12.5 percent of respondents are of the opinion that the decision would have little or no impact on their company.

1. Effect on Traditional Mom and Pop Stores- Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations. Because of this, such businesses are usually very low-margin, are owner-operated, and have mostly negligible real estate and labour costs. Such small shops develop strong networks with local neighbourhoods. The informal system of credit adds to their attractiveness. Moreover, low labour costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighbourhood shops and towards large-scale retailers may be a major challenge. The experience of large Indian retailers such as Big Bazaar shows that it is indeed possible. The oppositions, on the other hand, believe that local kirana shops will not be affected. The kirana stores operate in a different environment catering to a certain set of customers and they will continue to find new ways to retain them.

Case Study of China:

FDI in retailing was permitted in China for the first time in 1992. Foreign retailers were initially permitted to trade only in six Provinces and Special Economic Zones. Foreign ownership was initially restricted to 49%. Foreign ownership restrictions have progressively been lifted and, and following China‗s accession to WTO, effective December, 2004, there are no equity restrictions. Employment in the retail and wholesale trade increased from about 4% of the total labour force in 1992 to about 7% in 2001. The numbers of traditional retailers were also increased by around 30% between 1996 and 2001. In 2006, the total retail sale in China amounted to USD 785 billion, of which the share of organized retail amounted to 20%. Some of the changes which have occurred in China, following the liberalization of its retail sector, include:

(i) Over 600 hypermarkets were opened between 1996 and 2001

(ii) The number of small outlets (equivalent to "kiranas‟) increased from 1.9 million to over 2.5 million.

(iii) Employment in the retail and wholesale sectors increased from 28 million people to 54 million people from 1992 to 2000.

Thus the above discussion and case of China suggest that it is too early to predict the erosion of mom and pop stores in India with opening of multi-brand retail sector in India to foreign investors.

2. Effect on Farmers- It is being claimed by the advocates of FDI in retail that the elimination of intermediaries and direct procurement by the MNCs would secure better prices for the farmers. The fact is that the giant retailers would have far greater buyer power vis-à-vis the farmers compared to the existing intermediaries. The entry of giant MNCs into agricultural procurement would make the problems worse for the farmers. As against the 'mandis' that operate today, where several traders have to compete with each other in order to buy the farmers' produce, there will be a single buyer in the case of the MNCs. This will make the farmers dependent on the MNCs and vulnerable to exploitation. On the contrary, the advocates of FDI believe that FDI in retail in the agriculture will help in improving supply chain, infrastructure and ensure economic security for farmers through the elimination of middlemen in the country.

Case Study:

Case 1- PepsiCo India- Helping Farmers Improve Yield and Income-

Today PepsiCo India‗s potato farming programme reaches out to more than 12,000 farmer families across six states. We provide farmers with superior seeds, timely agricultural inputs and supply of agricultural implements free of charge. They have an assured buy-back mechanism at a prefixed rate with farmers. This insulates them from market price fluctuations. Through our tie-up with State Bank of India, we help farmers get credit at a lower rate of interest. They have arranged weather insurance for farmers through our tie-up with ICICI Lombard.

Case 2- Bharti Walmart initiative through Direct Farm Project-

Corporate Social Responsibility (CSR) initiatives in Bharti Walmart are aimed at empowerment of the community thereby fostering inclusive growth.

- They focused on enhancing opportunities in the areas of education, skills training and generating local employment, women empowerment and community development.

- In conjunction with the farmers' development program in Punjab, community-building activities have been implemented in village, Haider Nagar.
- Due to lack of sanitation facilities, households tend to use the farm fields, thereby affecting yields and impacting the produce that is being supplied to stores. In order to improve the yields and the community's way of life, we are working on the issues of Sanitation and Biogas, Education, Awareness Building and Health and Hygiene.

3. Effect on Consumers- With liberalization, economic growth and changes in Indian consumers" demographic and economic profile and their shopping behaviour, the retail sector is undergoing changes. At present, foreign retailers operate in India through both store and non-store formats. In terms of the shopping behaviour of Indian consumers across different retail outlets, traditional outlets are preferred as consumers can bargain while modern outlets are preferred because they link entertainment with shopping. Those who purchase at modern outlets have reported better product quality, lower prices, one-stop shopping, choice of more brands and products, better shopping experiences with family and fresh stocks as some of the reasons for their choice of outlet. On the other hand, proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery, etc., are some of the benefits of traditional outlets (Joseph and Soundararajan 2009). Consumers are the major beneficiaries of the retail boom as organized retailers are initiating measures such as tracking of consumer behaviour and consumer loyalty programmes to retain their market share (Mukherjee and Patel (2005)).

Authors of ICRIER Policy series paper (August, 2011) and various other surveys have pointed out that most consumers are willing to experiment to different brands and so they are in favour of allowing FDI in retail. Apart from providing Indian consumers more choices in the form of reputed, good quality brands, liberalizing multi-brand retailing in India is likely to facilitate much greater inflows of investments. This, in turn, will lead to the development of more efficient and lower cost supply chains, resulting in better quality as well as lower-priced products for Indian consumers. This will increase consumer spending, which in turn, will drive growth in all sectors of the economy in a virtuous cycle.

Case Study:

Consumers of Indian Telecommunication and Automobile Retail Sector have benefited a lot from liberalizing FDI. In the telecommunication sector, it has led to more access, better quality, better services and lower prices for consumers. The entry of foreign players in the automobile sector has made the domestic industry globally competitive and even middle and low-income consumers in India can now afford to own cars. Global experiences show that FDI in retail can sometimes negatively impact consumers if corporate retailers adopt anti-competitive practices such as predatory pricing. In India, the Competition Act 2002 has provisions to check abuse of dominant position by major players, including predatory pricing.

4. Effect on Existing Indian Organized Retail Firms- The existing Indian organized retail firms (such as Spencer's, Foodworld Supermarkets Ltd, Nilgiri's and ShopRite) support retail reforms and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management.

Case Study:

Case 1: Spencer's Retail with 200 stores in India, and with retail of fresh vegetables and fruits accounting for 55% of its business claims retail reform to be a win-win situation, as they already procure the farm products directly from the growers without the involvement of middlemen or traders. Spencer's claims that there is scope for it to expand its footprint in terms of store location as well as procuring farm products.

Case 2: Foodworld, which operates over 60 stores, plans to ramp up its presence to more than 200 locations. It has already tied up with Hong Kong-based Dairy Farm International. With the relaxation in international investments in Indian retail, India's Foodworld expects its global relationship will only get stronger.

Though it is too early to assess the true impact of allowing FDI in single-brand and multi-brand retailing in India, but still the Govt. argues strongly in favour on the ground that it will provide huge gainful employment in agro-processing, marketing and logistics, help farmers' secure remunerative prices by eliminating exploitative middlemen, ensure supply chain efficiencies, bring investment in back-end infrastructure and also create a multiplier effect for employment, technology up gradation and income generation by sourcing of a minimum of 30% from Indian micro and small industry. The opposition, however, argues that there will be a large-scale job loss according to international experience and global retail giants will resort to predatory pricing to create monopoly/oligopoly. So, opening up of FDI in multi-brand retail in India could potentially be a mixed blessing for domestic players. Hence adequate safeguards should be built in so that it does not end up in a losing proposition.

VI. Policy Suggestions

Many foreign companies have already entered into Indian market through the available modes such as, Franchising and Exporting. They are much eager to change their entry to FDI that would strengthen their operations in India. However, if FDI in retail is liberalized by considering the following suggestions it is expected bring in more of benefits than threats to the country.

- FDI should be initially allowed in less sensitive sectors and also in the sectors wherein the domestic companies are established strongly.
- Then FDI in retail should be liberalized in a phased manner like the case with China.
- Entry of foreign players must be gradual with social safeguards so that the effects of labor dislocation can be minimized.
- Adequate attention should be paid to procuring, staff recruitment, investments in warehouse, cold storage, infrastructure, competition and retail formats so that not only does the money comes in but also it's a win-win situation for the current national retailer as well as “mom and pop” stores who account for 70% of the retail business even after the arrival of national retailers from the corporate giants like the Tata, Reliance, Future Group and the Birla's.
- The government should take initiatives to improve the manufacturing sector. If the manufacturing is strengthened, the displaced employees of the retail industry could be well accommodated there. \
- A National Commission should be set up to study the problems of the retail sector which should also evolve a clear set of conditionality on foreign retailers on procurement of farm produce, domestically manufactured merchandise and imported goods. This conditionality must state minimum space, size and other details like construction and storage standards.

VII. Conclusion

Debates, discussions and conflicting views exit among policy makers, economists and social thinkers on the issue of estimating the costs and benefits of allowing FDI in both single and multi-brand retail in India. A recent study by University of North Carolina economist Anusha Chari and T C A Madhav Raghavan (of ISI, New Delhi), March 2011, shows that the potential benefits of allowing large retailers into the country significantly outweigh the costs. These benefits largely accumulate through productivity gains. With respect to the impact of entry by big-box stores such as Wal-Mart on retail employment and earnings, evidence from the United States is mixed. Using county-level data, a recent study finds that Wal-Mart entry increases retail employment in the year of entry (Basker, 2005a) while contrasting evidence indicates that each Wal-Mart worker replaces approximately 1.4 retail workers representing a 2.7 percent reduction in average retail employment (Neumark, Zhang and Ciccarella, 2008). While describing the retail experience in Thailand Sarma (2005) shows how traditional shopkeepers continued to suffer even when the Thai economy recovered, after the Asian crisis of the late 1990s. Foreign-owned retailers, he argues, “grabbed a big share of the retail market, often through unethical means.”

The UK Competition Commission found in a 2000 study6 of major retail chains including Marks & Spencer, Sainsbury and Tesco that “the burden of cost increases in the supply chain has fallen disproportionately heavily on small suppliers such as farmers.” Apart from prices, the report states that smaller farmers came under severe pressure from supermarkets due to the latter’s requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk.

Observed supermarket practices too may work against the interests of incumbent retailers, even organized ones. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops.

The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises (DIPP Report, 2010). With a restriction of this sort, the opening up of the retail sector to FDI could therefore provide a boost to small-and medium enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. So it is very difficult to predict the future of Indian retail sector. But the government of India must be cautious about the apprehensions raised by the critics and adequate safeguards must be taken so that the positive effects may outweigh the negative ones and the traditional retailers coexist even after big foreign retailers enter the market.

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