FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR: STRATEGIC ISSUES AND IMPLICATIONS

Amisha Gupta
Assistant Professor
The Business School
University of Jammu

ABSTRACT
Indian retail industry is one of the sunrise sectors with huge growth potential. 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. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organised retailing in India has been much slower as compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the ongoing wave of incessant liberalization and globalization, stems from the absence of an FDI encouraging policy in the Indian retail sector. In this context, the present paper attempts to analyse the strategic issues concerning the influx of foreign direct investment in the Indian retail industry. Moreover, with the latest move of the government to allow FDI in the multi-brand retailing sector, the paper analyzes the reason why foreign retailers are interested in India, the strategies they are adopting to enter India and their prospects in India. The findings of the study point out that FDI in retail would undoubtedly enable India Inc to integrate its economy with that of the global economy. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged.

Keywords: *Organised retail, sunrise sector, globalisation, foreign direct investment, strategic issues and prospects.*

INTRODUCTION

The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, retail industry is one of the fastest growing industries in India, especially over the last few years. With growing market demand, the industry is expected to grow at a pace of 25-30% annually. The Indian retail industry is expected to grow from Rs. 35,000 crore in 2004-05 to Rs. 109,000 crore by the year 2010. The Indian retail industry is the most promising emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country. In 2009, it rose to 12%. It is also expected to reach 22% by 2010(Kearney, A.T).

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. It is expected that India will be among the top 5 retail markets then. The organized sector is expected to grow to $100 bn and account for 12-15% of retail sales by 2015(Singhal 1999). However, in late 1990's the retail sector has witnessed a level of transformation. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. According to a report by **Northbride Capita**, the India retail industry is expected to grow to US$ 700 billion by 2010. By the same time, the organized sector will be 20% of the total market share.

Table 1:
Share of Organised Retail

Year	1999	2002	2005
Total Retail (in billion INR)	7000	8250	10000
Organized Retail (in billion INR)	50	150	350
% Share of Organized Retail	0.70%	1.80%	3.5%

Source: Confederation of Indian Industries

It can be mentioned here that, the share of organized sector in 2007 was 7.5% of the total retail market. Organized retail business in India is very small but has tremendous scope. The total in 2005 stood at $225 billion, accounting for about 11% of GDP. In this total market, the organized retail accounts for only $8 billion of total revenue. According to A T Kearney, the organized retailing is expected to be more than $23 billion revenue by 2010 (http://www.articlebase.com).

As the retail market place changes shape and competition increases, the potential for improving retail productivity and cutting costs is likely to decrease. Therefore it is important for retailers to secure a distinctive position in the market place based on values relationships or experience. Also, as the organised retail space in India continues to grow, it is likely to see a number of initiatives in the near future. Companies are likely to combine expansion with innovative measures as they look to ensure profitability in difficult times. One such initiative includes assessing the prospects of foreign players in this sector through foreign direct investment.

The advent of FDI in India was witnessed during the end of 1990's when the Indian national government announced a number of reforms which aimed at helping in the process of liberalization and deregulation of the Indian economy. Since its inception there has been a remarkable surge in the FDI inflows in the country. The total amount of FDI in India came to around US$ 42.3 billion in 2001, in 2002 this figure stood at US$ 54.1 billion, in 2003 this figure came to US$ 75.4 billion, and in 2004 this figure increased to US$ 113 billion. This shows that the flow of foreign direct investment in India has grown at a very fast pace over the last few years (http://business.mapsofindia.com). According to the latest data released by Department of Policy and Promotion (DIPP) the FDI inflow during 2008-09 (from April 2008 to March 2009) stood at approx. US$ 27.3 billion. It is interesting to note here that as per an UNCTAD study India achieved a substantial 85.1 per cent increase in FDI flows in calendar year 2008—the highest increase across all countries—even as global flows declined by 14.5 per cent (UNCTAD 2008). Moreover, FDI for all the permissible 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, which is accorded on the recommendation of the Foreign Investment Promotion Board (FIPB).

In recent years the destination sectors in FDI have became more varied. FDI inflows have shifted from infrastructure, natural resources and export driven manufacturing to other areas such as retailing, tourism, construction and off shore services. A World Bank study showed that cumulative FDI inflows to the retail sector in the 20 largest developing countries amounted to US$ 45 billion in 1998-2002 (about 7 per cent of the total of these countries). The study showed that after liberalization; countries such as Brazil, Poland and Thailand have received significant FDI in retailing. Needless to say, but FDI inflows has evidently proved to be very advantageous for the overall development of the Indian economy and inter alia has resulted in increased capital flow, improved technology, notable management expertise and favourable access to international markets.

Despite all the advantages that come along foreign investment in any sector of the economy, it is to be noted that FDI in India is not liberally allowed in all sectors including the retail sector, where FDI is either absolutely forbidden on the grounds of national interest, or, other sectors where the existing and notified sectoral policy does not permit FDI beyond a ceiling (http://dipp.nic.in/manual/manual_0403.pdf). In this context, the present paper attempts to analyse the strategic issues concerning the influx of foreign direct investment in the Indian retail industry. The entire discussion is spread across five sections, the first being the introduction. Section II highlights the strategic issues concerning the Indian retail sector; section III focuses on the strategic implications of FDI in the retail sector; while section IV assesses the role of FDI in boosting the organized retail sector in India. Section V concludes the discussion and also puts forth some recommendations for exploiting the potential of the Indian retail sector through the positives of foreign direct investment.

SECTION II: STRATEGIC ISSUES CONCERNING RETAIL SECTOR IN INDIA

Retailing is the largest private industry in India and second largest employer after agriculture. The sector contributes to around 10 percent of GDP. With over 12 million retail outlets, India has the highest retail outlets density in the world. This sector witnessed significant development in the past 10 years from small unorganized family owned retail formats to organized retailing. Liberalization of the economy, rise in per capita income and growing consumerism has encouraged large business and venture capitalist in investing in retail infrastructure. The importance of retail sector in India can be judged from following facts (a) Retail sector is the largest contributor to the Indian GDP (b) The retail sector provides 15% employment (c) India has world largest retail network with 12 million outlets (d) Total market size of retailing in India is U.S $ 180 billion (e) Current share of organized retailing is just 2% which comes around to $3.6 trillion (f) organized retail sector is growing @ 28% per annum.

The Indian retail sector 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 the latter case, the producers establish their own chains of retail outlets, or develop franchises.

On the other hand, Indian retail industry is divided into organised and unorganised sectors. Organised 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 supermarkets and retail chains, and also the privately owned giant retail businesses. Unorganised retailing, on the other hand, 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. Unorganized retailing is by far the prevalent form of trade in India – constituting 98% of total trade, while organised trade accounts only for the remaining 2% – and this is projected to increase to 15-20 per cent by 2010 (Singhal 2009). Nonetheless the organized sector is expected to grow faster than GDP growth in next few years driven by favorable demographic patterns, changing lifestyles, and strong income growth.

Growth drivers in India for retail sector

The retail industry in India is currently growing at a great pace and is expected to go up to US$ 833 billion by the year 2013. It is further expected to reach US$ 1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rate, the consumer spending has also gone up and is also expected to go up further in the future. In the last four years, the

consumer spending in India climbed up to 75%. As a result, the Indian retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%.

The key factors that drive growth in retail industry are young demographic profile, increasing consumer aspirations, growing middle class incomes and improving demand from rural markets. Also, rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes. Liberalization of the Indian economy, increase in spending percapita income and the advent of dual income families also help in the growth of retail sector. Moreover, consumer preference for shopping in new environs, availability of quality real estate and mall management practices and a shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc. also contributes to the spiral of growth in this sector. Furthermore, the Internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains. Reach of satellite T.V. channels is helping in creating awareness about global products for local markets. About 47% of India's population is under the age of 20; and this will increase to 55% by 2015. This young population, which is technology-savvy, watch more than 50 TV satellite channels, and display the highest propensity to spend, will immensely contribute to the growth of the retail sector in the country.

Moreover, the retail sector also acts as an important employment absorber for the present social system. Thus, when a factory shuts down rendering workers jobless; or peasants find themselves idle during part of the year or get evicted from their land; or the stagnant manufacturing sector fails to absorb the fresh entrants into the job market, the retail sector absorbs them all.

Challenges of Retailing in India

In India the retailing industry has a long way to go and to become a truly flourishing industry, retailing needs to cross various hurdles. The first challenge facing the organized retail sector is the competition from unorganized sector. Needless to say, the Indian retail sector is overwhelmingly swarmed by the unorganized retailing with the dominance of small and medium enterprises in contradiction to the presence of few giant corporate retailing outlets. The trading sector is also highly fragmented, with a large number of intermediaries who operate at a strictly local level and there is no ‘barrier to entry’, given the structure and scale of these operations (Singhal 1999).

The tax structure in India favors small retail business. Organized retail sector has to pay huge taxes, which is negligible for small retail business. Thus, the cost of business operations is very high in India. Developed supply chain and integrated IT management is absent in retail sector. This lack of adequate infrastructure facilities, lack of trained work force and low skill level for retailing management further makes the sector quite complex. Also, the intrinsic complexity of retailing- rapid price changes, threat of product obsolescence, low margins, high cost of real estate and dissimilarity in consumer groups are the other challenges that the retail sector in India is facing.

The status of the retail industry will depend mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailers and demands of the customers also show impact on retail industry. Even though economy across the globe is slowly emerging from recession, tough times lie ahead for the retail industry as consumer spending still has not seen a consistent increase. In fact, consumer spending could contract further as banks have been overcautious in lending. Thus, retailers are witnessing an uphill task in terms of wooing consumers, despite offering big discounts. Additionally, organised

retailers have been facing a difficult time in attracting customers from traditional kirana stores, especially in the food and grocery segment.

In retail sector, Automatic approval is not allowed for foreign investment. There are restrictions on Foreign Direct Investment imposed in order to protect the interests of the country and also in order to allow the domestic companies to make more profits with less competition than that of in the presence of rival international firms. The retail trading in India constitutes as one of those few sectors where FDI is not freely and healthily allowed. Although, FDI is fully admissible in 'cash and carry' wholesale (back-end retail), it is admissible only up to 51 percent in single-brand front-end retail (http://dipp.nic.in/manual/manual_0403.pdf). Importantly, there is a complete ban on foreign investment in multi-brand, front-end retail. This has resulted in keeping all the giant corporate – backed retailers of the world like Walmart (USA), Carrefour (France), Tesco (UK), and Metro (Germany), who are very keen to foray into India's retail sector, away from entering into the country. All of these retailers, therefore, to make their presence felt in the country, have either tied-up or trying to tie-up with local corporates, to offer their services for back-end operations like sourcing, logistics, inventory management, among others, for front-end, multi-brand retail operations of such corporates.

While in some sectors the restrictions imposed by the government are comprehensible; the restrictions imposed in few others, including the retail sector, are utterly baseless and are acting as shackles in the progressive development of that particular sector and eventually the overall development of the Indian Inc. The scenario is kind of depressing and unappealing, since despite the ongoing wave of incessant liberalization and globalization, the Indian retail sector is still aloof from progressive and ostentatious development. This dismal situation of the retail sector undoubtedly stems from the absence of an FDI encouraging policy in the Indian retail sector.

SECTION III: STRATEGIC IMPLICATIONS OF FDI IN RETAIL

In spite of the recent developments in retailing and its immense contribution to the economy, it still continues to be the least evolved industries and the growth of organised retailing in India has been much slower as compared to rest of the world. Over a period of 10 years, the share of organised retailing in total retailing has grown from 10 per cent to 40 percent in Brazil and 20 percent in China, while in India it is only 2 per cent (between 1995-2005). One important reason for this is that retailing is one of the few sectors where foreign direct investment is not allowed. Within the country, there have been protests by trading associations and other stakeholders against allowing FDI in retailing. On the other hand, the growing market has attracted foreign investors and India has been portrayed as an important investment destination for the global retail chains (http://www.articlesbase.com).

The need for larger FDI is because India is at a stage where it needs US investments, technology, and management policies to sustain and enhance its economic growth. In 2006, Foreign Direct Investment (FDI) in India amounted to US$37 billion, out of which only $5 billion was from the US. This was not a very encouraging figure in view of the goal of increasing the GDP by 34-36%. India still requires an FDI component equal to 4% of the GDP. The US needs to invest more in various sectors of the Indian economy. As such, India is rated as the 2nd best economy to invest in, after China. India is looking forward to a high growth rate of almost 16% – double that of the current 8%. Hence, there is a distinct need for larger FDI. There are other necessities which a larger FDI will cater to viz., employment generation, income generation, technology transfer, and economic stability. Hence, the need for larger FDI is a pressing situation these days in India. Foreign countries are well aware of this, and many of them are taking extra initiative to invest in the Indian economy.

Lately there has been a remarkable surge in the demand for the liberalization of the Indian retail sector both at the domestic and as well as at the international front and it seems that the government is giving the matter a very pensive and careful consideration. Some of the factors that have contributed to this trend are the evident profits in the ever growing but conserved Indian retails sector, reduction in tariff, cheaper real time communications, and cheaper transport. The main reasons for such an unequivocal demand stems from the realisation that (i) while the retail sector requires heavy investment for expansion, there is hardly any local capital left in the capital markets as a consequence of global financial meltdown, and (ii) efficient management of multi-brand, multi-product, multi location retail, especially in the area of back-end operations, require heavy dose of technology, which over the years has been developed and perfected by foreign players.

Major Attractions for Global Retailers in India

Retailing is being perceived as a beginner and as an attractive commercial business for organized business i.e. the pure retailer is starting to emerge now. Indian organized retail industry is one of the sunrise sectors with huge growth potential. Total retail market in India stood at USD 350 billion in 2007-08 and is estimated to attain USD 573 billion by 2012-13. Organised retail industry accounts for only 5.5% of total retail industry and is expected to reach 10% by 2012 (http://business.rediff.com). AT Kearney, the well-known international management consultancy, recently identified India as the 'second most attractive retail destination' globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign investors' eyes. With a contribution of an overwhelming 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy (http://www.indiaretailbiz.com/blog/2009/07/02).

Foreign companies' attraction to India is the billion-plus population. Also, there are huge employment opportunities in retail sector in India. India's retail industry is the second largest sector, after agriculture, which provides employment. According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in the next few years. As per the US Census Bureau, the young population in India is likely to constitute 53per cent of the total population by 2020 and 46.5 per cent of the population by 2050 — much higher than countries like the US, the UK, Germany, China etc. India's demographic scenario is likely to change favourably, and therefore, will most certainly drive retail sales growth, especially in the organised retail segment. Even though organised retailers have a far lesser reach in India than in other developed countries, the first-mover advantage of some retail players will contribute to the sector's growth.

India in such a scenario presents some major attractions to foreign retailers. There is a huge, huge industry with no large players. Some Indian large players have entered just recently like Reliance, Trent. Moreover, India can support significant players averaging $1 bn. in Grocery and $0.3- 0.5 bn. in apparel within next ten years. The transition will open multiple opportunities for companies and investors. In addition to these, improved living standards and continuing economic growth, friendly business environment, growing spending power and increasing number of conscious customers aspiring to own quality and branded products in India are also attracting to global retailers to enter in Indian market.

According to industry experts, organised retail in India is expected to increase from 5 per cent of the total market in 2008 to 14 - 18 per cent of the total retail market and reach US$ 450 billion by 2015 (Mckinsey 2008).Furthermore, during 2010-12, around 55 million square feet (sq ft) of retail space will be ready in Mumbai, national capital region (NCR), Bengaluru, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organised

retail real estate stock will grow from the existing 41 million sq ft to 95 million sq ft (Knight Frank India 2010).

Thus, there is certainly a lucrative opportunity for foreign players to enter the Indian terrain. Growth rates of the industry both in the past and those expected for the next decade coupled with the changing consumer trends such as increased use of credit cards, brand consciousness, and the growth of population under the age of 35 are factors that encourage a foreign player to establish outlets in India (Kalathur 2009). India thus continues to be among the most attractive countries for global retailers. Foreign direct investment (FDI) inflows between April 2000 and April 2010, in single-brand retail trading, stood at US$ 194.69 million, according to the Department of Industrial Policy and Promotion (DIPP).

The Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to conclusion that investment of 'big' money in the retail sector would in the long run not harm interests of small, traditional, retailers. A number of global retail giants are thus eyeing this opportunity to swarm this seemingly nascent sector and exploit its unexplored potential. Leading watchmaker Titan Industries Limited plans to invest about US$ 21.83 million for opening 50 premium watch outlets Helios in next five years to attain a sales target of US$ 87.31 million. British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years. M&S currently operates 17 stores in India through a joint venture (JV) with Reliance Retail. Similarly, Chinese retail major, Yishion has entered the Indian market and plans to have at least 125 points of sales, including exclusive stores and multi-brand outlets, across India by 2012. It will open its first exclusive store in New Delhi by September 2010. On the same lines,Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010. It further plans to open a total of five Zara outlets in India. Bharti Retail, owner of Easy Day store—supermarkets and hypermarts—plans to invest about US$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country by then, according to a company spokesperson. Raymond Weil plans to invest US$ 883,665 in India during 2010, according to Olivier Bernheim, President and CEO, Raymond Weil. However, it is not out of place to mention here that the government policies towards FDI are the only hindering factors that do not make this a fairy tale for foreign players.

Challenges for Global Retailers in Indian Retail Sector

History has witnessed that the concern of allowing unrestrained FDI flows in the retail sector has never been free from controversies and simultaneously has been an issue for unsuccessful deliberation ever since the advent of FDI in India. Where on one hand there has been a strong outcry for the unrestricted flow of FDI in the retail trading by an overwhelming number of both domestic as well as foreign corporate retail giants; to the contrary, the critics of unrestrained FDI have always fiercely retorted by highlighting the adverse impact, the FDI in the retail trading will have on the unorganized retail trade, which is the source of employment to an enormous amount of the population of India.

The antagonists of FDI in retail sector oppose the same on various grounds, like, that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agriculture sector; secondly that the global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers; thirdly, it would lead to asymmetrical growth in cities, causing

discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.

Many trading associations, political parties and industrial associations have argued against FDI in retailing due to various reasons. It is generally argued that the Indian retailers have yet to consolidate their position. The existing retailing scenario is characterized by the presence of a large number of fragmented family owned businesses, who would not be able to survive the competition from global players. The examples of south east Asian countries show that after allowing FDI, the domestic retailers were marginalised and this led to unemployment. Another apprehension is that FDI in retailing can upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in local products. The global retailers might resort to predatory pricing. Due to their financial clout, they often sell below cost in the new markets. Once the domestic players are wiped out of the market foreign players enjoy a monopoly position which allows them to increase prices and earn profits.

Indian retailers have argued that since lending rates are much higher in India, Indian retailers, especially small retailers, are at a disadvantageous position compared to foreign retailers who have access to International funds at lower interest rates. High cost of borrowing forces the domestic players to charge higher prices for the products. Another argument against FDI is that FDI in retail trade would not attract large inflows of foreign investment since very little investment is required to conduct retail business. Goods are bought on credit and sales are made on cash basis. Hence, the working capital requirement is negligible. On the contrary; after making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

The hope for the liberalization of the retail sector and an unrestrained reception to FDI in retail trading without any restrictions on the number of brands, outlets or location of stores got the biggest blow when the parliamentary standing committee on commerce on 8th June, 2009, while presenting a picture of gloom, recommended a blanket ban on domestic corporate and foreign retailers from entering retail trade and also suggested restrictions to bar organized retail firms from setting up malls and selling other consumer products (The Economic Times 2009). The report cautioned that allowing organized players, domestic and as well as foreign, to enter retail trade would result in the destruction of the economic foundation of the small retail supply chain. Moreover, the parliamentary committee has also suggested putting in place a regulation, a National Shopping Mall Regulation Act, to ensure that cartelization does not take place, and regulate the fiscal and social aspects of the retail sector.

The committee observed that Consumers' welfare would be sidelined, as the big retail giants by adopting a predatory pricing policy would fix lower price initially, tempting the consumers. After wiping out competition from local retailers, the big retailers would be in a monopolistic position and would be able to dictate prices, the panel said. It also said that procurement centers constituted by big corporates for making direct bulk purchases would initially pay attractive prices to farmers and cause gradual extinction of `mandis' and regulated market yards.

It is to be noted that though the recommendation of the panel are not binding upon the Government; the same have outrageously done the intended harm. In other words, the direct result of the media hype of the recommendations of the Panel was the abrupt stoppage of all the progressive investment plans of various corporate giants all across the globe, who were desirous of investing an irresistible amount of capital in the Indian markets, in order to establish their brand name. The world leading retailer Wal-Mart was very eager to open a retail chain throughout India. The retail giant did everything possible so that the Government

of India becomes inclined to liberalize FDI in retail sector. In February 2002, the world's largest retailer, Wal-Mart, opened a global sourcing office in Bangalore. In November 2006, it announced its entry under a joint venture with the Indian corporation Bharti. However, all attempts proved to be futile and the giant retail MNC finally settled up with the establishment of a cash – carry outlet in Amritsar on June 6, 2009. Such stores don't sell to end-users, but to retailers and middlemen. This is the only format under which foreign retail chains are allowed in India. It is submitted that at present, 100% FDI is permitted under automatic route in the wholesale cash – and carry trading (http://www.rupe-india.org/43/retail.html).

Unfortunately, the iconic $ 31-billion Scandinavian home products giant, IKEA, has put on hold its plans to set up 25 showrooms across the country foreign investment of around $ 1 billion. In an internal communication this week, IKEA told its stakeholders that Indian investment rules do not encourage it to go ahead with its investment plans — at least not in the near future (The Times of India 2009). Moreover, Carrefour, Cartier, Armani, Tesco and UK-based Curry's and Sports Direct International could also be some of the foreign retail players to cut down their investment in India following the government's FDI policy on retail. Thus, Indian retail may lose FDI of up to Rs 400 crore (Rs 4 billion) this fiscal because of recommendations by the Parliamentary Panel on Commerce, which has opposed further leeway to the entry of international retail brands in the country(http://toostep.com/debate/fdi-in-fashion-industry).

However, unfortunately the issue still remains nebulous; with only evident positive thinking on part of the government and with no final affirmative or negative decision on the same whatsoever (The Times of India 2009). Thus, it is to be noted that even though no decision has been taken by the government on the recommendations given by the panel; the direct ramifications of the recommendations have been evident considerable loss of FDI, managerial expertise, and jobs for the Indian retail industry along with sacrifice of the consumer's interest and welfare.

SECTION IV: IMPACT AND ROLE OF FDI IN INDIAN RETAIL SECTOR

In the fierce battle between the advocators and antagonist of unrestrained FDI flows in the Indian retail sector, the interests of the consumers have been blatantly and utterly disregarded. Therefore, one of the arguments which inevitably needs to be considered and addressed while deliberating upon the captioned issue is the interests of consumers at large in relation to the interests of retailers.

Interestingly, in contradiction to the recommendations of the Parliamentary Committee's report, the Economic Survey 2008-09 raised hopes of all those looking for a favourable response of the government on the subject. While, the Economic Survey has made a strong case for opening up the FDI for multi-brand retail, it has recommended a gradual opening of the sector. Improving the investment environment would require FDI in multi-format retail, starting with food retailing. Initially the FDI could be allowed subject to the setting up a modern logistics system, perhaps jointly with other organised retailers. A condition could also be put that it must have, for five years say, wholesale outlets where small, unorganised retailers can also purchase items to facilitate transition (http://www.indiaretailbiz.com/blog/2009/07/02).

Most modern organised retailers, who have been asking for removal of ban on FDI in retail, were excited with the recommendation made by the Survey in its report. In wake of relentless protests for the opening up of the Indian retail market for the reception of unrestrained FDI, the Investment Commission in July, 2006, suggested that 49% FDI be allowed in the Indian retail sector without any restrictions on the number of outlets or location of stores. The Commission opined that that foreign investment would help in improving the retail and

supply chain infrastructure, and generate large-scale employment in the country. In addition, the Indian retailers could absorb some of the best operational practices of these international retailers and gain in experience. Ultimately, the consumers would benefit due to the availability of more product offerings, lower prices, and efficient service. The recommendations of the Investment Commission proved to be very promising and paved the way for a positive feedback to the global retailers towards the Indian retail sector (Business Insights International 2009).

Thus, FDI in retailing is favoured on a number of grounds. The global retailers have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing. The entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices. Also FDI in retailing can easily assure the quality of product, better shopping experience and customer services. They promote the linkage of local suppliers, farmers and manufacturers, no doubt only those who can meet the quality and safety standards, to global market and this will ensure a reliable and profitable market to these local players. As multinational players are spreading their operation, regional players are also developing their supply chain differentiating their strategies and improving their operations to counter the size of international players. This all will encourage the investment and employment in supply chain management. Moreover, joint ventures would ease capital constraints of existing organised retailers and FDI would lead to development of different retail formats and modernization of the sector.

Therefore, FDI in retail would undoubtedly enable India Inc to integrate its economy with that of the global economy. FDI will help to overcome both – the lack of experience in organized retailing as well as lack of trained manpower. FDI in retail would reduce cost of intermediation and entail setting up of integrated supply chains that would minimize wastage, give producers a better price and benefit both producers and consumers. From the stand point of consumers, organized retailing would help reduce the problem of adulteration, short weighing and substandard goods (Bhukta 2009*)*. FDI will not just provide access to larger financial resources for investment in the retail sector but simultaneously will rationally allow larger supermarkets, which tend to become regional and national chains – (i) to negotiate prices more aggressively with manufacturers of consumer goods and thus pass on the benefit to consumers; and (ii) to lay down better and tighter quality standards and ensure that manufacturers adhere to them.

Moreover, consumer goods manufacturers generally prefer supermarkets since they not just offer a wide range of their products and services, so the consumer can enjoy single-point shopping, but simultaneously they by their attractive presentation and tempting retailing strategies also account for an increasing share of consumer product sales. Also, the fact that a well-known chain of supermarkets procures its goods from a known manufacturer becomes a stamp of quality. Moreover, with the availability of free flow of finance in conjunction with advent of healthy inflow of FDI, the supermarkets will be in a better position than small retailers to make shopping a pleasant experience by making investments in much needed infrastructure facilities like parking lots, coffee shops, ATM machines, etc. It can thus be safely contended that with the possible advent of unrestrained FDI flows in retail market, the interests of the retailers constituting the unorganized retail sector will not be gravely undermined, since nobody can force a consumer to visit a mega shopping complex or a small retailer/ sabji mandi. Consumers will shop in accordance with their utmost convenience, where ever they get the lowest price, max variety, and a good consumer experience. Moreover, it is to be noted that the small retailers will still remain in good business owing to

the fact of their convenient location near the residential societies and to the fact of the distant location of the mega stores and malls.

The benefits of larger FDI can thus be tangibly felt in the domains pertaining to technological advancements, generation of export, production improvements, and hastening of manufacturing employment. Capital inflow into India has increased and so have the exports from the country. Thanks to the economic boom India is experiencing, some Indian companies are doing better than even the multinational corporations. Allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would *inter alia* also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them. 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. The interest of the consumers should therefore take precedence over the interest of the retailer and consequently healthy flow of FDI in retail should be permitted.

SECTION V: CONCLUSIONS AND RECOMMENDATIONS

Amidst today's time of fierce competition and a quest to achieve and enhance a substantial level of economic and social development; each and every nation is trying to liberalize its economic policies in order to attract investments from not only, domestic players, but also from magnates all across the globe. Consequently, people with generous reserves of funds, all around the globe, are expanding their wings and seeking opportunities of investing in different spheres of this lucrative market. India too is not oblivious to the rapid developments taking place in the global market and has emerged as one of the prime destinations for the investment of funds from an impressive number of foreign investors.

In recent times the consumer are showing much greater confidence and in a due response the retail players in the market are veering towards aggressive expansion plan. These developments are clearly signaling an affluent time for retail sector. As the organised retail space in India continues to grow, it is likely to see a number of initiatives in the near future. Companies are likely to combine expansion with innovative measures as they look to ensure profitability in difficult times. Players need to increase their investments in retail ancillaries and retail logistics to ensure sustained benefits. As a survival strategy, moves are on to allow FDI in the multi-brand retailing sector and there is fresh flow of equity investment in this sector which will definitely give the Indian retail sector a much needed boost.

The advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP. Besides, it would also lead to inflow of latest technical knowhow, establishment of well integrated and sophisticated supply chains, availability of standard, latest and quality products help in up gradation of human skills and increased sourcing from India. As India capitalizes on the benefits of FDI, there will be more competition in the market at large and the rural sector of the country will be in the process of reformation, thus bringing about a socio-economic stability. According to industry experts, the next phase of growth is expected to come from rural markets. Organised retail market in India is expected

to reach US$ 50 billion by 2011 while the rural market is projected to dominate the retail industry landscape in India by 2012 with total market share of above 50 per cent (RNCOS 2008).

However, the path of liberalizing the Indian retail sector should be treaded cautiously in the wake of the fact that international experience has shown that except for the huge profits raked in by the supermarket chains, organized retail has been a lose-lose scenario for farmers, small traders and wholesalers, consumers and the environment and therefore society as a whole (Raghunandan 2010). Therefore, the strategy of opening up should be backed by appropriate reform measures. India can learn from the experiences of other developed and developing countries and develop its own strategies, laws and regulations that would be in the best interest of the country. As of now, there is no proper definition of retailing or retail formats in India. International players are exploiting the situation and are often entering the market and expanding their businesses through multiple routes and are operating in the country with more than one format of retailing. The regulatory regime should address these issues. The entry norms should clearly state the approval requirements, conditions / restrictions if any imposed, etc. The government should also strictly enforce the quality standards for local production and imports.

Moreover, the Indian Council for Research on International Economic Relations (ICRIER) drafted a report which suggested that the opening up of the FDI regime should be gradual—over a 3 to 5 year timeframe – to give the domestic industry enough time to adjust to the changes. In the initial stage FDI up to 49 per cent should be allowed which can be raised to 100 per cent in 3 to 5 years depending on the growth of the sector. FDI cap below 49 per cent (i.e., 26 per cent) would not bring in the desired foreign investment collaboration (Roye 2009).

Current FDI policy allows 100% FDI in Cash–and-carry wholesale formats and 51% FDI is allowed in single brand retailing. However, the regulations have been interpreted as guiding to a blanket ban on foreign investments in the sector. Thus, even investments by financial investors like FIIs and PE funds are prohibited, limiting the flow of capital required for the growth of the sector. A clarification of issues will enable investments by financial investors in the retail sector. This can be done by allowing investments by investors such as FIIs, Venture Capital Funds and other financial investors in the sector.

FDI in Retail trading should be opened up to substantially improve productivity and distribution system through modern format retailing. The government should come out with a policy statement laying down the roadmap for modern retail and allowing foreign investment in retail. If FDI in Retail industry is allowed, it will help domestic players to capitalise MNCs players supply chains and distribution network experiences. The grant of industry status will help companies borrow at lower costs, and will also bestow them fiscal incentives etc. Furthermore, the country has benefited from large foreign investment flows in recent years. These flows, especially FDI, need to be encouraged through an appropriate policy regime (Mukherjee &Patel 2006). Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but per contra should be significantly encouraged.

REFERENCES

- Bhukta Gan, 2009, ***"Optimizing Youth Employment Through FDI in Retail in India"*** ,GITAM Institute of Foreign Trade, India

Business Insights International 2009, Foreign Direct Investment in the Indian Retail Sector, vailableathttp://www.businessinsights.biz/Business%20Insights%20International/Business%20Updates/Foreign%20Direct%20Investment%20in%20the%20Indian%20Retail%20Sector.htm, last visited 24th April, 2009.

http://business.mapsofindia.com/fipb/forms-foreign-capital-flowing.html, last visited 14th Oct.2010.

http://business.rediff.com

http://dipp.nic.in/manual/manual_0403.pdf., *Manual on the FDI in India*, May – 2003, published by the Ministry of Commerce and Industry last visited 12th Oct.2010.

http://toostep.com/debate/fdi-in-fashion-industry, FDI in Fashion Industry, last visited 20th Sept. 2010

http://www.articlesbase.com/investing-articles/foreign-direct-investment-in-retailing-in-india-its-emergence-prospects-1354932.html#ixzz0zaLkvDV3

http://www.articlesbase.com/publishing-articles/retail-industry-in-indiachallenges-opportunties-and-strategies-158550.html#ixzz0yj5aWch7

http://www.indiaretailbiz.com/blog/2009/07/02, *India Retail Biz, Allowing FDI in retail will enlarge scope, bring fresh capital, and increase competition, say industry leaders,Welcoming Survey,* available at last visited 26th April, 2009.

http://www.indiaretailbiz.com/blog/2009/07/02, Indian Retail Biz, *Economic Survey recommends opening of retail to foreign investment (FDI); suggests making beginning with 'food' segment*, last visited 12th Oct, 2010.

http://www.indiaretailbiz.com/blog/2009/07/02,Indian Retail Biz, *Economic Survey recommends opening of retail to foreign investment (FDI); suggests making beginning with 'food' segment,* , last visited 24th Sep., 2010.

http://www.rupe-india.org/43/retail.html *Dey Dipankar , FDI in India's Retail Trade: Some Additional Issues*, last visited 14th Oct 2010.

Kalathur S. 2009, Opportunity India: Retail Sector, available at http://www.valuenotes.com/VNTeam/vn_investRetailSector_18oct06.asp?ArtCd=103512&Cat=I&Id=, last visited 25th Oct. 2010.

Kearney, A.T, 8th Annual Global Retail Development Index (GRDI).

Knight Frank India 2010, 'India Organised Retail Market 2010', published in May 2010.

McKinsey & Company report 2008, 'The Great Indian Bazaar: Organised Retail Comes of Age in India'.

Mukherjee Arpita & Patel Nitisha, *Report on FDI in Retail Sector: India*, available at http://www.icrier.org/conference/2006/14july_05.html

Raghunandan D. 2010, '*Fdi in Organised Retail: A Lose-Lose Game'* India Current Affairs, Economy, posted on 17-07-2010.

RNCOS 2008, 'Booming Retail Sector in India', published in June 2008.

Roye S. D. 2009, *'No to FDI in Retail', No to Wal-Mart'*, available at http://indiafdiwatch.org/fileadmin/WARNstorage/NoFDI.pdf, last visited 14th Oct 2010.

Singhal, Arvind, 2009, *Indian Retail: The road ahead, Retail biz*, available at www.etretailbiz.com, last visited 14th Oct.2010.

Singhal, Arvind, Technopak Projections, 1999, Changing Retail Landscape, www.ksa-technopak.com.

The Economic Times 2009, article entitled "*House panel for 'no entry' to corporates in retail*", June 6, 2009

The Times of India 2009, article entitled "*House panel applies brake on FDI in retail*", June 6, 2009.

The Times of India 2009, article entitled "*IKEA drops investment plans in India worth $1bn*, 11th June, 2009

UNCTAD 2008, *'Assessing the impact of the current financial and economic crisis on global FDI flows*'.