RETAIL FDI IN INDIA……..ASSESSMENT OF IMPACT

(FACT FINDER SERIES SERIES; 06)

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FOREWORD

This ***(fact finder series)*** *of research papers is part of a mission mode effort by the author to dwell and get insight into the pressing economic problems and constraints the world in general and India in particular is confronting. Financial exclusion of a massive chunk of populace, fluctuating output and investment in agriculture & ignorance of this growth engine, contemporary issues of foreign direct investment(FDI),gender gap in a vast array of economic spheres, glaring inequalities, economic deformities unleashed by interest based banking system etc are some of the core issues that have engaged the attention of the policy makers throughout the world and the author as well ,are being dealt with in sequence and will be incorporated in this assessment of impact series as part of a noble effort. I propose to deal with the aforestasted issues on the grounds of merit by employing secondary and primary sources of research (whichever the author feels necessary, subject to financial constraints).I feel extremely optimistic that while the research by and large would be India centric but the results and revelations as an outcome of this cutting edge fact finder series would be applicable to the world in general.*

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ABSTRACT;

This article presents an overview of retail trade in India in the wake of the recent approval by the Union Cabinet for allowing 51% foreign direct investment (FDI) in multi-brand retail in India .It discusses various potential benefits and costs of foreign direct investment (FDI) in the retail sector, particularly in terms of its effects on traditional retailers, employment, consumers, farmers, inflation. The paper makes an in-depth and impartial assessment of the entire gamut of issues concerned with retail FDI. This study examines the prospects, potential benefits and loses along with the challenges emerging out of retail FDI in peculiar Indian background. Foreign direct investment in multi-brand retail will most likely give impetus to a better integration of Indian economy with the global markets. Better linkages between demand and supply have the potential to improve the price signals that farmers receive and also serve to enhance agricultural output and exports. Nevertheless it is unlikely that all the economic benefits and costs will be realized to their fullest extent, at least in the foreseeable future.

Key words; *multi brand retail, FDI, price signal, inflation*

1. INTRODUCTION;

Retailing is the largest private industry in India and second largest employer after agriculture. The sector contributes to around 10 percent of GDP. With over 12 million retail outlets, India has the highest retail outlets density in the world. This sector witnessed significant development in the past 10 years from small unorganized family owned retail formats to organized retailing. Liberalization of the economy, rise in per capita income and growing consumerism has encouraged large business and venture capitalist in investing in retail infrastructure. The importance of retail sector in India can be judged from following facts

(a) Retail sector is the largest contributor to the Indian GDP

(b) The retail sector provides 15% employment

(c) India has world largest retail network with 12 million outlets

(d) Total market size of retailing in India is U.S $ 180 billion

(e) Current share of organized retailing is just 2% which comes around to $3.6 trillion.

(f) organized retail sector is growing @ 28% per annum.

The Indian retail industry is divided into organised and unorganised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed supermarkets and retail chains, and also the privately owned giant retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc. Unorganized retailing is by far the prevalent form of trade in India – constituting 98% of total trade, while organized trade accounts only for the remaining 2% – (Singhal 2009). Nonetheless the organized sector is expected to grow faster than GDP growth in next few years driven by favorable demographic patterns, changing lifestyles, and strong income growth.

According to a report published by The Boston Consulting Group (2012), India's consumer market is expected to grow 3.6 times from an estimated USD 991 billion in 2010 to an estimated USD 3,584 billion in 2020.9 As the report discusses, rising household income, urbanisation, the shift away from the traditional joint-family structure, and the coming of age of Gen I" will all contribute to this growth.10 Among the seven different categories ofconsumer spending, housing and consumer durables, education and leisure, and others (that include personal care, baby care, loan payment, holidays, and social gatherings) are poised to grow the fastest .

The retail industry in India is highly fragmented with millions of very tiny outlets scattered all over the country. According to Guruswamy et al. (2005), there were about 11 million outlets and only 4% of them were larger than 500 square feet in size. Patibandla (2012) estimates the number of the kirana stores to be around 12 million spread across 5,000 towns and 600,000 villages throughout the country. The proliferation of retail outlets is primarily explained by the relative ease with which a retail outlet can be established. The traditional forms of retailing require low investment and minimal infrastructure. For the same reason retailing has also been the primary form of disguised unemployment or underemployment in India. Most retail outlets are family-owned with family members working part-time or full-time, thus making it harder to obtain a precise estimate of actual employment generated by the retail sector in India. The food retail trade is the largest segment of the retail industry in India. According to Guruswamy et al. (2005), it accounts for 63% of total retail sales. At the family level, consumer expenditure on food accounts for, on an average, 50% of the total retail purchase.(See Patibandla (2012).) However, the share of food would be much larger for low income groups. While kirana stores sell food grains and dry foods, pavement stalls and sometimes better-organised larger vendors sell fruits and vegetables. Primarily due to a lack of proper infrastructure, about 40% of vegetables and fruits are destroyed before they come to the market. At the procurement stage, hygienic practices are often ignored. The informal nature of the relationship between the traditional retail stores and the consumers is also an important feature of India's retail sector. The repeated interactions with customers who live in geographically proximate locations generate mutually beneficial trust in exchanges. The customers are often able to obtain their consumables on credit and the stores earn customer loyalty.

Finally, the potential for growth of India's retail sector is enormous. During the last two decades, the middle class has grown significantly and its average income has increased and its consumer aspirations. With the improvement in transportation and communication infrastructure, there has been a convergence of consumer tastes. Furthermore, India has a relatively young population. The median age is about 26 years. That is, more than 600 million people are under the age of 26 years. They are not only a source of very large future demand but also their tastes and preferences are likely to be less rigid and therefore, more amenable to the changing composition of consumer products.

2. RESEARCH METHODOLOGY

The Research conducted in this research project is purely analytical research. The facts & the information base acquired from various secondary sources have been used to make an in depth analysis of the multi brand retail**.** The information and data for conducting the research has been collected from a variety of sources like journals, government handouts and reports, RBI publications, books, websites, research papers, articles etc. For the purpose of illustration various relevant tables have been incorporated into the research paper. Further subject specific data has been incorporated from the websites of RBI, PBI (press Information Bureau) and government departments.

3. OBJECTIVES OF THE STUDY

1) To bring to light the Policy framework of GOI with regard to retail FDI.
2) Assessment of impact of recent FDI liberalization.

1) Policy Framework

In the post-liberalisation period, the number of rich and middle-income Indian consumers has increased, with a corresponding fall in the number of people below the poverty line. Between 2001 and 2010, the rich consumer class increased by 21.4 per cent, while the middle class increased by 12.9 per cent (Shukla 2010) India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011).

Last decade has indeed witnessed tremendous growth in Indian retail industry and has integrated Our Indian economy with the world. Retailing in India is progressively inching its way toward becoming the next boom industry. It has emerged as one of the most dynamic and fast paced industries accounting for over 10 per cent of the country's GDP. This growth has become major attraction for foreigners to enter in India.

The challenge to the retail on the other hand is the requirement of heavy initial investments which leads to difficulty in achieving break even and this is the reason that many of these players have not tasted success so far. However, the growing trend of the market, changes in the lifestyle of consumer segment, increasing per capita income and emerging technologies in operations still promises success in the long run with achievement of economies of scale. India is the fourth largest economy as far as purchasing power is concerned just behind, USA, Japan and China. Even though 25% of the population lives below poverty line, India has a large and growing middle-income group of over 300 million, making it a strong emerging market.

Visualizing this untapped potential GOI changed retail norms by Reviewing of the policy on Foreign Direct Investment in Multi-Brand Retail Trading(replacing the time old policy that completely prohibited FDI in retail trading, except in single-brand product retail trading, in which FDI, up to 100%, is permitted, under the Government route, subject to specified conditions)

Accordingly the policy cleared by Union Cabinet on 24th November reads out that;

- FDI in multi brand retail will be allowed upto 51% foreign equity through the government approval route, subject to adequate safeguards for domestic stakeholders.
- The policy rollout will cover only cities with a population of more than 1 million(As per 2011 census, there are only 53 such cities whereas there are 7935 towns and cities in India)
- The policy mandates a minimum investment $ 100 million with at least half the amount to be invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce the post harvest losses and bring remunerative prices to farmers.
- Sourcing of a minimum of 30% from Indian micro and small industry having capital investment of not more than $ 1 million has been made mandatory. This will provide the scales to encourage domestic value addition and manufacturing, thereby creating a multiplier effect for employment, technology up gradation and income generation.
- India has a federal structure of government. The FDI policy is an enabling framework and it remains the prerogative of the states to adopt it. On ground implementation of policy will clearly be within the parameters of state laws and regulations.

2. ASSESSMENT OF IMPACT

(*BOON OR A BANE?)*

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

2a GROWTH DIVIDEND

India is targeting for its GDP to grow by 8 to 10 per cent per year. This requires raising the rate of investment as well as generating demand for the increased goods and services produced.

Table; 01 Growth in Indian GDP and Retail trade.

National accounts Bn rupees	1990	1995	2002	2004	2006
Total GDP	5150	10832.9	22653	28559.3	374340.7
Agriculture	1508	2870	4727	5366	6580.5
Industry	1384	3103	5984	11353	10441
Trade	973	2242.6	5275	7145	9687

Source; www.adb.org/Documents/Books/Key_Indicators/2007/pdf/IND.pdf

The above data shows that retail trade has maximum contribution in India's GDP. Remarkable growth in Indian GDP is mainly because of significant increase in trade in last three year. Exporting can be the way of generating the demand. China retail witnessed role of export in GDP and by that way contribution of retail trade in its GDP. The global retailers taken together buy about $60 billion of goods each year from China for exports. Contrast this with India where less than $1 billion of exports are accounted for by global retailers (mostly metro dairy farm). Clearly, the scope of exports through the global retailers is enormous, indeed.

Table; 02 **%Contribution of Retail sector to GDP**

Country	Retail % contribution to GDP	Organized Retail % contribution to GDP
USA	32	85
Brazil	22	75
South Africa	17	32
Vietnam	55	22
China	23	20
India	39	6

source; confederation of indian industries & AT kearney report 2006

The Figure shows how significant retail is to the Indian economy, contributing 39% of GDP, and yet organized retailing is still in an under-developed early stage at only 6% of total market (2005) when compared to other countries. It is clear from this data that India has a significantly lower percentage of organized retailing compared to other developing markets such as China with 20% of organized retail penetration, and Brazil with 75%. When compared to their respective retail sector contributions to GDP, India is higher at 39% than China and Brazil.

2b ***EMPLOYMENT DIVIDEND***

A number of concerns have been raised about opening up the retail sector for FDI in India.

The first concern is the potential impact of large foreign firms on employment. Following agriculture, in 2007-2008, the retail sector is the second largest employer in India (National Sample Survey Organization, 64th round).Retail trade employed 7.2% of the total workforce which translates to 33.1 million jobs (DIPP Report, 2010). Moreover, the share of retail employment has risen significantly when compared to its share in 1993-1994. The pattern holds for both males and females, in rural, and in urban areas.

Table :03 Employment Shares(millions) in Retail Trade, 1993-2008

Year	Rural		Urban	
	Males	Females	Males	females
1993-94	3.63	1.4	14.6	6.66
2007-08	5.6	1.7	18.8	8.6

Source: Authors' calculations based on data from DIPP report.

It is very difficult to know the true size of the retail sector in India primarily due to the unorganised nature of the sector. As shown in Table 1, the total merchandise consumption in 2012 is estimated to be USD 490 billion. Since it represents the value of all goods that are presumably delivered to the consumers by the retailers it gives a rough estimate of the retail sales in India. Thus, it accounts for about 25% ofGDP (Gross Domestic Product). However, thevalue addition due to retailing and therefore the contribution of the retail sector to GDP would be much smaller. As one can see, more than 90% of these sales take place in the unorganised retail sector. However, the share of the organised retail has increased from about 4% in 2001 to more than 7% in 2012. That is, the organised retail sector has been growing faster than the unorganised sector. The unorganised retail sector has employed about 22 million workers in 2012 and it has increased from 18 million in 2001. In contrast, the organised retail employs less than a million workers. Overall, the retail sector is the second largest employer after agriculture in India.(According to Patibandla (2012), the retail sector accounts for 8% of total employment

Table 04: Size of the retail industry in terms value and

	2001	2011	2021
GDP(billion USD)	450	1958	3310
Estimated merchandise consumption(bn USD)	120	490	810
Unorganized retail(bn USD)	115(95.8%)	455(92.9%)	648(80%)
Organized retail(bn USD)	5(4.2%)	22)	31
Direct employment in un organized sector(mn)	18	34(7.1%)	162(20%)
Direct employment in organized sector(mn)	0.1	0.7	3.3

Source: Adapted from Technopak Analysis

The analysis presented in *Table 3* shows the effect of job creation by independent retail and by corporatized retail. An important conclusion from this analysis is that employment in corporatized retail has not grown at the cost of independent retail. In fact, independent retail has added 4 million jobs in the last decade. In the next decade, while corporatized retail will add another 2.7 million jobs, independent retail will create 9 million more jobs.

The retail sector has registered significant growth in China during this period. Between 1996 and 2001, over 600 hypermarkets were opened in China. The number of traditional small retail outlets (similar to kiranas) increased from 1.9 million to over 2.5 million during the same period. Employment in the retail and wholesale trade increased from about 4% of the labour force in 1992 to about 7% in 2001. Thus, FDI does not seem to have caused a decline of the traditional retailing and a fall in employment in China

Investments in the organised retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistic management, small manufacturing sector like textiles and apparel, construction, IT, and other infrastructure. The most important aspect of FDI in retail is that it will significantly increase the number of jobs in the front-end. According to a study conducted by the Indian Council for Research on International Economic Relations in 2008, as per the industry estimates of the employment of one person per 350-400 sq. ft. of retail space, about 1.5 million jobs will be created in the front-end alone in the next five years. Assuming that 10 per cent extra people are required for the back-end, the direct employment generated by the organized retail sector in India over the coming five years will be close to 1.7 million jobs.

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2c. INFLATION CONTROL

(Removing gap between farm-gate prices and retail prices through structural change in distribution)

The gap between farm gate prices and final retail prices is very high in India. It is attributed to the following.

1. Rising capacity constraints - As a very large percentage of farmers in this country either have marginal or small land holdings, they cannot build sufficient storage facilities tokeep their produce and on the other side demand is growing very high.

2. Highly fragmented distribution network-There are multiple layers in the distribution system. Inefficiencies and lack of proper infrastructure in logistics leads to high prices mainly in food sectors.

Because of the extremely fragmented distribution network, no major farm support distribution or storage firm has emerged and has prevented theestablishment of sufficient logistical infrastructure including cold chains from the farms to retail stores. It is estimated that more than 35 per cent of the agricultural output in this country is wasted because of inadequate infrastructure. The weight of food in rural and agricultural household consumption baskets is approximately 65-70%.Recent studies quantify the price impact of entry by low cost entrants. For example, using average city-level prices of various consumer goods, price dynamics in 165 US cities before and after Wal-Mart entry suggest robust reduction in prices for several products while magnitudes vary by product and specification, but generally range from 1.5–3% in the short run to four times as much in the long run (Basker, 2005b) with significant increases in consumer surplus especially for lower income households (Hausman and Ephraim, 2007). It is an established fact that it is the rapid expansion of organized retailers, which helped control inflation in the US over the last decade and sustain the economic momentum in recent years.

The farmers in India receive a share of less than 30% for most of the food grains and 15-20% for horticultural produce, while in developed countries the share comes to around 50-70% for most of the commodities. This is basically because of the large number of intermediaries involved in the chain. The margins taken by the intermediaries are generally product specific and are higher for fresh produce, having shorter shelf life. For grains and cereals, around 28% margin is added to the cost, before the produce reaches the processors. Further costs are added when the produce is processed and passes through the Mandis. This cost accounts for a 12% increase. These margins considerably increase the prices of grains and cereals for end consumers. Similar is the case with fruits and vegetables where significant margins are added up to the cost of produce. But these margins are significantly higher in case of Fruits and Vegetables owing to their shorter shelf life and greater perishability. In case of fresh fruits and vegetables, around 47% margin is added to the cost of produce before it reaches for processing. Further margins are added up during processing and movement through different levels in Mandis. Generally, the prices of the produce double in such cases. Entry of players in the organized retail tends to make the supply chain more effective and efficient by sourcing directly from the farmers or at least closer to the farm gate and eliminating the unnecessary intermediaries. In India, food accounts for nearly 50% of the consumption basket and the impact on inflation reduction could therefore be significant. This in turn results in better price realization to the farmers. Overall, farmers are bound to gain from the advent of the organized food retailers under a proper regulatory environment promoting direct procurement on one hand and machinery to prevent the exploitation of farmers on the other hand. FDI in retail will eliminate or greatly reduce the role of middlemen and ensure a sustainable and reasonable price for both the farmer and the consumer by shortening the supply chain through increase in direct purchase(economic times)

FDI thus can help tide over the inflationary trend. Entry of foreign multinationals is most likely to enhance the competition in the domestic market and would help the prices settle down at fairly low levels in the demand supply restructuring process. This streak of competition and out competition has the potential to drastically pull down the prices of essential commodities used for mass consumption to comfort levels. If things take such a desired shape it might help increase the overall purchasing power of especially the low income groups.

2d ***TONIC EFFECT ON PRODUCTION FRONT;***

The CII-Boston Consulting Group study found that an Indian tomato farmer earns about 30% or even less of the final price paid by the consumer (in developed countries, that percentage can be as much as 70%). For this reason alone, farmers and producers should welcome this development (and for this reason alone, traders oppose it). Indeed, the Indian Farmer and Industrial Alliance (IFIA), a joint venture of the Consortium of Indian Farmers Associations (CIFA), recognized the potential benefits of eliminating middlemen and has expressed its support for opening the retail sector to foreign investment. This section tests the proposition that adoption of supply chain benefits small and medium farmers and contributes to productivity. Small and medium farmers in most of India face vicious circle of poverty trap. Taking from Patibandla and Sastry (2004) these farmers suffer from at least five losses of income:

- ✓ Credit: They pay high interest rates for loans from the unorganized credit markets, sometimes more than 50 per cent.
- ✓ Poor quality seeds, fertilizers and pesticides obtained at higher prices: As mentioned in the previous section, the dealers and middlemen provide credit for purchase of agricultural inputs and palm off substandard items.

- ✓ Poor farming practices: Farmers are unable to apply fertilizer and pesticides at right time during the right time owing to lack of liquidity.
- ✓ Tied sales: Farmers are forced to sell their output to the money lenders at low prices as a part of the loan conditions.
- ✓ Distress sales at the harvest time: Owing to lack of storing abilities, farmers have to sell off their output at harvest time. The difference in price between the flush and lean season could be 100 per cent or more.

Distress sales has been found discourages (medium) farmers from investing in productivity enhancing practices. If a farmer incurs additional costs for improving productivity, this will increase the output, which, in turn, increases the supply at the time of harvest. This depresses price realized by the farmer furthermore. This is exactly where the entry of large retail firms makes a difference if they source directly from farmers, pay for the output at the time of delivery and adopt efficient supply chain. The farmers will receive better/fair prices by directly selling to organised retailers. They will be able to get away from excessive reliability on intermediaries who often pay lower prices. Furthermore, local suppliers and domestic manufacturers will gain access to larger, and potentially to global markets as the multinational retailers will establish extensive forward and backward linkages that will spread beyond national boundaries.

Last but not least the process of direct exchange can be round the corner with the system of intermediaries thrown off the board in the supply chain management. There can likely be more and more direct exchanges between the prime cultivators and providers of raw material on one hand and the ultimate processors on the other, tightly knitting the two and the resultant effect would be ever remunerative prices for the farmers for their produce. This will directly help increase the production by providing strong incentives to the farming class.

2e REVENUE GENERATION

(Resource boom)

There is a positive relationship between the increase in tax receipts and the increasing share of corporatized retail. Most retail transactions conducted in the ~15 million shops in India are in cash. This provides a significant leeway for a parallel economy to thrive. There are tax (VAT) leakages via under-invoicing or non-reportage of sales. As FDI in the retail sector helps the organised sector grow, it will generate revenue for the government. According to an estimate, the tax revenue due to the projected growth of the organised retail is expected to be USD 16.2 billion.

Table; 05 Share of corporised retail in total merchandise

	2001	2012	2021
Total Merchandise Retail (USD bn)	120	490	810
Share of Organized Retail	4%	7%	20%
Size of Organized Retail (USD bn)	5	34	162
Tax revenue @ weighted average tax rate of 10% (USD bn)	0.5	3.4	16.2
Technopark analysis			

In this analysis, the impact of an increasing share of corporatized retail on certainty in tax revenues is assessed. This incremental increase in tax revenue goes directly into the coffers of all the Indian states to the extent of their share in India's retail pie, thus could boom the resource base at their disposal.

2f LOGISTICS AND WEREHOUSING;

(Rationale for liberalization)

Though India is the second largest producer of fruits and vegetables (about 200 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT, 80% of this is used only for potatoes. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. Post-harvest losses of farm produce, especially of fruits, vegetables and other perishables, have been estimated to be over Rs. 1 trillion per annum, 57 per cent of which is due to avoidable wastage and the rest due to avoidable costs of storage and commissions. As per some industry estimates, 35-40% of fruits and vegetables and nearly 10% of food grains in India are wasted. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route. In the absence of FDI in front-end retail, investment flows into this sector have been insignificant. The consequences of inadequate infrastructure are that Indian farmer realizes only 1/3rd of the total price paid by the final consumer as against 2/3rd with higher degree of retail. A World Bank Study of 2007 demonstrates that the average price a farmer receives for horticulture produce is barely 12 to 15% of what is paid at the retail outlet. An 11th Plan working group has estimated a total investment of Rs. 64,312 crores in agricultural infrastructure. A storage capacity gap of 35 million tonnes has been assessed, requiring an estimated investment of Rs. 7,687 crores during the 11th Plan.

Table; 06 0verall warehousing capacity in india	
Name of organization	Storage capacity in million tons(MT)
Food Corporation of India (FCI)	32.05
Central Warehousing Committee (CWC)	10.07
State Warehousing Committee (SWC)	21.29
State Civil Supplies	11.3
Cooperative Sector	15.07
Private Sector	18.97
Source: Government of India	

It is estimated that worldwide 15 % of crop produce is lost between the farm gate and the consumer because of poor roads and inappropriate storage facilities alone (World Bank, 1997).

According to latest estimates, the warehousing capacity available in India, in public, co-operative and private sector is about 108.75 million MT and another 35 million MT(table 4) warehousing capacity is required during the Twelfth Five Year Plan period for the storage of all major crops. Thus there exists a huge demand supply mismatch. Lack of adequate storage facilities causes heavy losses to farmers in terms of quality degradation and wastage of produce in general, and of fruits and vegetables in particular. The 11th Plan working group has estimated a total investment of INR. 64,312 crore in agricultural infrastructure. A storage capacity gap of 35 million tonnes has been assessed, requiring an estimated investment of INR 7,687 crore during the 11 Plan. There is a dire need for the creation of sufficient modern warehousing capacity in the country to store and preserve food grains apart from construction of storage facilities like seeds and fertilizer.

The opening up of FDI in Retail will bring in investments in this field compulsorily as the modern retail formats will procure large quantities to gain economies of scale and will try to avoid wastages due to improper storage facilities.

2g *INFUSION OF CAPITAL*

In India, primarily due to the unorganised and fragmented nature of the retail sector, there is a severe shortage of funds for investment in the basic infrastructure required mainly for back-end retail logistics. The retailers are too small to make such large investments. Although government has stepped in, the infrastructure built by the government has not been adequate. Allowing FDI in retailing is expected to go a long way in alleviating this situation because the large retailers would build the necessary infrastructure to create an integrated back-end supply chain for efficiency.

Technology Transfer In addition to augmenting physical capital stock, FDI in developing countries also acts as a conduit of technology transfer. Foreign capital brings along advanced technology from developed countries that increases productivity. In retailing, advanced technologies will tremendously improve processing, grading, handling and packaging of goods. The use of cold-storage facilities, refrigerated vans, pre-cooling chambers will reduce wastage and help maintain product quality. Electronic weighing, billing, and barcode scanning will add to accuracy and efficiency. These efficiency gains will lower price and improve quality for the consumers.

Higher Consumer Wellbeing The entry of foreign retailers will provide the customers, particularly in the organized retail sector, with the opportunity to choose from a wide variety of brands and products. More choice improves consumer wellbeing. In addition, larger space for product display, hygienic environment in the shopping area, availability of a large number of products under one roof, and better customer care will increase customer satisfaction and link markets as the multinational retailers will establish extensive forward and backward linkages that will spread beyond national boundaries.(Mukherjee et al. 2012)

DEVASTATING TENDENCIES;

2h CHALLENGES FOR FOREIGN FIRMS IN INDIAN RETAIL

The first challenge is competition from the unorganized sector. Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations.Because of this, such businesses are usually very low-margin, are owner-operated, and have mostlynegligible real estate and labor costs. Moreover, they also pay little by way of taxes. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector. It is often said that the mom-and-pop store in India is more like a father-and-son enterprise.Such small shops develop strong networks with local neighbourhoods. The informal system of credit adds to their attractiveness, with many houses 'running up a tab' with their neighborhood kiryana store, paying it off every fortnight or month. Moreover, low labor costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighbourhood shops and towards large-scale retailers may be a major challenge. The experience of large Indian retailers such as Big Bazaar shows that it is indeed possible. Anecdotal evidence of consumers who return from such shops suggests that the wholesale model provides for major bargains – something Indian consumers are always on the lookout for. Disruption of social community and the given way of life has a stronger case. *Kumar* acknowledges that shopping centers & malls could potentially result in "greater urban anonymity and a complete breakdown of the bazaar culture and the disappearance of the 'down town' space that has its own charm. But, in France, Germany the Nordic countries and also other parts of Europe, experience has shown that local communities can thrive if they are empowered and involved in

2i Employment displacement

(Zero sum game)

As discussed above, the retail sector is a major source of employment for millions of people in India. Family members run most retail stores in the unorganised sector. Since labour productivity will be higher in the organised retail sector, although it will create some jobs, there will be far less jobs than those that will be replaced. FDI could cause dislocation to the existing traditional supply chain and that in turn will cause even more job losses Chakraborty and Basu (2002) had concluded from research that the Indian Government's trade liberalization policy had initially made a positive impact, but as a whole had tended to cause labour displacement. In fact, Nayak (2002, 2004, 2005) had concluded “FDI on the whole in India has neither been effective for India nor for the foreign companies in India.”

Guruswamy et al (2003) talked of retail as a 'Forced Employment' sector in India. They argued that one of the main reasons behind the growth of retail and its fragmented nature was that Retailing was “probably the primary form of disguised unemployment/underemployment in the country. Given the already over-crowded agriculture sector, and the stagnating manufacturing sector, and the hard nature and relatively low wages of jobs in both, many millions of Indians are virtually forced into the services sector. Here, given the lack of opportunities, it is almost a natural decision for an individual to set up a small shop or store… and thus, a retailer is born, seemingly out of circumstance rather than choice.”

This would explain why India is so highly fragmented with estimates at the time of the above report suggesting in the region of 11 million outlets with only 4% of them being larger than 500 square feet in size. But unemployment is high and many of the unemployed people turn to very informal retailing to try and make some kind of living, with limited alternative employment opportunities. economic activity in rural locations. This raised the question of whether FDI was necessary at all in this sector, if there is enough domestic capital being injected in to the retail sector. The furious growth of the domestic corporate retailers would bring about enough investment.

Dey (2007) recognized this problem also, and stated that "the retail sector in India acts as an important shock absorber for the present social system.” When for example, a factory closes, or a peasant gets evicted from their land, or the stagnant manufacturing industry fails to soak up new entrants to the job market, then the retail sector manages to absorb them all. Skilled laborers end up as street hawkers, and educated youth turn to selling newspapers. A better off unemployed person might start telephone services and retail telecom cards. "Thus, after agriculture, the incidence of underemployment is probably highest in the Indian retail sector. Those displaced as a result of FDI in retail may not show up as an increase in visible unemployment”

2j DISPLACEMENT OF UNORGANIZED SMALL RETAILERS

(*Threat of monopoly & price escalation)*

Those who oppose FDI in India’s retail sector argue that foreign capital in this sector will facilitate rapid growth of organised retailing in India that will adversely affect millions of small retailers in the unorganised sector. They will go out of business. Because of their large scale, the organised retailers will wield their market power and eventually come to dominate retailing. They will resort to predatory pricing as they can withstand losses for a longer duration in distribution, wholesale and manufacturing/agricultural production sectors of host economies. Observed supermarket practices too may work against the interests of incumbent retailers, even organized ones. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops. Supermarkets also tend to alter prices in different branches adjusting to local rivals, “price-flexing” as the UK Competition Commission termed it, again working to the disadvantage of local mom-and-pop stores. Guruswamy et al (2005) argue that firms with deep pockets are able to bear sustained losses, eventually forcing higher cost businesses (“small and dispersed competition”) out of business. Once they become dominant in the market they will charge higher prices to the customers, which will also adversely affect customer welfare.

2k INCREASES IN REAL ESTATE COSTS

The foreign retailers will look for space in and around city centers to open their stores andmalls. In many large cities, there has already been a shortage of spaces particularly in prime locations. Thus, the entry of the foreign retailers will increase the price of real estate manifold in those cities, adversely affecting smaller businesses.

Highlights of the Fact finder(Bullet points)

- *The organised sector will not be the dominant player in India’s retail trade in near future as it will grow to no more than 20% of the total merchandise retail trade by 2021.*
- *The size of the markets (in terms of total sales) may not be profitable for big retailers owing to the fact that Only 53 cities in India have an excess of more than one million population and secondly because of social attachment.*

- *As the overall retail sector grows (along with the economy), there will be growth in employment with growth of predominant unorganised sector, additionally as the organized sector grows, there will be new jobs.*
- *There threat employment displacement might emerge. in such a scheme of affairs educated youth might find their way in at the cost of illiterate traditional retail owners. Even then the equation will be tilted towards employment, for every single displacement in the traditional sector there will be a replacement of 1.2 in the organized sector(1:1.2 displacement ratio, assuming one person employed in front end & another 10% in back end for every 400 sq. feet space)*
- *The growth of organised retail due to FDI is expected to lower price and be an instrument of taming inflation, the big retailers will reduce the cost of distributing merchandise and will pass on this gain to the consumers in terms of lower prices, subject to constraints.*
- *By allowing the FDI in multi brand retail we can expect a corporate culture building around in the articles of our daily use(necessities) even in the village pockets and transitional areas, for which the Indian traditional base is neither ready nor fertile. This can unravel conflicting tendencies between developed western culture and Indian tradition loving ethics especially in the rural areas which might end up in social nervousness.*
- *The farmers will receive better/fair prices by directly selling to organized retailers. With the system of intermediaries thrown off the board in the supply chain management, it will directly help increase the production by providing strong incentives to the farming class.*

- *The smaller farmers will come under severe pressure from supermarkets due to the latter's requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk, can thus severely hit the Indian agriculture.*

3) CONCLUSION

India's retail sector remains off-limits to large international chains especially in multi-brand retailing. A number of concerns have been raised about opening up the retail sector to FDI in India.The first concern is the potential impact of large foreign firms on employment in the retail sector. A second related concern raised in the DIPP's report is that opening up FDI would 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 organized retail sector is that this sector is under-developed and in a nascent stage.In this paper we argue 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 organized 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 and by eliminating both waste and middlemen also increase the fraction of the final sales prices that is paid to farmers, besides throwing open new employment opportunities. An added benefit of improved distribution and warehousing channels may also come from enhanced exports. The smaller farmers came under severe pressure from supermarkets due to the latters requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk. Observed supermarket practices too may work against the interests of incumbent retailers, even organized ones. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops. FDI in retail would undoubtedly enable India Inc to integrate its economy with that of the global economy. 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.

FDI in retail might have its pros and cons but its brighter prospectus outweighs its darker side. The destitute and poor of our nation have an inalienable right to decent living. They will be better off ending up a little poorer if the experiment fails in its worst form or lift themselves way above the poverty line if it turns to be a boon, than staying in a state of despair and misery they find themselves in, now.

I believe it can go a long way in tackling the poverty situation in the country.

Our only hope and instrument to curb the poverty is a system of massive investment in the *social sector* and poverty eradication programmes like flagship MGNREGS,IAY,MDMS etc.Our neighbor china, as per recent statistics the country has only in the financial year 2010 invested worth 28 billion dollars in its social sector as a result millions has been pulled out of poverty net taking the overall poverty ratio to exceptionally record low levels. Imagine if India invested a little around this figure a year on the poverty related programmes what could the result be? This massive social sector allocation is not going to come at an abrupt pace out of thin air unless govt exploits newer resources at its disposal in order to increase govts overall liquidity position to spare great chunk for this sector. As of now we can't go ahead with heavy infusion of funds towards this cause without undermining the price situation and sacrificing the infrastructure development on account of our budget and structural constraints. Under such circumstances

FDI in retail can be taken as a ray of hope. A right move at the right time to allow foreign players in domestic market can send a clear message across the globe and lift the investor confidence in the economy paving the way for huge foreign flows into the real economy across the board. This alongside foreign commercial installations will definitely help increase the govt revenue basket (excise duties, corporation taxes, sales tax, income tax, royalties, other levies and dividends). The net result would be swelling budgetary support for ***social sector*** to tide over vicious cycle of poverty without compromising the fiscal front, growth and economic development. *Despite all odds the need of the hour is to ensure economic prudence and to put in place a protective mechanism and a system of checks and balances. The govt before its implementation must ensure the competition commission of india is given extra strong teeth to deal with any situation arising out of collusive practices and foreign exploitation by multinationals, besides making sure that the 30% clause under WTO norms is strictly enforced, so that the small and micro industries benefit from it and thus helping realize the dream of inclusive growth .For the mere sake of if's & butts it is not advisable to discard or postpone such a big initiative which carries the potential to change the future of a nation.*

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