EMERGING TRENDS OF FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR

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ABSTRACT

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is the investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is of growing importance to global economic growth. This is especially for developing and promising market countries. FDI from investors in developed areas like the EU and the U.S. provide funding and expertise to help smaller companies in these emerging markets to expand and increase international sales.

Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FD I will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a countries product or service to enter into the global market.

Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world.

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India is rapid gaining importance world-wide as the country has become an investment hub over the last decade. Global investors have retained their faith in the flexible Indian economy even during the toughest of the times. As a result, India enjoyed high foreign inflows and investments when rest of the world was struggling to even survive.

According to the latest data released by the Department of Industrial Policy and Promotion (DIPP), India received foreign direct investment (FDI) worth US$ 1.33 billion in May 2012 while cumulative inflows for April-May 2012-13 stood at US$ 3.18 billion.

Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2013. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. According to Ernst and Young, foreign direct investment in India in 2011 was $44.8 billion, and in 2012 experienced an increase of 13% to $50.8 billion. India has seen an eightfold increase in its FDI in March 2013.

Keywords : Foreign Direct Investment, Transnational, Trends, Challenge, Retail.

1.INTRODUCTION

Indian Retail Sector : Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world b y economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. India's retailing industry is essentially owner manned small shops. In 2011, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers.

Retail The Industry is the sector of economy which is consisted of individuals, stores, commercial complexes, agencies, companies, and organizations, etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly. Goods and products of the retail industry or sector are the finished final objects/products of all sectors of commerce and economy of a country.

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 by the year 2015. 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 by the year 2015. 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. Global Jurix, a full-fledged legal organization prominent worldwide, provides all-encompassing services and advice for most lucrative and secured fdi in Indian retail sector.

In November 2012, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

The Fdi in India's retail business can be made through an y of the following routes:

- Joint Ventures
- Franchising
- Sourcing of Supplies from small-scale sector
- Cash and Carry Operations
- Non-Store Formats

The table 1 shows that service sector has received maximum FDI since 2000.The table 2 presents that in the Indian scenario Trade or retailing is the single largest component of the Services Sector in terms of contribution to GDP. Its massive share of 14% is double the figure of the next largest broad economic activity in the sector.

Table 1. Ranking of Sector wise FDI inflow in India

(April 2000- Dec 2013)

Rank	Sector	% of FDI inflow
1	Service sector	32
2	Computer hardware & software	14
3	telecommunication	12
4	Housing and real estate	11
5	Construction Activities	11

6	Power	6
7	Automobile Industry	6
8	Metallurgical Industry	4
9	Petroleum and Natural Gas	3

2. FDI TRENDS

Retail trends in India : Retailing in India is one Of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market market is estimated to be USD 518 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

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India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population)

The typical Indian retail shops are very small. Over 14 million outlets operate in the country and only 4% of them being larger than 500 sq ft (46 m2) in size . India has about 11 shop outlets for every 1000 people .

The figure 1 shows that the Indian retail industry has experienced growth of 10.6% between 2010 and 2013 and is expected to increase to USD 750-850 billion at CAGR of 18.6 % by 2015. The size of Retail industry was $ 424 billion which increased to $ 518 in 2012 and is expected to move to $ 869 billion in 2015.

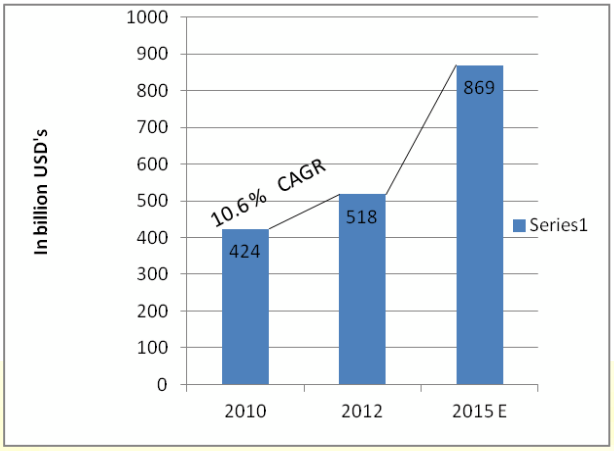

Figure1. Growth rate and size of Indian Retail market

Source: India Retail Report 2013, Images Group .

Note: For the purpose of above graph currency value for $1 is taken as INR 50 in 2010 and INR 55 in 2012 and 2015

Figure 2 presents that Food and Grocery is the largest category within the retail sector with 60 per cent share followed by Apparel at 8 % and Mobile segment at 6 %. The Food and Grocery segment is going to have major beneficiary of FDI decision in multi brand retail.

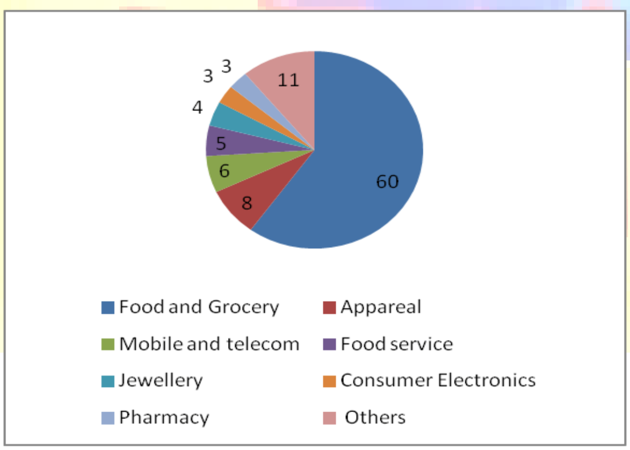

Figure2. Category wise market share of retail-2013

Global FDI losing momentum in 2013: Global foreign direct investment (FDI) inflows rose 16 per cent in 2012, surpassing the 2005-2007 precise level for the first time, despite the continuing effects of the global financial and economic crisis of 2008–2009 and the ongoing sovereign debt crises. This increase occurred against a background of higher profits of transnational corporations (TNCs) and relatively high economic growth in developing countries during the year.

Medium-term prospects cautiously optimistic: FDI flows increasing at a moderate but steady pace, reaching $1.8 trillion and $1.9 trillion in 2013 and 2014, respectively, barring any macroeconomic shocks. Investor uncertainty about the course of economic events for this period is still high. Responses for the medium term, after 2012, paint a gradually more optimistic picture. When asked about their planned future FDI expenditures, more than half of respondents foresee an increase between 2012 and 2014, compared with 2011 levels.

FDI inflows up across all major economic groupings : FDI flows to developed countries grew robustly in 2012, reaching $748 billion, up 21 per cent from 2010. Nevertheless, the level of their inflows was still a quarter below the level of the pre-crisis three-year average. Despite this increase, developing and transition economies together continued to account for more than half of global FDI (45 per cent and 6 per cent, respectively) for the year as their combined inflows reached a new record high, rising 12 per cent to $777 billion. Reaching high level of global FDI flows during the economic and financial crisis it speaks to the economic vitality and strong role of these countries in future FDI flows that they maintained this share as developed economies rebounded in 2012.

Rising FDI to developing countries was driven by a 10 per cent increase in Asia and a 16 per cent increase in Latin America and the Caribbean. FDI to the transition economies increased by 25 per cent to $92 billion. Flows to Africa, in contrast, continued their downward trend for a third consecutive year, but the decline was marginal. The poorest countries remained in FDI recession, with flows to the least developed countries (LDCs) retreating 11 per cent to $15 billion.

The growth of FDI inflows in 2013 will be moderate in all three groups – developed, developing and transition economies. In developing regions, Africa is noteworthy as inflows are expected to recover. Growth in FDI is expected to be temperate in Asia (including East and South-East Asia, South Asia and West Asia) and Latin America.

FDI flows to transition economies are expected to grow further in 2012 and exceed the 2007 peak in 2014.

Rising global FDI outflows driven by developed economies: FDI from developed countries rose sharply in 2012, by 25 per cent, to reach $1.24 trillion. While all three major developed-economy investor blocs – the European Union (EU), North America and Japan – contributed to this increase, the driving factors differed for each. FDI from the United States was driven by a record level of reinvested earnings (82 per cent of total FDI outflows); in part driven by TNCs building on their foreign cash holdings. The rise of FDI outflows from the EU was driven by cross-border M&As.

M&As picking up but Greenfield investment dominates: Cross-border M&As rose 53 per cent in 2011 to $526 billion, spurred by a rise in the number of megadeals (those with a value over $3 billion), to 62 in 2013, up from 44 in
2012. This reflects both the growing value of assets on stock markets and the increased financial capacity of buyers to carry out such operations.
Greenfield investment projects, which had declined in value terms for two straight years, held steady in 2013 at $904 billion. Developing and transition economies continued to host more than two thirds of the total value of green field investments in 2013.

Turnaround in primary and services-sector FDI : FDI flows rose in all three sectors of production (primary, manufacturing and services), according to FDI projects data (comprising cross-border M&As and green field investments). Services-sector FDI rebounded in 2011 after falling sharply in 2009 and 2010, to reach some $570 billion. Primary sector investment also reversed the negative trend of the previous two years, at $200 billion. The share of both sectors rose slightly at the expense of manufacturing.

Overall, the top five industries contributing to the rise in FDI projects were extractive industries (mining, quarrying and petroleum), chemicals, utilities (electricity, gas and water), transportation and communications, and other services (largely driven by oil and gas field services).

SWFs show potential for investment in development : Compared with assets of nearly $5 trillion under management, FDI by sovereign wealth funds (SWFs) is still relatively small. By 2013, their cumulative FDI reached an estimated $125 billion, with more than a quarter of that in developing countries. However, with their long-term and strategically oriented investment outlook, SWFs appear well placed to invest in productive sectors in developing countries, particularly the LDCs.

They offer the scale to be able to invest in infrastructure development and the upgrading of agricultural productivity – key to economic development in many LDCs – as well as in industrial development, including the build-up of green growth industries.

TNCs still hold back from investing record cash holdings: Foreign affiliates' economic activity rose in 2013 across all major indicators of international production. During the year, foreign affiliates employed an estimated 69 million workers, who generated $28 trillion in sales and $7 trillion in value added. Data from UNCTAD's annual survey of the largest 100 TNCs reflects the overall upward trend in international production, with the foreign sales and employment of these firms growing significantly faster than those in their home economy.

UNCTAD's FDI Attraction and Contribution Indices show developing countries moving up the ranks : The UNCTAD FDI Attraction Index, which measures the success of economies in attracting FDI (combining total

FDI inflows and inflows relative to GDP), features 8 developing and transition economies in the top 10, compared with only 4 a decade ago. A 2013 newcomer in the top ranks is Mongolia. Just outside the top 10, a number of other countries saw significant improvements in their ranking, including Ghana (16), Mozambique (21) and Nigeria (23).

The UNCTAD FDI Contribution Index – introduced in *WIR12* – ranks economies on the basis of the significance of FDI and foreign affiliates in their economy, in terms of value added, employment, wages, tax receipts, exports, research and development (R&D) expenditures, and capital formation (e.g. the share of employment in foreign affiliates in total formal employment in each country, and so forth). These variables are among the most important indicators of the economic impact of FDI. According to the index, in 2011 the host economy with the largest contribution by FDI was Hungary followed b y Belgium and the Czech Republic. The UNCTAD FDI Contribution Index shows relatively higher contributions of foreign affiliates to local economies in developing countries, especially Africa, in value added, employment, export generation and R&D expenditures.

3. GROWTH OF FDI IN DEVELOPING COUNTRIES

Table 2: Growth of FDI in developing Countries

Year	$ in Billion
1970	10
1980	20
1990	26.7
1998	179
1999	208

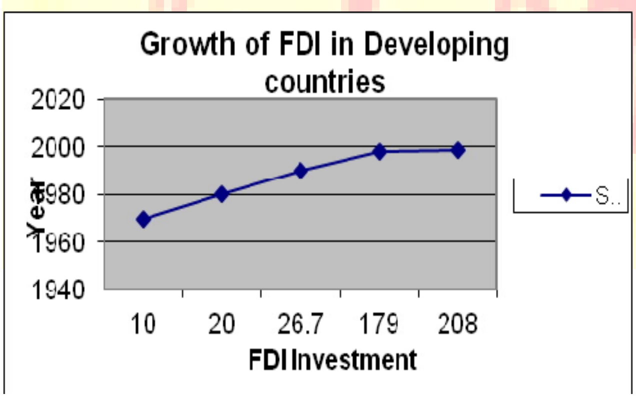

Figure:3 Growth graph

4. FDI EQUITY INFLOWS (MONTH-WISE) DURING THE FINANCIAL YEAR 2012-13

Table:4 Inflow of FDI Equity

Financial Year 2012-13 (April-March)		Amount of FDI inflows	
		(In Rs. Crore)	(In US$ mn)
1.	April, 2012	9,620	1,857
2.	May, 2012	7,229	1,327
3.	June, 2012	6,971	1,244
4.	July, 2012	8,182	1,474
2012-13 (up to July, 2012)#		32,002	5,902
2011-12 (up to July, 2011)#		65,049	14,542
%age growth over last year		(-) 51 %	(-) 59 %

Source- FDI Statistics according to department of Industrial policy & promotion, Government of India, Ministry of Commerce & Industry

5. CURRENT FDI RULES IN INDIAN RETAIL

- Currently, FDI in Multi-Brand retailing is not permitted in India.
- FDI in Single-Brand retailing up to 51 percent is permitted with prior government approval.
- FDI in 'cash and carry' wholesale trading is permitted up to 100 percent under the automatic route.
- FDI in storage and warehousing services, including warehousing of agricultural products with refrigeration (cold storage) is permitted up to 100 percent under the automatic route.

6. BENEFITS OF FDI IN RETAIL

Large-Scale Employment Generation: Proponents of FDI in retail have declared that there will be large-scale job creation in the economy. Union Minister for Commerce and Industry Anand Sharma went one step further by quoting a figure of 10 million as the number of new jobs to be created, with bulk of that supposedly coming from the logistics sector. For example, the Wal-Mart, whose global turnover is close to size of India's entire retail industry, employs only 2.1 million people. Assuming that the Wal- Mart and other retailer giants will extend their highly profitable model in the Indian retail sector as well, it is highly unlikely that 10 million jobs will be created On the other hand, there is a possibility of loss of employment for several small retailers once foreign retailers establish themselves in the market, as seen in developed nations.

In the Indian context, a study conducted by the Indian Council for Research on International Economic Relations in 2008 observed that unorganized retailers operating in and around organized retailers have witnessed a drop in business turnover and profits after the entry of large organized retailers. The entry of foreign players into the Indian retail market may or may not result in huge loss of jobs, but income reduction of marginal retailers and intermediaries is highly likely.

Efficient Supply Chain Systems: The Government believes that FDI in retail is the silver bullet solution to all issues regarding the inefficient supply chain system in India.

This belief rests on the premise that a component of the capital inflow into the retail sector will go into developing an extremely efficient and organized supply and logistic system that will take care of collection, storage and transportation of food produce, seamlessly. The government cannot expect the Wal-Mart's and the Tesco's to build good roads, without which the supply systems cannot be optimized. This is one of the constraints that Indian retail players are already struggling with. Globally, logistics account for around five percent of total cost retail players incur, while it is as high as ten percent in India, thus making a dent in its attractiveness.

Elimination of Food Wastage : Presently the highly unorganized and inadequate supply chain in India is considered responsible for the wastage of about a quarter of the total produce between the harvest and the consumption stages. In theory, development of an efficient end-to-end cold chain will make it possible to eliminate this wastage during the collection, storage and transportation of fresh produce from farms to supermarket shelves. The increase in supply base of food items due to elimination of waste will supposedly translate into higher income for farmers and lower prices for consumers.

However, data from countries where retail is highly organized convey a different story. In the US and UK, anywhere between 20 and 30 percent food is wasted by retail giants between the stages of production and consumption. A huge quantity of fresh produce is thrown away by the supermarkets during the sorting process since they have a policy of accepting products that conform to strict standards in shape, size and appearance. Hence, fresh fruits and vegetables which are otherwise edible are thrown away from supermarket shelves for their unappealing looks.

The Environment Agency estimates that the total UK retail food waste is 1.6 million tonnes per year. An estimated 20 to 40% of fruits and vegetables in the UK are discarded by supermarkets annually, simply on cosmetic grounds. Similarly trends have been observed in nations with highly organized retail such as the US.

Higher Profits for Farmers : The section in the Indian Government that supports foreign investments in retail, believes that such a move has the potential to boost up the lives of our farmers. The underlying rationale is that with the giant retailers setting up shops and investing in fully- integrated supply chain from farm gates to supermarket shelves, middlemen in the chain will be cut out. Without the intermediaries, food producers would get higher prices for their produce. This does make economic sense at a superficial level, but there are strong evidences that contradict the hypothesis.

A study conducted by the UK Competition Commission in 2000 found out that major retail chains such as Sainsbury, Tesco and Marks and Spencer had a poor track record in their dealings with suppliers. The study specifically noted that the retailers were increasingly passing on a disproportionately higher component of cost increase in the supply chain to their small suppliers i.e. farmers. A similar study conducted in 2008 concluded that major retailers exercised their bargaining power to transfer "excessive risks and unexpected costs" to their suppliers and that such behavior of the retailers was a characteristic feature of the market which "prevents, restricts or distorts competition in connection with the acquisition of groceries by large grocery retailers". Further, the study noted that the near- monopoly of supermarket chains, which procure over 70 percent of food products in the UK, enables them to "dictate prices and force farmers into trading for less and less." For instance, Tesco has introduced international 'reverse' auctions for its suppliers – food suppliers from all over the world are asked to bid to undercut each other until Tesco gets the lowest price. Farmers and other suppliers are put under enormous pressure to cut their prices, even blow the break-even point.

Another major problem is that farmers are left without a redressal mechanism if supermarkets pull out of procurement deals in the last minute, thus exploiting the lack of binding contractual agreements between them. On the other hand, farmers are penalized heavily b y supermarkets if there are shipping delays. Supermarkets also use resort to unethical practices such as delay in paying invoices and passing on unexpected costs back to suppliers for transport, packaging and food wasted at the stores. Improved Farming Technology-the term 'advanced farming techniques' in the West has come to mean capital and energy-intensive farming along with the use of lab- produced seeds and chemical farm inputs. Chemical- intensive farming may be suitable to climatic and soil conditions in the West but it has proved to be a financial disaster for farmers in India. Expenses on fertilizers, pesticides and farm equipments such as tractors make synthetic farming financially unattractive and have led to debt traps for farmers. The fact that supermarkets strictly accept produce conforming to certain standards of size,
shape and appearance only exposes the farmers to the risk of their produce getting rejected if they do not meet these standards.

This in turn pressurizes the farmer to 'factory- produce' fruits and vegetables by resorting to chemicals such as fertilizers, insecticides, ripening agents, growth hormones and artificial colours. Prominent among them is the use of a hormone, Oxytocin which is used to make fruits and vegetables appear fresh and shiny. A survey conducted by the group 'Friends of Earth' in the UK found out that more than 50 percent of farmers disclosed that they have to apply more pesticides to meet the cosmetic standards of the supermarkets and another 50 percent said that they have to apply more pesticides for pest control and disease control due to supermarket requirements .

7. CHALLENGES

- FDI in retail generally benefits only those farmers who collaborate with multinationals and accept their conditions, which means they begin growing only those crops decided upon by their collaborators. Only large farmers have the ability to link up with the sales distribution systems of these corporate entities, who have the monopolistic power to control prices of their goods in their supermarkets.

- So what happens to the remaining 90 percent of our farming community, which comprises small and medium farmers with possessions of less than two hectares? They can no longer sell their products directly in the market because they will be seen as competitors b y these major players, who would make all efforts to deny them access to the market. They have the commercial power to do so and no small farmer dare challenge that power.

- There is also a question mark about whether the farmers who collaborate with them actually benefit in the long run. According to a study conducted b y Oxfam, the prices of apples exported from South Africa fell 33 percent while tomato growers in Florida got 25 percent less for their produce even as consumers paid 46 percent higher prices for the vegetable in supermarkets.

- We cannot also overlook the potential impact of corporatization of retail on our cooking culture. Branding and packaging of foodstuffs will lead to higher prices and increase the consumption of inputs like electricity and water. Monopolies could also easily and secretly introduce genetically modified (GM) foodstuffs into our diets. This is not all. Supermarkets will need to store products for longer periods of time. This will lead to increased use of preservatives, insecticides and other chemicals to protect fruits, vegetables and other such foodstuffs to ensure greater shelf life.

- Twenty years after the introduction of policies to reform, liberalize and open up our economy we are once again passing through financial and economic uncertainty. These policies have been fiercely debated for these past 20 years and today's crisis can be traced to the reference points that underpin them. The most significant of these reference points is the growth rate of our economy, which is used as a measure of our development and is seen as being synonymous with progress. So every percentage point increase in our gross domestic product (GDP) is interpreted as a sign that we are entering a high growth phase. But GDP calculations cover up one significant fact – that this progress is not evenly spread and is not benefiting the majority of our people. Nor do they factor in the reckless exploitation of our resources, the destruction of our environment, the brutal inhibition of community rights and the quiet burial of all human values.

- Once the multinationals have more or less established their domination over resources and manufacturing, their next step is to capture the space between the producer and consumer of goods. That's why they so eagerly look at India's retail sector. This space is presently occupied by hundreds of thousands of merchants, commission agents and retail traders. Their game-plan is to eliminate these intermediaries, forge direct links with consumers and gain control over the complete trade cycle from production to consumption.

- The consequences of multinational corporations capturing the retail space in the country are fourfold. First, the profits that small retailers and commission agents presently earn will now flow into the hands of foreign entities. Second, once these huge companies establish their monopoly in the market, they will begin selling goods that fetch them the highest profits. Third, the push for higher profits will encourage them to produce only those goods that meet their economic objectives. And fourth, given their monopolistic position in the market, they can exert pressure on the government to demand land, water and energy at concessional rates to expand their trade base.

- The government offers several justifications for permitting FDI in the retail sector. For example, the government claims prices of goods will fall once FDI flows into retail because there will no longer be any middlemen or commission agents. The truth is slightly different. Once large malls and centralized sales distribution centres are established, expenditures on cold chains, storage, warehousing, electricity, and so on will shoot up. This, in turn, will raise the prices of goods reaching the consumer.

- Opening the doors to entities like Wal-Mart through FDI in retail will endanger the livelihoods of 4.5 Crore people, the majority of them small traders like milkmen ,hawkers, sweetmeat makers and others.

- The justification that small retailers would remain unaffected by the introduction of such a policy also appears to ring false.

- All in all, it is clear that the proposed FDI policy will pose serious challenges for our country, impoverishing our culinary culture, impairing the physical and mental health of our people, compromising the independence of our farmers, endangering our economic system and jeopardizing the livelihood of 4.5 crore Indians.

8. RECOMMENDATIONS

- The retail sector in India is controlled by limited availability of bank finance. The Government and RBI need to change suitable lending policies that will enable retailers in the organised and unorganized sectors to expand and improve efficiencies.

- A National Commission must be established to stud y the problems of the retail sector and to develop policies that will enable it to cope with FDI as and when it comes.

- It is necessary to encourage only genuine players in this sector and avoid a situation where retail outlets are run through working capital support from financial institutions. Should a minimum threshold limit for investment in backend infrastructure logistics be fixed? If so, what should this financial threshold be?

- The percentage of FDI in the initial stage should be low (25%) and gradually they should be allowed to raise their share over years.
  This will give the domestic companies their tome to establish themselves and get ready to face the competition from foreign players.

- When allowing foreign players to enter Indian market through FDI in multi brand retail sector, let them start by joining hands with domestic companies.

- Initially the Foreign players should be allowed to make their presence felt in limited cities. They should be allowed to expand their business slowly.

- Preparation of a legal and regulatory framework and enforcement mechanism to ensure that large retailers are not able to dislocate small retailers by unfair means.

- Extension of institutional credit, at lower rates, b y public sector banks, to help improve efficiencies of small retailers; undertaking of proactive programme for assisting small retailers to upgrade themselves

- Providing a level playing field for small retailers; Analysis of traffic and economic impacts before a store is given permission to open.

- Setting-up of a Retail Regulatory Authority to look into problems and to act as a whistle-blower.

- Enactment of a National Shopping Mall Regulation Act to regulate the fiscal and social aspects of the entire retail sector.

- Formulation of a Model Central Law.
- Local players (Domestic companies) can be encouraged to become big organizations through mergers and acquisitions; this will make them capable of competing with foreign retailers.
- Adequate safeguards to prevent diversion of agricultural land for building malls etc.

9. CONCLUSION

Opening up of FDI in multi-brand retail in India could potentially be a mixed blessing for domestic players. While initially the small indigenous retailers' business would be impacted once modern retail enters the locality, this adverse impact is expected to be short-lived and to weaken over time. While this long awaited move is not expected to have an immediate impact on the Indian retail sector, it is expected to reap benefits in the medium to long-term as it will help improve the a) balance sheet and liquidity profile of cash-starved retailers with aggressive expansion plans b) supply chain and back-end infrastructure while reducing margins for middlemen through direct sourcing from farmers and c) arrest inflationary pressures through increased supplies facilitated by improved productivity of farmers and reduction of agri-waste. However, once 100% FDI is allowed in retail that is when the landscape will become extremely competitive. Further, the move needs to be monitored in the wake of the current opposition by several political parties.

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