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FDI in India's Retail Sector - Opportunities and Challenges

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ABSTRACT: Foreign Direct Investment (FDI) in retail in India has always been a contentious issue. The government has been progressively liberalising the retail sector in India for foreign direct investment. The last major move came in 2012 when 100% FDI was allowed in single-brand retail. In this article, we discuss the issue of FDI in retail in India and the advantages and disadvantages of the same. We also talk about how the Indian economy is affected by the liberalisation in the government's FDI policy. The Indian retail market is said to be worth USD 600 billion. It comes in the top-five retail markets worldwide by economic value. It is also one of the fastest-growing markets with a surging population of more than a billion people. The retail market is expected to grow tremendously. The total consumption expenditure is estimated to reach about USD 3600 billion. The retail market is estimated to have reached USD 1.1 trillion . Online retail sales are also estimated to grow at a rate of more than 30%.In terms of economy, retail is one of the pillars of the Indian economy with the sector contributing to about 10% of the Gross Domestic Product (GDP). In this sector, the organised sector is merely 9% and the unorganised sector dominates. The maximum number of retailers operate out of less than 500 sq. feet of retail space. The unorganised retail sector also absorbs about 7% of the labour force in India.The central government has approved 100% FDI in single-brand retail and 51% FDI in multi-brand retail. Unorganised retail, which forms the bulk of the retail industry in India, is composed of local Kirana stores, owner-managed single general stores, beedi/pan shops, convenience stores, hawkers and pavement vendors, etc. Organised sector comprises of corporate-backed retail chains, supermarkets, and department stores that can sell only under a license and are liable to huge volumes of sales and taxes. There are pros and cons of extending FDI into the retail space in India. Whenever there is a policy liberalisation about FDI in retail, activists are up in arms on both sides of the issue.

KEYWORDS: FDI, retail, liberalization, economic, labour, corporate, policy, expenditure, consumption

I. INTRODUCTION

Foreign Direct Investment (FDI) is regarded as one of the most important and significant aspects when it comes to the economic development of the nation. Over the past few decades, it has become an inseparable part of the economic policy of the developed and developing nations due to the immense growth. Foreign Direct Investment (FDI) is generally said to be a cross border investment where a company invests its money in a foreign company for setting up of business organization to carry out day-to-day business activities. [1,2]

In other words, FDI is nothing but a kind of investment other than domestic investment, which is done by an investor in a foreign company for the establishment of the business enterprise to carry out business activities. In this contemporary era, this aspect of FDI is not only prevalent in India but is all over the world, and therefore, it is considered to be of the utmost importance for every developed and developing nation across the globe.

The basic concept of FDI is that whenever the investors of a company invest more than 51% of their funds in a foreign company, they, by doing so, automatically acquire the control of that particular foreign company in the form of a majority stake, and thus, the ultimate control of the company lies within the foreign company. In India, the concept of FDI was first introduced by the Britishers during the time of colonial rule, and it was after the LPG

Reforms in 1991 which actually had paved the way for FDIs in India. Recently, the government of India has also implemented several rules and regulations regarding FDIs in India, respectively.

As far as Foreign Direct Investment (FDI) in the retail sector is concerned, we all know that, prior to some years back, this issue was much in the limelight before the government, and due to the various controversies involved in it, this issue was debated for a very long period of time. In 2006, the government of India took the first initiative towards permitting FDI in the retail sector. FDI in the retail sector basically means that the foreign companies in certain categories can sell their goods and services via their own retail shop in the country. Before 2006, FDI in the retail sector was not allowed because there was the fear of losing the job and entrepreneurial opportunities amongst the people. However, the government of India later permitted the FDI in the retail sector.

At present, FDI in single-brand retailing is permitted up to 100%, whereas in multi-brand retailing, it is allowed up-till 51% only. Currently, the retail sector of India is considered to be one of the most important emerging sectors, and therefore, Foreign Direct Investment (FDI) in the retail sector plays a very crucial role in the economic growth and development of the country. Hence, we can say that the step taken by the Indian government with regard to allowing FDI in the retail sector is very much a crucial step for undertaking the growth and development of the Indian economy and for integrating with the global economy.

FDI in retail – Advantages and benefits

- Growth in the economy – when foreign companies come in, new infrastructure will be built. Sectors like real estate and banking will see growth. Also, MNCs will pay a lot of taxes to the Indian government which again can be used to build infrastructure.
- Employment generation – FDI in retail will create a lot of jobs in the organised retail sector.
- The benefit to farmers – it will benefit farmers and producers by procuring produce from them directly and thus, cutting down on intermediaries. The farmers' margins will improve.
- In the unorganised sector, there is a huge wastage, running to the tune of 40% in the case of vegetables and fruits. Big retail chains can reduce this wastage by investing in supply chains and adequate storage facilities.[3,4]
- Foreign companies can bring in better technology, management best practices, and more learnings for Indian players.
- Push to productivity – currently, Indian production in agriculture and food is very low. FDI in retail will give a much-needed fillip to infrastructure in agriculture and farming practices.
- Benefits for consumers – FDI in retail implies low prices and better and more variety of products for consumers to choose from. They will also get access to international brands.
- Induce competition – it will induce competition in the market benefitting both consumers and producers.

FDI in retail – Disadvantages, and apprehensions

- FDI may drain out the country's revenue share to foreign countries which can harm the nation's overall economy.

- The domestic retail players might not be able to withstand the competition from MNCs and may be wiped out from the market or at least absorbed by the bigger players.
- Prices may be brought down initially, but once the MNCs get a stronghold in the market, they can cause price rise and may also form cartels harming the consumers.
- Farmers, who may benefit initially, may also be at the mercy of these bigger retailers after they get a strong share of the market.
- The predatory pricing policies of these big retailers will harm small and medium players in the sector.[5,6]

II. DISCUSSION

The word 'Retail' has originated from the French term 'Retailer', which refers to the selling of goods and services in small quantities to the ultimate consumers directly. Here, the consumer purchases products from the retail stores and uses that product for his/her personal use apart from business purposes. The retail sector in India includes all the stores and shops that sell goods or commodities to the ultimate consumers. Moreover, whenever a consumer buys any product from the retail shops, then he/she is not supposed to sell the same to the third party for considering him/her to be the final or ultimate consumer under the retail sector. In 2004, the Delhi High Court had primarily dealt with the issue of defining the word 'Retail', and subsequently, it adopted the same definition of the term as connoted to it in common parlance. Thus, retailing is regarded as an intermediary interface between the producer/wholesaler and the final consumer. If we specifically talk about the retail sector in India, we all know that, in the last few decades, it has achieved greater heights by becoming one of the fastest-growing sectors worldwide. The retailing sector of India has always proven to be an integral part of the service industry and has tremendously grown with faster economic growth, higher disposable incomes, and rapid urbanization.This sector in India accounts for 14-15% of its GDP and acts as a pillar of the Indian economy. Over the past few years, the retail sector in India has experienced a drastic transformation in it from the traditional format to modern format. It has not only experienced exponential growth in the developed metropolitan cities, but in smaller cities and towns as well. According to the Global Retail Development Index (GRDI), India has consistently performed well in maintaining the top position in the retail index. The retailing sector in India was started growing back from the time of the pre-liberalization era itself when the government at that time had introduced the Public Distribution System (PDS) in the country. Presently, this system is regarded as India's largest single retail system, which provides essential commodities like rice, wheat, and sugar to the people at subsidized rates through a network of Fair Price Shops (FPS) known as ration shops. After 1991, i.e., post-liberalization era, the Indian government under the Prime Ministership of Late Shri Rajiv Gandhi, took the crucial step regarding the opening of the economy with the aim of increasing productivity and developing the infrastructure for transforming the organized and unorganized sectors to adopt the modern retailing in India.Currently, the Indian retail sector constitutes of both organized retailing (modern retailing) and unorganized retailing (traditional retailing), and it predominantly has around 15 million retail outlets, including small independent and owner-managed shops all over the country.There are basically two common types of retail sectors: –

Organized retail sector

The organized retail sector in India consists of business enterprises, which are incorporated under the government of India, and run by professional management, i.e., licensed retailers in a systematic and scientific manner. This sector includes shopping malls, supermarkets, hypermarkets, departmental stores, etc., where a large variety of the products are kept under a single roof for sale, which provides the consumers more variety, comfort, and convenience along with retailing. Over the recent years, the organized sector in India has shown immense growth in it, which has

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led to the increase of the competition amongst the business ventures across the country. [7,8]Nowadays, there is cutthroat competition in almost each, and every part of the country in the organized sector as this sector is emerging and gaining huge importance day-by-day.

Unorganized retail sector

The unorganized retail sector in India is treated as a very prevalent form of trade amongst the traders. This sector is usually run as a small family business where people generally work in low-skilled businesses. The unorganized sector in India comprises of all incorporated private enterprises, which are owned, managed, and controlled by the individuals/households and are not incorporated under the government of India and any legal statutory body. It includes local Kirana stores, convenience stores, general stores, cobblers, fruit sellers, vegetable sellers, melas, mandis, etc. Furthermore, under unorganized sectors, people basically work in small workshops as construction workers, domestic workers, etc.

Kinds of retail sectors in India

There are three kinds of retail sectors in India viz.: –

Single-brand retail

Single-brand retail simply means selling different products under one brand name. It includes all those products that are manufactured in the name of one brand. The most common examples of single-brand retailing in India are that of Adidas, Bata, Nike, Puma, etc. According to the latest policy issued by the Department of Industrial Policy and Promotion (DIPP), Foreign Direct Investment (FDI) in single-brand retailing is allowed up to 100% with subject to certain conditions. The basic condition is that the product must be sold under 'one brand name' only. However, when the FDI is above 51%, then in that case, 30% of the goods are sourced from India. Therefore, the main reason behind allowing FDI in single-brand retail is to attract investment in marketing and production.

Multi-brand retail

Multi-brand retailing means selling products of multiple brands under a single roof. Under multi-brand retailing, the consumers are provided with the most comprehensive range and variety of products in the markets from where they do the purchasing on a regular basis. The best examples of multi-brand retailing in India could of Big Bazaars, Reliance Fresh, Shopper's Stop, etc. As far as Foreign Direct Investment (FDI) in the multi-retail sector is concerned, the central government of India in this regard has framed an enabling policy by specifying the maximum FDI, which is permitted and given the procedure of the same as well. At present, the central government has allowed only 51% FDI, that too with subject to certain conditions.[9,10]

Cash and carry retail

Cash-and-carry retailing basically refers to 'wholesale retailing', which is primarily done by the people who are engaged in the business fields. This kind of retailing is broadly based upon bulk buying where goods and commodities are sold from a wholesale warehouse to the professional/registered customers for their shops or companies. The most common examples of this could be restaurants, medical stores, etc. Cash-and-carry retail normally includes larger factories and stores where goods and commodities are available at lower prices than from the normal ordinary shops. Here, the professional customers are targeted more in comparison to the ultimate consumers, and thus, these stores are a little different from the regular stores. Under cash and carry retailing, Foreign Direct Investment (FDI) is allowed up to 100%.

FDI in retail sector

Foreign Direct Investment (FDI) in the retail sector has always been a matter of concern for the governments in the past few years. This issue appeared to be the most contentious and sensitive one in the country, which was debated for a very long period of time due to the several controversies involved in it. Currently, the retail sector in India is considered to be one of the most important emerging sectors, which contributes around 14-15% of its GDP and acts as a backbone of the Indian economy. This sector being an integral part of the service industry, has immensely grown with faster economic growth since the economic liberalization of the country in 1991 and is still growing very expeditiously day-by-day. The process of inclusion of FDI in the retail sector was actually commenced in the earlier 90s prior to the introduction of LPG Reforms in 1991. After the introduction of the LPG Reforms in the year 1991, i.e., post-liberalization era, foreign nations became more interested in making investments in India as in India, there was not much competition as that of the developed foreign nations.Therefore, India being the second-most-populous/fastest-growing economy in the world, carried with it a huge potential for attracting FDI in the retail sector, which subsequently led to tremendous scope for retail expansion.This issue of allowing FDI in India's retail sector was a hot topic of discussion for years and years between the opposition parties and the government. After the long discussions/debates on the said subject matter, the government of India finally brought about the FDI in the retail sector in 2006. Initially, India was not in favor of allowing FDI in the retail sector because of the fear of losing the job and entrepreneurial opportunities amongst the people, and therefore, had imposed certain restrictions on foreign companies in limiting their share in the equity capital of their Indian subsidiaries, but subsequently, it had permitted FDI in the retail sector.Thus, the main objective of the government behind allowing FDI in the retail sector was to ensure the flow of capital and to promote the weaker sections of society. Apart from all this, it also generates employment opportunities, increases quality standards, raises productivity, strengthens infrastructure, etc. In this contemporary era, Foreign Direct Investment (FDI) in the retail sector plays a very pivotal role in the economic growth and development of the country. Over the past few decades, it has experienced a drastic transformation in it from the traditional format to the modern format and has experienced exponential growth in the developed metropolitan cities.As we all know, the retail sector in India is primarily divided into three categories, i.e., Single-Brand Retail, Multi-Brand Retail, and Cash & Carry Retail.[11,12]

As far as FDI in single-brand retail is concerned, according to the latest policy issued by the Department of Industrial Policy and Promotion (DIPP), FDI in single-brand retailing is allowed up to 100% with subject to certain conditions. The conditions are that the product must be sold under 'one brand name' only, the product should be sold internationally, etc.However, when the FDI is above 51%, then in that case, 30% of the goods are sourced from India. On the other hand, under multi-brand retailing, the FDI is permitted to 51%. Here, the basic conditions are that 50% of the total FDI should be invested in "back-end infrastructure" within the time frame of three years. Back-end infrastructure consists of manufacturing, processing, distribution, warehousing, etc. Moreover, at least 30% of the goods must be purchased from Indian domestic markets, i.e., MSMEs. Furthermore, alike single-brand retail trading, multi-brand retail traders are also not permitted to do trade by means of e-commerce. Last but not the least, under cash-and-carry retailing, which is also known as 'wholesale retailing', 100% FDI is permitted under it.So, after taking into account the present situation of FDI in the retail sector, we can proudly say that the step taken by the government of India regarding allowing FDI in the retail sector was very much a significant step, which in turn

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has helped in the growth of the nation's economy, and thus, ultimately helped in the progress of the nation. Therefore, it not only proved to be beneficial for the Indian economy but also had helped the Indian economy to integrate with the global economy. Hence, in short, we can draw a clear-cut conclusion that it acted as a key instrument for the nation to become a 'developed nation'.

Impact of FDI on retail sector

The impact of FDI in the retail sector has an amalgamation of both positive and negative impacts in the sense that there are both optimistic and pessimistic views of the general public towards the inclusion of FDI in the retail industry.As we all know that FDI in the retail sector has undoubtedly seen a very massive change and a phenomenal growth in it, which has now completely changed the whole structure of the retail sector. In a developing country like India, the idea of FDI in the retail sector has majorly proved to be fruitful for the ones who are primarily engaged in the organized sectors, whereas on the other hand, with the coming of big domestic corporations and Multinational Companies (MNCs) in the field of several retailing ventures, the unorganized sectors had faced a lot of difficulties, as for them, FDI in the retail was not that much profitable despite being a very prevalent form of trade due to increase in competition. Here, we look upon some relevant optimistic views of the people with regard to FDI in the retail sector, we see that most people agree to this fact that with the inclusion of FDI in retail sector, the consumers would get a wide range of better quality of products at the lesser prices, as the competition in the retail sector is increasing day-by-day. Moreover, they are of the view that including FDI in the retail industry will benefit the farmers the utmost as it eliminates the concept of middlemen. Furthermore, it provides effective supply-chain efficiency and ensures employment opportunities, especially in the marketing sector. Now, if we look upon some pessimistic views, we see that the people generally feels that it creates a fear of job loss amongst the shopkeepers, which leads to unemployment in the manufacturing sector, as the international retail market basically makes the purchases internationally and not from the domestic market. Last but not the least, it negatively impacts the Indian economy and the Indian domestic markets, i.e., Kirana shops, respectively.[11]Thus, the most common positive and the negative impacts of FDI in the retail sector in India are as follows: –

Positive impacts

- The first and foremost benefit of FDI in the retail sector is that it leads to growth in the economy of the nation, meaning thereby, it escalates the Indian economy as the big domestic corporations and Multinational Companies (MNCs) setup their business enterprises in India, which gives rise to the enhancement of the infrastructure. Moreover, with the coming of foreign companies, sectors like real estate and banking witness huge growth, which in turn leads to the overall growth and development of the Indian economy.
- The most significant benefit of the FDI in the retail sector is that it plays a very instrumental role in generating new employment opportunities, especially amongst the youth generation of the country who are usually lacking in skill, knowledge and expertise. Apart from this, it also helps in increasing the standard of living and lifestyle by ensuring quality. Presently, it has been estimated by the government of India that in the upcoming years, the retail sector would create approximately 10 million jobs in the retail and real estate sectors, which would ultimately lead to a rise in income and purchasing capacity of the people, and thus, would lead to an economic boost in the country.
- The major advantage of this scheme of FDI in the retail sector is taken by the consumers only across the country. It basically provides the consumers a wide range of choices of the products according to their tastes and preferences at much lesser prices. Moreover, it proves to be very beneficial for each and

every consumer of any kind as it allocates them a variety of choices in the products of international brands at much lower prices in comparison to the market rates.

- The allowing of FDI in the retail sector by the government has actually helped the farmers a lot in general. By allowing FDI in the retail sector, the farmers have now become the prime beneficiaries/giant shopkeepers as they have got a direct interface with the retailers without middlemen who provides goods to the consumers at a very low price, which ultimately helps them in improving their productivity. Thus, it predominantly eliminates the involvement of middlemen.

Negative impacts

- The basic disadvantage of FDI in the retail sector is that it may lead to job losses in the manufacturing sector, which means that the people who are engaged in the unorganized sectors, i.e., small retailers or owners of Kirana stores/general stores, might incur huge losses with the coming in of the Multinational Companies (MNCs) and thereby getting displaced by them. The main rationale behind this is that it might be the possibility that the unorganized sector may not be capable enough to tackle such a foreign company's player and may lose its market share.[12]
- Another disadvantage of FDI in the retail sector is that there is fear of lowering product's prices amongst the shopkeepers. With the advent of the foreign companies, the shopkeepers working in the domestic organized sectors fear about lowering of prices of their products in the market because when the foreign companies come in, it provides consumers with a wide range of products at lower prices, and therefore, it becomes very difficult for the shopkeepers to run the business in an effective and in efficient manner, and thus, they're left with no option, but to lower the prices of the products without any cause.
- FDI in the retail industry creates a negative impact on the Indian domestic market that whenever the multi-national corporation's setup their enterprises in India, it has been observed that it is Indians who perform all the work, whereas, on the other hand, the foreign company only enjoys the profit share, and therefore do not contribute that much in dividing the work. Furthermore, there is instability in the foreign exchange rate when the foreign company takes back the profits earned to its home country and does not provide profits earned properly to India.
- FDI in the retail sector sometimes also negatively impacts the Indian economy by releasing the monetary resources and Indian revenue to international corporations, thereby benefitting the foreign company.

FDI policy regarding retail sector

Foreign investment in India is broadly regulated by the FDI Policy of the government of India along with the provisions of the Foreign Exchange Management Act (FEMA), 1999. This policy predominantly controls the industries in opening foreign companies, thereby keeping a check upon the percentage held by these companies. Basically, all the foreign investors are allowed to invest in India, except for a few sectors where prior approval from the Foreign Investment Promotion Board (FIPB) is needed. The FDI Policy is revised by the Ministry of Commerce & Industry and notified via Press Notes by the Secretariat for Industrial Assistance (SIA), i.e., Department of Industrial Policy and Promotion (DIPP), on a regular basis so as to ensure the proper functioning of the companies. [10,11]

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In India, the companies can receive FDI via two routes, viz. Automatic Route & Government Route. Under the automatic route, there is no requirement of the prior approval of the Central Government in establishing business enterprises, whereas on the other hand, under the government route, prior approval from the Central Government or the Ministry of Finance is a must requirement before setting up any business organizations in India. Thus, according to the general rule, any company receiving FDI under either automatic or government route is required to comply with the provisions of the FDI Policy of India.

As far as FDI Policy vis-à-vis retailing sector in India is concerned, it would be prudent to glance into Press Note 4 of 2006 issued by the Department of Industrial Policy and Promotion (DIPP) along with the consolidated FDI Policy issued in October 2010, which allocate the sector certain for FDI with respect to the conduct of trading activities. According to that previous policy, FDI in single-brand retailing was allowed up to 51% with prior government approval, whereas FDI was not allowed in multi-brand retailing. Under cash-and-carry retailing, FDI was permitted up to 100% under automatic route.

Current scenario regarding FDI in retail sector

FDI in the retail sector of India was first introduced by the central government a way back in 2006 with the goal of undertaking the growth of the Indian economy. Since the past few decades, the FDI in the retail industry has experienced a massive transformation and exponential growth in the developed metropolitan cities of the country. This sector being an integral part of the service industry has immensely grown with rapid urbanization in the past few years and is currently at its peak in terms of growth.

As we all know that in India, the retail sector is categorized into three sub-heads, viz. single-brand retail followed by multi-brand retail and cash-and-carry retail. Single-brand retail includes all those products that are manufactured in the name of one brand, whereas multi-brand retail covers products of multiple brands. Thus, each of its category have a different set of percentages for the FDI, meaning thereby, the percentage of allocation of FDI depends upon the category of the retail.

Now, here, if we look upon the present situation of the FDI with reference to the new FDI Policy of the central government of India, which was announced on 15th September 2012, we see that FDI in the single-brand retailing is allowed up to 100% with subject to certain conditions. The conditions are that the product must be sold under 'one brand name' only, and the product should be sold internationally, etc., whereas, under multi-brand retailing, it is permitted up to 51%. Here, the basic conditions are that 50% of the total FDI should be invested in "back-end infrastructure" within the time frame of three years. Back-end infrastructure consists of manufacturing, processing, distribution, warehousing, etc.

Moreover, at least 30% of the goods must be purchased from Indian domestic markets, i.e., MSMEs. Hence, last but not the least, FDI in cash-and-carry retailing, which is also known as 'wholesale retailing' is allowed up to 100%.[8,9]

Foreign Direct Investment (FDI) in the retail sector has indeed proved to be a very crucial step taken by the government of India in transforming the retail environment of the country along with undertaking the growth and development of the Indian economy, thereby integrating with the global economy. Today, it is very much evident that after the introduction of FDI in retail, there has been a drastic transformation in the retail sector from the traditional format to the modern format with exponential growth in the developed metropolitan cities, and thus, in a developing country like India, this idea of FDI in the retail sector has majorly proved to be fruitful for the ones engaged in the organized sectors. FDI in retail predominantly has created job opportunities for the unemployed youth in India and has helped a lot in reducing the cost of production, intermediate costs so that both producers/manufacturers and consumers can be benefitted.Moreover, it has also contributed to the development of human resource development. Thus, in the past few decades, this sector being an integral part of the service industry, has tremendously grown with rapid urbanization and is currently at its peak in terms of growth. Since FDI in the retail sector has an amalgamation of both positive and negative effects, but here we must focus on its positive part only and try to remove the hurdles that are in between the path of successful implementation of FDI Policy.Furthermore, it is quite is pertinent to note that after studying all the arguments with respect to FDI, whether in favor or against, it has been concluded that the government's decision vis-à-vis allowing of FDI in retail is an outstanding decision as the FDI in the retail sector plays a very pivotal role in the economic growth and development of the country. It not only proves to be fruitful for the Indian economy only but also helps the Indian economy to integrate with the global economy. Hence, we can say that the retail sector in India carried a huge potential for attracting foreign direct investment.

III. RESULTS

The Government of India was initially very apprehensive of the introduction of the Foreign Direct Investment in the Retail Sector in India. The unorganized retail sector as has been mentioned earlier occupies 98% of the retail sector and the rest 2% is contributed by the organized sector. Hence one reason why the government feared the surge of the Foreign Direct Investments in India was the displacement of labour. The unorganized retail sector contributes about 14% to the GDP and absorbs about 7% of our labour force. Hence the issue of displacement of labour consequent to FDI is of primal importance.There are different viewpoints on the impact of FDI in the retail sector in India, According to one viewpoint, the US evidence is empirical proof to the fact that FDI in the retail sector does not lead to any collapse in the existing employment opportunities. There are divergent views as well. According to the UK Competition Commission, there was mass scale job loss with entry of the hypermarkets brought about by FDI in the UK retail market.One of the most striking developments in the last two decades has been in the FDI in the global economic landscape. FDI provides a win-win situation both to the host as well as home country. The rapid expansion in the FDI by multi-national enterprises since the mid-eighties may be attributed to significant changes in technologies, greater liberalization of trade and investment regime, deregulation and privatization of markets in many countries including developing countries like India.Initially FDI was not allowed in India in the retail sector because of the fear of the job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However the government later opened up the retail sector for FDI or FDI in retail sector was allowed. FDI in multi brand retailing is prohibited in India.FDI at macro level is a non- debt creating source of additional external finances. At the micro-level, FDI is expected to boost output, technology, skill levels, employment and linkages with other sectors and region of the host economy.Recently some of the political parties in India like Samajwadi Party and the left had urged Prime Minister Manmohan Singh not to let the FDI enter into the multi-brand retail sector, as this would destroy India's retail sector. Example: Entry of one Wall Mart supermarket would displace 1300 small retail stores and render 3900 people jobless.In India employment has always been a big problem. The rate of unemployment is higher than the rate of employment in India. Now if in such a situation when employment growth has slowed down, the entry of foreign supermarket would further add up to this problem. [6,7]

Historical Background of FDI:

FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. However, researchers could not portray the complete history of FDI pouring in India due to lack of abundant and authentic data. Before independence major amount of FDI came from the British companies. British companies setup their units in mining sector and in those sectors that suits their own economic and business interest.After Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. The first Prime Minister of India considered foreign investment as "necessary" not only to supplement domestic capital but also to secure scientific, technical, and industrial knowledge and capital equipment. With time and as per economic and political regimes there have been changes in the FDI policy too.During the 1970s period the government adopted a selective and highly restrictive foreign policy as far as foreign capital, type of FDI and ownerships of foreign companies was concerned. Government had setup Foreign Investment Board and enacted Foreign Exchange Regulation Act in order to regulate flow of foreign capital and FDI flow to India. The soaring oil prices continued low exports and deterioration in Balance of Payment position during 1980s forced the government to make necessary changes in the foreign policy. It is during this period that the government had encouraged FDI, allowed MNCs to operate in India. Thus, resulting in the partial liberalization of Indian Economy. The government introduced reforms in the industrial sector, aimed at increasing competency, efficiency and growth in industry through a stable, pragmatic and non-discriminatory policy for FDI flow.India emerged as a strong economic player on the global front after its first generation of economic reforms. As a result of this, the list of investing countries to India reached to maximum number of 120 in 2008. Although, India is receiving FDI inflows from a number of sources but large percentage of FDI inflows is vested with few major countries. Mauritius, USA, UK, Japan, Singapore, Netherlands constitute 66 percent of the entire FDI inflows to India. FDI inflows are welcomed in 63 sectors in 2008 as compared to 16 sectors in 1991.

Implications

Retailing is "an act of making a sale to the final consumer". According to this definition, the retail sector of India is prominently divided into organized and unorganized retail trade shops, with the latter making up 97% of it. The unorganized retail sector is largely composed of local kirana shops, owner manned general stores, pan/beedi shops, pavement vendors, convenient stores etc.; it is the kind of retailing an average Indian can relate to as it comes naturally to them hence it is the largest source of self-employment there. On the other hand, organized retailing refers to corporate-backed hypermarkets, retail chains and privately owned large businesses which are only allowed to retail under a license and are liable to huge sales and income taxes. The growth of retailing in India under the organized sector is such that in spite of owning a meager 2-3% of the sector, it is responsible for trade worth 180-394 (US$ billion), compared to 360 of China's. Statistically speaking, retail in India is growing at a rate of 46.64% annually.In 2004, The High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale).A sale to the ultimate consumer.Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.[4,5]

Retail sector includes all the shops that sell goods to the ultimate customer, who buys them for personal and not business use. It encompasses all kinds of shops, from kiosks and small groceries to supermarket chains and large department stores. In addition to traditional bricks-and-mortar shops, the retail sector includes mail-order and online businesses.

FDI In Retail Sector:

Foreign direct investment (FDI) in the retail sector in India is restricted. In 2006, the government eased retail policy for the first time, allowing up to 51 per cent FDI through the single brand retail route. Since then, there has been a steady increase in FDI in the retail sector, and the cumulative FDI in single-brand retail stood at $195 million by the middle of 2010 . According to the Department of Industrial Policy and Promotion (DIPP) of the Government of

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India, single-brand retail comprises those retailers selling products "of a 'single brand' only, such that products should be sold under the same brand internationally; and single-brand product retailing covers only products which are branded during manufacturing. In this category, FDI is allowed to the extent of 51 per cent In contrast, no FDI is allowed in the multi-brand retail category. This includes all firms in organized retail that seek to stock and sell multiple brands, such as large international retailers like Wal-Mart and Carrefour. This is the sector that is most under dispute.

The Retail sector of India is vast, and has huge potential for growth and development, as the majority of its constituents are un-organized. The retail sector of India handles about $250 billion every year, and is expected by veteran economists to reach to $660 billion. The business in the organized retail sector of India, is to grow most and faster at the rate of 15-20% every year, and can reach the level of $100 billion. Here, it is noteworthy that the retail sector of India contributes about 15% to the national GDP, and employs a massive workforce of it, after the agriculture sector. India's growing economy with a rate of approximately 8% per year makes its retail sector highly fertile and profitable to the foreign investors of all sectors of commerce and economy, of all over the world.

Organized retailing entails trading conducted by licensed retailers and unorganized retailing includes all types of low cost trading like local shops, small roadside stores and temporary shops or door to door selling of various goods. Until now, according to the Indian retailing laws, Foreign Direct Investment in multi-brand retail market was prohibited. But government is thinking to open the FDI in retail in India which implies that foreign investment in retailing is possible up to 51%. Now the announcement of retail FDI in India has triggered a series of debates on both positive and negative notes and becomepolitical issue.FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required.[9,10]

FDI Policy With Respect To Retailing:

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of 'Single Brand' products, subject to Press Note 3 (2006 Series).

c) FDI is not permitted in Multi Brand Retailing in India.

Single Brand And Multi Brand:

FDI in "single-brand" retail

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While the precise meaning of single-brand retail has not been clearly defined in any Indian government circular or notification, single-brand retail generally refers to the selling of goods under a single brand name.

Up to 100 percent FDI is permissible in single-brand retail, subject to the Foreign Investment Promotion Board (FIPB) sanctions and conditions mentioned in Press Note 3[8]. These conditions stipulate that:

· Only single-brand products are sold (i.e. sale of multi-brand goods is not allowed, even if produced by the same manufacturer)

· Products are sold under the same brand internationally

· Single-brand products include only those identified during manufacturing

· Any additional product categories to be sold under single-brand retail must first receive additional government approval

FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand. For Adidas to sell products under the Reebok brand, which it owns, separate government permission is required and (if permission is granted) Reebok products must then be sold in separate retail outlets.

FDI in “multi-brand” retail

While the government of India has also not clearly defined the term “multi-brand retail,” FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation.

Rational Behind FDI in Retail:

It is believed that foreign direct investment (FDI) can prove to be a powerful catalyst which can spur competition in the retail industry. This in turn will lead to supply chain improvement, development of skill and manpower, betterment in the agricultural segment as well as improved efficiencies in small and medium scale industries. Increasing FDI in the retail segment is also believed to help expand the market size, which in turn will help enhanced productivity. As a result the government also stands to gain by way of increased GDP, tax income and employment generation.With the consistently growing demand pressure, the unorganized retail segment will have to make way for the organized markets. In addition, the unorganized segment will fall short of addressing the growing demand for retail given the relatively weak financial state of unorganized retailers as well as the space constraints which restrict their expansion plans.[9]

Impact on Consumers

It is believed that the overall consumer spending has witnessed an increase backed by the entry of the organized retail. Even though unorganized retail markets come with their set of benefits which include consumer goodwill, credit sales, bargain potential, ability to sell loose items, convenient timings, and home delivery, the consumers most certainly stand to gain from the expansion in organized retail on multiple counts. In addition, proximity remains a major comparative advantage for the unorganized outlets. However, it has been witnessed that the organized retail outlets have proved to provide better savings to the less well-off consumers other than providing saving to all the income groups in general.

Major Key Players:

As India's retail industry is aggressively expanding itself, great demand for real estate is being created. The cumulative retail demand for real estate across India is expected to reach 43 million square feet by 2013.Around 46 per cent of the total estimated demand between 2009 and 2013 will be come from Tier-1 cities. For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future.

Some of the key players in the Indian retail market, with a dominant share are:

1. Pantaloons Retail Ltd, a Future group venture: Over 12 mn sq. ft. of retail space spread over 1,000 stores, across 71 cities in India.

2. Shoppers Stop Ltd: Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities.

3. Spencer's Retail, RPG Enterprises: Retail footage of over 1.1 mn sq. ft. with approx 250 stores, across 66 cities.

4. Lifestyle Retail, Landmark group venture: Has approximately 15 lifestyle stores and 8 Home centres.

Other major domestic players in India are Bharti Retail, Tata Trent, Globus, Aditya Birla 'More', and Reliance retail. Some of the major foreign players who have entered the segment in India are–

· Carrefour which opened its first cash-and-carry store in India in New Delhi.

· Germany-based Metro Cash & Carry which opened six wholesale centres in the country.

· Walmart in a JV with Bharti Retail, owner of Easy Day store—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.

· British retailer Tesco Plc (TSCO) in 2008, signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores. [10]

· Marks & Spencers have a JV with Reliance retail.

IV. CONCLUSIONS

Organized retail is a new phenomenon in India and despite the downturns, the market is growing exponentially, as economic growth brings more of India's people into the consuming classes and organized retail lures more and more existing shoppers into its open doors. More than 300 million shoppers are likely to patronize organized retail chains.The growing middle class is an important factor contributing to the growth of retail in India. Later it is estimated that 91 million households will be 'middle class', up from 21 million today. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today. Consumer markets in emerging market economies like India are growing rapidly owing to robust economic growth. India's modern consumption level is set to double within five years to US$ 1.5 trillion from the present level of US$ 750 billion. Thus, with tremendous potential and huge population, India is set for high growth in consumer expenditure. With India's large 'young' population and high domestic consumption, the macro trends for the sector look favorable.[11]

Online retail business is another format which has high potential for growth in the near future. The online retail segment in India is growing at an annual rate of 35 per cent, which would take its value from Rs 2,000 crore (US$ 429.5 million) in 2011 to Rs 7,000 crore (US$ 1.5 billion) . For instance the Tata Group firm Infiniti Retail, that operates its consumer durables and electronics chain of stores under the 'Croma' brand, is in the process of tapping net savvy consumers. Similarly, the Future Group, that operates a dedicated portal 'Futurebazaar.com' for online sales, has revealed that it is targeting at least 10 per cent of the company's total retail sales through the digital medium.FDI can be a powerful catalyst to spur competition in industries characterized by low competition and poor productivity. Competition, in turn is the key to diffusing FDI-introduced innovation across an industry. Foreign direct investment, is also integrating the developing countries with the global economy. This in turn holds benefits for both the global economy as well as the developing countries. FDI also paves the way for industry restructuring, which enables global growth as it implies reduced production costs for companies and creation of new markets.The government has added an element of social benefit to its latest plan for calibrated opening of the multi-brand retail sector to foreign direct investment (FDI). Only those foreign retailers who first invest in the back-end supply chain and infrastructure would be allowed to set up multi brand retail outlets in the country. The idea is that the firms must have already created jobs for rural India before they venture into multi-brand retailing.It can be said that 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.

FDI in multi-brand retailing and lifting the current cap of 51% on single brand retail is in that sense a steady progression of that trajectory. But the government has by far cushioned the adverse impact of the change that has ensued in the wake of the implementation of Industrial Policy 1991 through safety nets and social safeguards. But the change that the movement of retailing sector into the FDI regime would bring about will require more involved and informed support from the government. One hopes that the government would stand up to its responsibility, because what is at stake is the stability of the vital pillars of the economy- retailing, agriculture, and manufacturing. In short, the socio economic equilibrium of the entire country.[12]

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