



## Foreign Direct Investment in Indian Retail Sector: A Review of Literature

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### **Abstract:**

*FDI in retail sector has been an important topic of discussion due to the controversial issues related to it. In this paper, literature related to the various aspects of FDI in retail sector has been reviewed. Its role and impact on Indian economy as well as its strengths and threats have been studied. Also, the need of opening up of FDI in single and multi brand retail and their policy implications have been seen through various studies in this area. It shows that allowing healthy FDI in the retail sector would lead to a substantial surge in the country's GDP and overall economic development but it should be backed by appropriate reform measures.*

**Key words:** *FDI, Indian retail sector*

### **1. Introduction**

Foreign Direct Investment (FDI) is investment in a foreign country through the acquisition of a local company or the establishment there, of an operation on a new site. In simple words, it is the capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

#### **1.1 FDI in retail sector**

Retailing is the interface between the producer & individual consumer buying for personal consumption. Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price.

##### **1.1.1 Cheaper production facilities**

FDI ensure better operations in production cycle & distribution. Due to economies of operation, production facilities are available at a cheaper rate thereby resulting in availability of variety of products to the ultimate consumers at a reasonable & lesser price.

##### **1.1.2 Availability of new technology**

FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country.

##### **1.1.3 Long term cash liquidity**

FDI provides necessary capital for setting up organized retail chain stores. It is a long term investment because unlike equity capital, the physical capital invested in the domestic company is not easily liquidated.

### **1.2 Indian Context**

The Indian retail market is estimated to be US\$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

Until 2011, Indian central government denied FDI in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple.

In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its value of products from Indian small industries, village and cottage industries, artisans and craftsmen. The reform seeks to attract investments in operations and marketing, improve the availability of goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises through access to global designs, technologies and management practices.

Indian government continues the hold on retail reforms for multi-brand stores.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has caused protests and an upheaval in India's central government's political coalition structure.

On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India.

On 19 Feb, 2013 Tamil Nadu became the first state in the country to stoutly resist MNC 'invasion' into the domestic retail sector. In Chennai, Tamil Nadu CMDA authorities placed a seal on the massive warehouse spreading across 7 acres that had reportedly been built for one of the world's leading multinational retail giants, Wal-mart.

### **2. Objectives**

The following are the main objectives of this review

- To explore the roles of FDI in retail sector and its impact on Indian economy.
- To identify the strengths, weaknesses, opportunities and threats of FDI in retail sector in view of changing dynamics of Indian retail landscape.
- To examine the FDI policies towards retail industry.
- To deeply analyse the recent FDI policy in retail sector of India i.e. to discuss its recent legal framework and provisions, forms, conditions, etc.
- To study the need of opening up of FDI in single brand and multi brand retail.

- To study the future prospects towards the phase of FDI initiated at Multi Brand Retail Sector.
- To offer suggestions in FDI policy about FDI inflow

### **3. Literature Review**

#### ***3.1 A case for FDI in Multi-Brand Retail in India***

In this article, Prasad & Singh (2012) answers the question: “If opening up of FDI in multi-brand retail is a boon or a curse?”

The development of organized retail has the potential of generating employment, improvement in technology, development of real estate, etc.

On the other hand, critics of the FDI feel that allowing FDI would jeopardize the unorganized retail sector and would not only adversely affect the small retailers and consumers but will give rise to monopolies of large corporate houses also, which can adversely affect the pricing and availability of goods.

With allow of FDI in multi brand retails, local enterprises of India will potentially receive an up-gradation with the import of advanced technological and logistics management expertise from the foreign entities to improve its infrastructure, access sophisticated technologies and generate employment for those keen to work in this sector.

With the case of Wal-Mart, it can be said that FDI in multi-brand retail in India should be given a serious thought and a gradual opening up must be made possible. In spite of country wide speculation on the plight of small retailers, India must take a lesson from China, where organized and unorganized retail is coexisting and growing together. The FDI would lead to a more comprehensive integration of India into the worldwide market and, as such, it is imperative for the government to promote this sector for the overall economic development and social welfare of the country. If done in the right manner, it can prove to be a boon and not a curse.

#### ***3.2 FDI and Indian Retail Sector: An Analysis***

In this article, Rajput & Kesharwani (2012) analysed the impact of present retail FDI policy on Indian consumers and economy using SWOT analysis.

The first step towards allowing Foreign Direct Investment in Retail was taken in the year 2006. Subsequently the government of India has allowed 100% FDI in single brand retail to give consumers greater access to foreign brands, with the ongoing debate whether it should be allowed in multi-brand retail or not. With emergence of new ways like E-retailing, Indian retail sector is growing at a faster rate along with the employment potential. The retail landscape is showing a marked change, along with changes in the strategies of retailers towards the suppliers so as to get the best advantage. With the rapidly changing retail scene, India is soon going to be one of the fastest growing regions having great potential.

The analysis reveals that it will have a positive impact on the growth of Indian economy as a whole. With big retail giants coming to India, it will surely improve our back-end storage and procurement process. The whole economy will be benefitted including government and people.

It was concluded that if we try to balance the opportunities and prospects attached to the given economic reforms, it could be advantageous for Indian economy once executed.

#### ***3.3 Prospects and Challenges of Foreign Direct Investment Inflow in Multi-Brand Retail-In India***

Tayal & Sharma (2012) has conducted this study to understand and analyze the challenges and opportunities faced by FDI Inflow and the future outlook towards FDI in multi brand retail Sector.

This paper tries to establish the need of the community to invite FDI in multi brand retailing. The final decision in this respect is yet to be taken by the government of India.

The study has highlighted the current position of the FDI inflows in India. It discusses the relevant reforms to formulate, create and force regulatory and legal reforms in this sector and achieve its aim of economic growth and quality services through the investor's dynamic relationship to attract India as their FDI destination.

The study is confined to a period from 1991 to 2012. This study reviews existing studies conducted by the Government and other entities on this topic & examines its' likely impact on farmers, employment, consumers and retailers.

There are various prospects for FDI in multi brand retail sector:

- A sea change in attitude of the consumers due to substantial increase in the income of the people and growth in the nuclear families.
- The greater disposable incomes for the Indian middle class, which currently comprises 22% of the total population.
- More than 50% of the population is less than 25 years of age and strong growth is expected to continue in this age bracket.

Challenges are:

- There is a need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the accomplishment of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.
- Some fear is there that if FDI in multi brand retail is allowed then it would result in lowering of prices. If prices were lowered then it would lower the margin of unorganized players.

The author suggests that Opening of FDI should be done in a calibrated manner so that domestic retailers both organized and unorganized get breathing space and are able to upgrade their practices. FDI in multi brand retail should not remain limited to big cities, to provide rural youths opportunities to get fruitful employment in Retail Sector. Entry of foreign players must be slow and with social safeguards so that the effects of the labour displacement can be analyzed and policy fine tuned.

### ***3.4 Wal –Mart with Indian Characteristics***

Shridhar & Prashad (2006) analysed the likely impact, in the context of the recent boom in organized retailing in India, of what is referred to as the process of Wal-Martization. It situates Indian retailing in the backdrop of the widening economic divide in Indian society.

The growing inequalities in income and consumption are reflected in the manner in which retailing activity takes place in India. This “duality” is best epitomised by the small number of outlets catering to the rich, even as the overwhelming section of the population access their, needs from a large number of small outlets operating on wafer-thin margins.

Wal-Martization, a process of consolidation by which large retailers capture control of the supply chain, poses serious livelihood questions in the Indian context. Many of these small retailers are likely to be driven under, following the dismantling of the existing supply chains.

The ongoing controversy over Wal-Mart's entry in India reflects these concerns. Wal-Mart has been forced to enter India piggyback on an Indian partner in order to escape further controversy, what may be termed a Trojan horse strategy.

While big-box retailing may indeed offer cheaper prices to consumers, the net economy-wide ramifications of Wal-Martization are likely to be heavily negative, implying fewer jobs, lower wages and worse terms of employment for workers in the retailing sector.

### ***3.5 SWOT Analysis for opening of FDI in Indian Retailing***

Babu (2012) recognized technology, labour skills and infrastructure as determinants of foreign investment.

He mentioned the rationale behind Allowing FDI in Retail Sector as:

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. The policy of single-brand retail was adopted to allow Indian consumers access to foreign brands. Since Indians spend a lot of money shopping abroad, this policy enables them to spend the same money on the same goods in India.

In this analysis, a study was made regarding following strength, weaknesses, opportunities and threats of retail industry:

#### **Strengths**

- It has also contributed to large scale investments in the real estate sector with major national and global players investing in devolving the infrastructure and construction of the retailing business.
- The annual growth of departmental stores is estimated at 24%.
- The governments of states like Delhi and National Capital Region (NCR) are very upbeat about permitting the use of land for commercial development thus increase the availability of land for retail space.

#### **Opportunities**

- Global retail giants take India as key market .It is rated fifth most attractive retail market. ---The organised retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, increase in income and favourable demographic outline. -Food and apparel retailing are key drivers of growth.
- Rural retailing is still unexploited Indian market.

#### **Threats**

- Difficult to target all segments of society.
- Labour rules and regulation are also not followed in the organized retails.
- Lack of uniform tax system

#### **Weakness**

- Will mainly cater to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns.
- Small size outlets are also one of the weaknesses in the Indian retailing.

So it was concluded that India is a rising star and going to be one of the fastest growing regions of the future.

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.



### ***3.6 Impact of Malls on Small Shops and Hawkers***

Kalhan (2007) conducted a small sample survey of the impact of malls on small shops and hawkers in Mumbai points to a decline in sales of groceries, fruits and vegetables, processed foods, garments, shoes, electronic and electrical goods in these retail outlets, ultimately threatening 50 per cent of them with closure or a major decline in business.

Only 14 per cent of the sample of small shops and hawkers has so far been able to respond to the competitive threat of the malls with the institution of fresh sales promotion initiatives.

The result of the survey was:

71 % of the respondents reported falling sales, 18% were unaffected by the large retail chain malls & 11% reported an increase in sales.

Unbranded garment shops, shoe shops, electrical shops, etc. will suffer the most.

Resultantly, there was job loss in small shops and establishments. Hawkers, particularly women and children are facing increasingly eviction drives and harassment around the malls. If the number of malls and retail chains multiply, the sales impact on small shops is likely to be intensified and earnings will keep falling.

Not less than 5 lakhs people are employed in the unorganised retail sector of Mumbai and they would all be adversely affected. The dislodgement and unemployment effect could be far greater than the employment effect. Moreover, even the shop floor staffs in malls have atleast high school level qualifications, unlike their counterparts in the small shops, most of whom are barely literate and cannot be rehabilitated in organised sector.

So, the impact is quite clearly damaging. Only a few (14%) were able to upgrade their services or respond to changed circumstances. An escalation of competition from corporate retail and FDI will thus hasten their decline.

### ***3.7 Foreign direct investment and employment opportunities in Indian retail sector***

Wakchaure (2011) founded FDI in retail to be favourable for Indian economy.

According to him, FDI in retail sector would certainly enable to optimize youth employment India. For those fearing the effects of FDI in retail in India, the examples of Thailand and China should give comfort. Entry of foreign players in Thailand and China gave a big boost to retail and the exports in both countries got a shot in the arm. Notwithstanding the mounting pressure from leftwing parties, the present Indian government has decided to allow FDI in retail outlets meant exclusively for single brands which mean that multinationals can invest up to 51% in joint ventures for marketing their premier brands.

However, the policy certainly needs a relook and should evaluate measures for further liberalization to invite FDI in this sector to optimize youth employment opportunities.

He also said that the supermarkets and the small stores can be complimentary to one another and not end up in a bitter competition. Both have their advantages.

The opponents of the giant retailers forget that India is large enough for both the multinationals and the small family runs businesses. For instance, when McDonalds, Kentucky Fried Chicken and other such outlets came to India, their opponents in the Left parties and in the saffron Swadeshi Jagran Manch (SJM) argued that the Indian eateries as well as the small roadside vendors will become bankrupt because the foreign investors have deep pockets. But nothing of this kind happened. All businesses have thrived. The idli and dosa still remain the favourite meals of Indians along with the burgers. The aloo tikkis sold on the roadside still sell like hot cakes.

There is nothing to fear, therefore, from the advent of the giant retail stores. On the contrary, they will bring in an element of high professionalism in the production and sale of the commodities in daily use, and also highlight the need for improved infrastructural facilities linking the towns with the countryside. Evidently, storage and transport arrangements will receive a boost. All of this has considerable employment potential.

Since any economic change entails disruption, some small retailers will undoubtedly suffer because of the competition. But the more enterprising among them should be able to overcome the challenge by offering a greater variety of goods and by establishing close personal contacts with the customers. It was concluded that a major reason for opposing FDI in the retail sector is political and not economic. The politicians seem to believe that by raising the fear of a foreign invasion they can appear more patriotic. They also apparently consider the thousands and thousands of small shopkeepers as constituting some kind of a nationwide vote bank for those who oppose FDI. They look upon the supermarkets as typical of a capitalist society, where unbridled consumerism is the driving force of the economy. For them, the attraction which the shining shopping malls have for young people will make them imitate the Western way of life at the expense of their Hindu cultural roots.

### ***3.8 Foreign direct investment in India's retail bazaar: opportunities and challenges***

Chari & Raghavan (2012) suggested that allowing entry by large international retailers into the Indian market may help tackle inflation especially in food prices. Moreover, technical know-how from foreign firms, such as warehousing technologies and distribution systems, can improve supply chain efficiency in India, in particular for agricultural produce. Better linkages between demand and supply have the potential to improve the price signals that farmers receive and also serve to enhance agricultural and other exports.

Despite encouraging signs, India's retail market remains largely off-limits to large international retailers like Wal-Mart and Carrefour. Opposition to liberalising foreign direct investment in this sector raises concerns about employment losses, unfair competition resulting in large-scale exit of incumbent domestic retailers & infant industry arguments to protect the organised retail sector that is at a nascent stage.

The study highlighted following concerns about opening up the retail sector for FDI in India:

- The first concern is the potential impact of large foreign firms on employment.
- A second related concern is that opening up FDI may lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business.
- A third concern raised by domestic incumbent firms in the organised retail sector is an infant industry argument that this sector is under-developed. So it is important that the domestic retail sector grow & consolidate first, before being exposed to foreign investors.

It was therefore argued that the potential benefits from allowing large retailers to enter the Indian retail market may outweigh the costs. Evidence from the United States suggests that FDI in organised retail could help tackle inflation, particularly with wholesale prices. It is also expected that technical know-how from foreign firms, such as warehousing technologies and distribution systems, for example, will lend itself to improving the supply chain in India, especially for agricultural produce. Creating better linkages between demand and supply also has the potential to improve the price signals that farmers receive. By eliminating both waste and middlemen also increase the fraction of the final sales prices that is paid to farmers. An added benefit of improved distribution and warehousing channels may also come from enhanced exports.

India's experience between 1990–2010, particularly in the telecommunications and IT industries, showcases the various benefits of opening the door to large-scale investments in these sectors. Arguably, it is now the turn of retail.

### ***3.9 Changing retail scene in India***

Srivastava (2008) looked at the changing scene in the retail sector in view of many MNCs and large industries entering into this segment.

The increase in the number of retail chains across the country is an indication that organized retailing is emerging as an industry and will boom in a big way in the near future. Retailing is the final stage in the distribution process. Retailers are responding to growing demands for “time starved customers.”

He considered a brief description of the retail formats currently found in India like:

#### **-Hypermarket**

These are witnessing tremendous growth in India. Big Bazaar, Giant, Subhiksha and Super Bazaar are the major players in this segment.

#### **-Departmental store**

These are yet another format that are gaining popularity in India. Indian consumers are welcoming these “one-stop” shopping stores, which cater to all shopping needs of the consumer in their luxurious settings.

#### **-Landmark Group**

It is owned by the \$600 million Landmark Group, which operates 170 stores worldwide, Lifestyle, forayed into the Indian retail market in 1998. Lifestyle India achieved a turnover of US\$29 million in 2002-2003 with five stores in operation.

#### **-Food**

Food retail is a rapidly growing sector in India's organized retail. Food retail is more of essential commodities comprising of grains, pulses and vegetables.

Coffee house chains are the primary drivers in the food and beverage sector. The leaders in this business are Barista and Cafe Coffee Day who have a total of 223 outlets in India.

#### **-Apparel**

Multi-brand outlets are becoming the popular destination for customers and will outrank manufacturer retailers in size. Large retailers such as Shoppers' Stop, the RPG group, Pantaloon Retail and Trent have stabilized their retail models, and are rolling out more stores to grow in size.

Retailing in India is still evolving and the sector is witnessing a series of experiments across the country with new formats being tested out. Example: quasi-mall, sub-urban discount stores, cash and carry, etc.

His findings presented show that malls in 2006 are more developed in the North and West part of India:

-Food, groceries and apparel purchase by customers contributed to 52 percent.

-On average 75 percent of customers spend about 1-3 hours in the mall.

-Malls with multiplexes such as cinema theatres, food courts, play places for children are becoming the centre for family outings.

-Small retailers have improved their service to cater to Indian consumers.

-Credit limits and home service are helping them to hold on to their customers.

Retailing focus is changing towards satisfying the different hierarchy of needs of customers.



### ***3.10 Foreign direct investment in Indian retail sector: strategic issues and implications***

Gupta (2010) was of the view that FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged.

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.

#### **Strategic Issues Concerning Retail Sector**

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 per capita 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.

The challenge facing the organized retail sector is the competition from unorganized sector. 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. The tax structure in India favours small retail business. Thus, the cost of business operations is very high in India. Developed supply chain & 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.

#### **Strategic Implications Of FDI In Retail**

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.

India is rated as the 2nd best economy to invest in, after China.

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.

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.

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.

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.

### ***3.11 Need for caution in retail FDI***

Sarma (2005) Reviews that though the government has been considering opening up the retail business to foreign direct investment for some time, it must first examine the constraints faced by traditional retailers in the supply chain and institute a package of safety nets as Thailand has done. He has given several recommendations on FDI in the retail sector. The major recommendation is that the Indian retail sector should be opened up to 49 per cent FDI straightaway and 100 per cent later on. This should be staggered over three to five years.

FDI entry should be permitted in all retail sectors other than arms and ammunition and military equipment. The report does not recommend any conditions regarding local sourcing and local manufacturing or any conditions minimum capital or investment. FDI should not be restricted to certain branded product types or store formats. There could be zoning restrictions but they should be non-discriminatory in terms of domestic and foreign players. The strategy of opening up should be backed up by "appropriate" reform measures in other sectors.

On the other hand, from the experience of some Asian countries, it appears more likely that any hasty decision to open up the retail sector to FDI could cause dislocation to the existing traditional supply chain and cause unemployment.

The foreign players may not necessarily source their supplies from the local suppliers. In the absence of a strong regulatory framework, as is the case with many sectors in India, one cannot rule out unethical practices, including predatory pricing and other monopolistic measures, being adopted by foreign players, as has happened elsewhere, to grab a chunk of the market. Retail trade in itself does not require large investments.

Before opening up the retail sector, the regulatory structures in the related sectors need to be strengthened; as otherwise, foreign players as well as the larger domestic retailers could exploit the traditional retailers. It may not be desirable to open up retailing to FDI until reforms in the related sectors are undertaken and the competitiveness of domestic retailers is enhanced.

Most Asian countries have put in place restrictions in terms of sourcing, capital requirement, and zoning. In order to regulate the expansion of organized retailing, India should draw lessons from this. The retail sector is a highly sensitive one because of its immense contribution to the economy. Decisions regarding FDI in this sector should not therefore be taken in haste.

### ***3.12 FDI in India's retail sector: more bad than good?***

Guruswamy *et al.* (2005) said that the entry of FDI in India's retail sector is inevitable.

India still predominantly houses the traditional formats of retailing, that is, the local kirana shop, paan/beedi shop, hard-ware stores, weekly haats, convenience stores, and bazaars, which together form the bulk.

Whatever be the size of the average Indian retailer in the unorganized sector, it is quite evident that even Indian retailers in the organized sector will be unable to meet the onslaught from a firm such as Wal-Mart - if and when it comes.. This would entail job losses in the millions. With such possible implications, a great deal of prudence should go into policymaking.

FDI-driven' modern retailing' in that is labour displacing as it can only expand by destroying the traditional retail sector, creating so-called efficiencies of scale by creating redundancies.

It is true that it is in the consumer's best interest to obtain his goods and services at the lowest possible price. But this is a privilege for the individual consumer and it cannot, in any circumstance, override the responsibility of any society to provide economic security for its population. Clearly collective well-being must take precedence over individual benefits.

The government can try to ensure that the domestic and foreign players are more or less on an equal footing and that the domestic traders are not at a special disadvantage.

They further gave recommendations as follows:

- The government and RBI need to evolve suitable lending policies that will enable retailers in the organized and unorganized sectors to expand and improve efficiencies.
- A national commission must be established.
- Entry of foreign players must be gradual and with social safeguards.

### **3.13 Foreign direct investment in Indian retail industry**

Rao & Prashanth (2012) tried to give a better view of what is the Retailing, what are the types of retailing,

Foreign direct investment has boomed in post-reform India. Moreover, the composition and type of foreign direct investment has changed considerably since

India has opened up to world markets. This has fuelled high expectations that foreign direct investment may serve as a channel to the higher economic growth of India. Foreign direct investment in trade has developed into the fresh theatre of war flank by the pro-reform and anti-reform lobbies. Foreign investors are extremely eager on charisma in Indian retail sector. Incontrovertibly, foreign direct investment in retail is budding as a sort of litmus trial to the government's pledge to liberalization.

Retail trade in India also explains different polices of FDI in India, and role of FDI in Indian retail industry, benefits of FDI.

The authors also tried to outline impact on country and State-wise Number of Workers Engaged in Retail Trade by Type of Enterprises in India and also quarreled that the potential benefits from allowing large retailers to enter the Indian retail market may balance the costs.

Proof from the US suggests that FDI in organized retail could help begin inflation, particularly with wholesale prices. It is also expected that technical know-how from foreign firms, such as warehousing technologies and distribution systems, for example, will lend itself to improving the supply chain in India, especially for agricultural produce. India's experience between 1990-2010, particularly in the telecommunications and IT industries, showcases the various benefits of opening the door to large-scale investments in these sectors. Arguably, it is now the turn of retail.

### **3.14 FDI in retail: misplaced expectations and half-truths**

Singh (2011) has focused on: What has been the experience in India with organized retail so far and what has been the global experience with FDI.

The central government claims that allowing foreign direct investment into India's retail sector will benefit small farmers, expand employment and lower food inflation.

The United Progressive Alliance government was forced to "put on hold" its decision to allow 51% foreign direct investment (FDI) holding in multi-brand retail trade (MBRT) and raise the FDI ceiling from 51% to 100% in single brand retail trade (SBRT).

Some important questions were raised on the issue of FDI in retail are: Does it really help farmers, especially small farmers who constitute 85% of all cultivators? Does it improve efficiency of food supply chains and help lower food inflation which India is presently grappling with? And, of course, how does it affect traditional food retailers' livelihoods?

One crore new jobs will be created in the farm sector. Also alternative policy measures were detected to leverage FDI in MBRT for the benefit of farmers and the national economy.

The biggest fear in India for farmers is not that FDI in MBRT per se is worse than domestic corporate investment; it is that there may not be adequate institutions and effective governance mechanisms to regulate and monitor the operations of the global retailers and leverage them for benefits like better prices for farmers, more employment generation and lower prices.

He further suggested that provisions for legally binding and clearly worded rules for fair treatment of suppliers, and the establishment of an independent authority like a retail commission to supervise and regulate supermarkets on supplier, consumer, and labour issues and to support local retailers are required. The authority should ban buying of products and selling below cost, make contract farming a must, improve local traditional markets for small growers, slow the pace of supermarket expansion, establish multi-stakeholder initiatives in the chains and provide support to small producers and traditional food retailers.

Producer organizations and the NGOs need to monitor and negotiate more equitable contracts with the supermarkets. The government should play an enabling role with legal provisions and institutional mechanisms for helping farmer cooperatives, producer companies and producer groups.

## **4. Conclusion**

- FDI has positive and negative effects on Indian economy. So, to keep pace with the forecast of Indian GDP, government should encourage foreign investment & to avoid its negative impact on local players, regulatory framework should be redesigned. Government should encourage FDI on gradual basis.
- Foreign players should not be allowed to trade in certain sensitive products like arms & certain ammunition, defence equipment etc. and the list of excluded product should be clearly stated in the FDI policy.
- With the case of Wal-Mart, it can be said that FDI in multi-brand retail in India should be given a serious thought and a gradual opening up must be made possible.
- In spite of country wide speculation on the plight of small retailers, India must take a lesson from China, where organized and unorganized retail is coexisting and growing together. If done in the right manner, it can prove to be a boon and not a curse.
- Allowing healthy FDI in the retail sector would lead to a substantial surge in the country's GDP and overall economic development. The FDI would lead to a more comprehensive integration of

India into the worldwide market.

- Therefore, it is concluded that the strategy of opening up should be backed by appropriate reform measures. India should develop its own strategies, laws and regulations that would be in the best interest of the country.

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