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THE IMPACT OF FDI POLICY REFORMS ON THE RETAIL SECTOR IN INDIA

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Abstract

The Indian economy is booming, with an average GDP growth rate of more than 7 per cent (2014-18) and is expected to be the world's third largest economy after the USA and China by 2050 (Dadush and Stancil, 2009). India has witnessed a noticeable growth in the organized retail industry after the liberalization of the economy in the early nineties. Healthy economic growth, favourable demographic trends with young and thriving population, increasing disposable incomes, and urbanization are some of the factors driving growth in the organized retail market in India. According to A. T. Kearney's Annual Global Retail Development Index, 2017, India ranks first among the top 30 emerging markets for retail globally.

The present study aims at the investigating current retail scenario in India, analyzing the impact FDI reforms in attracting FDI in retail and evaluating the challenges and threats of FDI in Indian retail industry.

1. INTRODUCTION

India's economic reforms way back in 1991 has generated strong interest in foreign investors, turning India into one of the favourite destinations for global FDI flows. India's high growth potential, changing demographic profile, increasing disposable incomes, changing consumer tastes and preferences has made it more favourable compared to its global peers. India has been ranked 11th in the Global FDI Confidence Index 2018, making it the 2nd highest ranked emerging market for FDI *(AT Kearney Foreign Direct Investment Index, 2018)*. FDI policy reforms in key sectors have improved the ease of doing business and accelerated the pace of foreign investment in the

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country. With the ongoing policy reforms in various sectors and simplification of legal and regulatory system, India's rank in the World Bank's Ease of Doing Business 2019 survey climbed 23 places to 77 among 190 countries surveyed compared to 142nd position in 2014, making it the only country to rank among the top 10 improvers for the second consecutive year. According to a study by Boston Consulting Group, India is expected to become the world's third-largest consumer economy, reaching US$ 400 billion in consumption by 2025.

Retailing in India has emerged as one of the most appealing investment sector for both domestic as well as foreign investors. According to A. T. Kearney's Annual Global Retail Development Index, 2017, backed by rising middle class and rapidly growing consumer spending, India ranks first among the top 30 emerging markets for retail globally. With an 11 percent gross value contribution to GDP, India's retail sector is witnessing accelerated growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. Increase in consumer awareness levels, the increase in the number of middle-class families, economic factors like the increase in the disposable income, environmental factors like the development of infrastructure facilities not only in metros but in the tier-II and III cities and towns and a host of other factors like the exposure to latest technologies to do business, development of communication network, etc. have contributed to the accelerated growth of Indian retail industry.

2. LITERATURE REVIEW

Gopal and Surya-narayana (2010) pointed out that demographic changes such as increase in disposable income, increase in the proportion of young population, increasing labor participation of women and also the increase in cellular subscriptions and internet usage has not only enhanced the awareness among consumers about products but has also facilitated the growth of organized retail industry in India. This in turn has led to the rise in private consumption expenditure thus increasing retail sales.

According to Chari & Raghavan (2011) opening up the retail sector to FDI in India would lead to large scale exit of incumbent local retailers. The organized retail sector in India being in a nascent stage, it would be very difficult for the local retailers to compete with big players. The study further pointed out that FDI would help to tackle inflation, by creating better linkages, and also result in improved distribution and warehousing channels.

R. Bhattacharyya (2012) argued that the opening up of the retail sector to FDI could provide a boost to small-and medium enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. But the government of India needs to be cautious about the apprehensions raised by the critics and adequate safeguards must be taken so that the positive effects may outweigh the negative ones and the traditional retailers coexist even after big foreign retailers enter the market.

According to S. Nandal (2013), FDI in retail would give a boost to the Indian economy and provide customers with wide assortment of quality products at reasonable prices. But, if not handled well, FDI could cause harm to the economy in the form of job losses and displacement of traditional supply chain.

D. Mukherjee (2014) conducted an econometric analysis of the impact of FDI in the retail sector and found a positive relation between the growth in organized retail and different socio-economic factors like mobile cellular subscriptions (per 100 people), internet users (per 100 people), household consumption expenditure (as a % of GDP), consumer price index, population age group between the ages 15-64 years, urban population growth, gross domestic product growth and the inflow of foreign direct investment.

Selvam and Kannaiah (2015) conducted a study to assess the impact of FDI in retailing on the lifestyle of the consumers. They argued that FDI in retail is very necessary to boost Indian economy, increase more value and opportunities to the end consumers, ensuring better lifestyle, competitive price, more variety and better quality products to the consumers.

K. Sailaja (2015) posited that opening up the retail sector to the foreign investors would be beneficial for the economic growth, provided regulatory frameworks are designed for protecting the interest of the domestic firms. Further FDI in retail would improve the supply chain and bring in technical know-how from foreign firms.

According to Chawla et al. (2016) liberalized FDI policy in retail would bring improvements in the Indian economy, but the stake of the small retailers required to be taken care of while formulating and implementing the policy. Besides, the small firms also need to revive their strategies and come up with innovative ideas to attract the customers and retain them.

3: OBJECTIVES OF THE STUDY AND METHODOLOGY

The paper is based on descriptive arguments, statistical data, comparative study and views developed through the review of literature and online databases.

The objectives of the study are:

1. To study the retail scenario in India
2. To examine the factors favouring the retail boom in India
3. To analyse the impact of FDI in retail sector in India
4. To discuss the threats and opportunities of FDI in retail in India

3.1: INDIA'S RETAIL SCENARIO

A. Retail Formats in India: Retailing has been defined as the activities involved in the selling of goods to ultimate consumers for personal or household consumption (Kotler and Keller, 2006). It is the last link in the chain of production, which begins at the extractive stages, moves through manufacturing and ends in the distribution of goods and services to the final consumer. The retailer, therefore, is the middleman who links the producers and the ultimate consumers.

The retail industry comprises of organized and unorganized sectors. Unorganized retailing refers to the traditional format of low-cost retailing. India still predominantly houses the traditional formats of retailing in the form of local 'kirana' shops, paan/beedi shops, weekly haats, convenience stores, hand cart and pavement vendors, etc. Organized retailing, on the other hand, refers to the trading activities undertaken by licensed retailer, i.e. those who are registered for sales tax, income tax, etc. Privately owned large retail business, retail chains, hyper markets, supermarkets, etc comprise the organized retail format. The various formats of organized retailing in India include:

- **Mono/ exclusive branded retail stores** which are exclusive showrooms either owned or franchised out by a manufacturer.

- **Multi-branded retail stores** which focus on particular product categories and carry most of the brands available.

- **Convenience retail outlets** which are one-stop shop for customers, displaying different brands across various product lines. They are relatively small stores of 400-2,000 sq. feet located near residential areas and stock a limited range of high-turnover convenience products and are usually open for extended periods during the day mostly seven days a week. Prices at these stores are slightly higher due to the convenience premium.

- **Malls** are the largest form of organized retailing located mainly in cities and urban outskirts. Ranging from approximately 60,000 sq ft to 7, 00,000 sq ft and above, lend an ideal shopping experience, and have an amalgamation of product, service and entertainment under one common roof.

- **Hypermarkets** have a multiple division layout, and usually have an "industrial-look" interior. They generally provide daily necessities and grocery like items. Pricing at hypermarkets is competitive and offer volume discounts.

- **Super Markets** are large self-service outlets, catering to varied shopper needs and are located in or near residential streets. They can further be classified into mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from a size of 3,500 sq ft to 5,000 sq ft. They have a strong focus on food and grocery and personal sales.

- **Discount Stores** are stores or factory outlets which offer discounts on the maximum retail prices through selling in bulk and thus reaching economies of scale or selling excess stock left over at the season. The product category can range from a variety of perishable to non-perishable goods.

- **Departmental Store** are large stores catering to a variety of consumer needs like clothing, toys, home, groceries, etc.

- **Specialty Store** focuses on a specific product category and is medium sized layout in strategic locations. Specialty stores provide a large variety base for the consumers to choose from. (Negi H.S., 2008)

- **E-Tailing** or electronic retailing can include business-to-business (B2B) and business-to-consumer (B2C) sales of products and services, through subscriptions to website content, or through advertising. It is an online shopping facility for buying and selling products and services; the facility is widely used for apparel, electronics, health and wellness. Highly convenient as it provides 24X7 access, saves time, and ensures secure transaction.

Retailing in India, in contrast to developed economies, is highly fragmented and unorganized though the country has one of the highest retail densities worldwide with close to 13 million retail outlets. The country has seen dynamic growth across a variety of retail formats—from traditional kiranas to modern trade and e-commerce retailing. Transition from traditional retail to organised retail is taking place due to changing consumer expectations, growing middle class, higher disposable income, preference for luxury goods, and change in the demographic mix, etc. This is further intensified with the convenience of shopping with online stores (online shopping), multiplicity of choice under one roof (Shop-in-Shop), and the increase of mall culture, etc. These factors are expected to drive organized retail growth in India over the long run. Across formats, retail has not only added close to 1.9 million jobs each year over the past five years, but also encouraged skill development to make the country's workforce more employable. Retail is also intricately linked with other labor-intensive sectors, such as agriculture, food and beverage, textiles, construction, real estate, and logistics. The modernization of Indian retailing is fast evolving in the urban cities but the bulk of retail sales happen through traditional retail formats. Unorganized retailing is still the prevalent form of trade in India, constituting 88% of the total retailing trade, while the organized retailing trade accounts for 9% and the remaining 3% accounted by e-commerce segment.

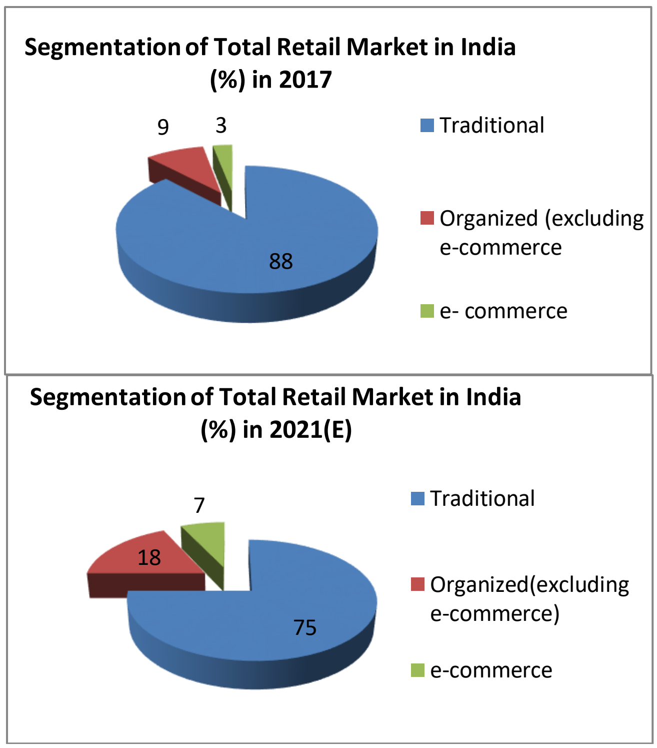

Fig.1

Source: www.ibef.org. BCG, KPMG- indiaretailing.com, Deloitte Report, Winning in India's Retail Sector, Centre for Digital Financial Inclusion (CDFI) report, Crisil, Consumer Leads report by FICCI and Deloitte - October 2018

The organized retail market in India is growing at a CAGR (compounded annual growth rate) of 20-25 percent every year. Projections have been made that by 2021, the traditional retail penetration would hold a major share of 75percent, organized retail penetration share would reach 18 percent and e-commerce penetration would reach 7 percent (Consumer Leads report by FICCI and Deloitte, October 2018). Rapid emergence of organized retail outlets like mega malls and hypermarkets are augmenting the growth of organized retail in the country.

Food and grocery segment, with 65% of the total revenues, accounts for the largest share, followed by the Apparel & footwear segment with 9.8% of the total retail revenues in India. By 2020, food and grocery segment is expected to account for 66 per cent of the total revenues in the retail sector, followed by apparel & footwear segment with more than 10% of the total retail revenues.

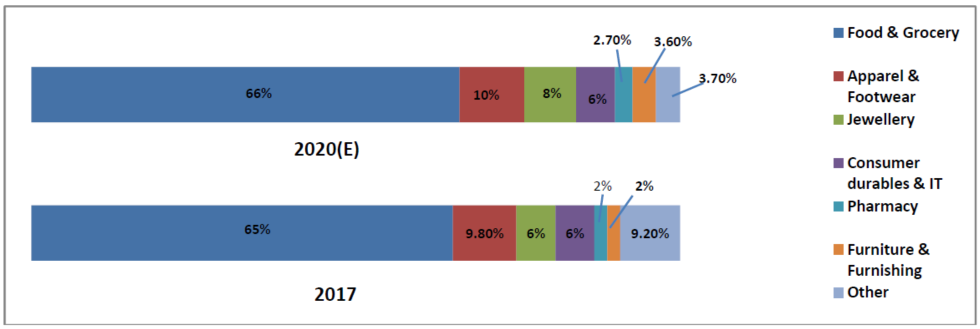

Fig. 2

Source: www.ibef.org

The demand for western outfits and readymade garments has been growing at 40–45 per cent annually (Technopak, Indian Retail Market, 2013). In the apparel sector, global brands such as Zara, Mango, Calvin Klein and Aldo have set up stores in the country, and are looking at the omni-channel model for future growth.

3.2: FACTORS FAVOURING THE RETAIL BOOM IN INDIA

A booming economy and a growing affluent middle class have increased the purchasing power of the consumers. Significant growth in the discretionary income, changing lifestyles, easy availability of credit and wider range of products and services have contributed to a strong and growing consumer culture in the country. India's consumption pattern owing to diversity in culture, religion and the family values encourage spending on specific occasions such as marriage, festivals, etc., adding a big dimension to the retail spends. There have also been constant improvements in the supply chains and logistics by retailers for competitive advantage and meeting consumer demands. Real estate development providing increased quality retail space, has led to growth of organized, modern retail outlets, with improved availability and quality, pleasant shopping environment, trial rooms, competitive prices and financing options.

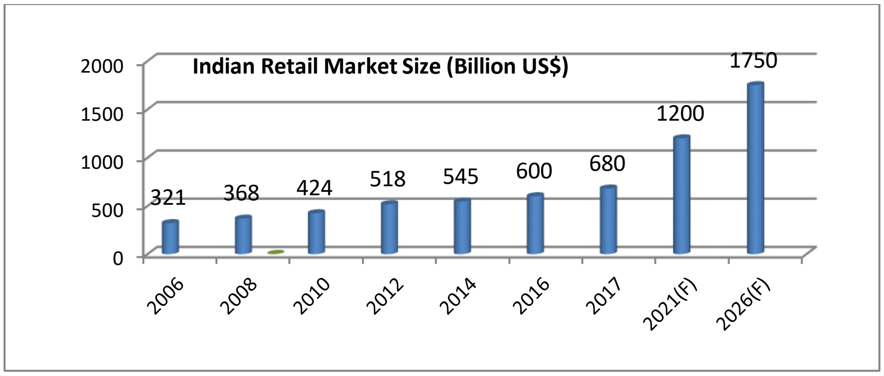

Fig. 3

Source: India retailing.com, BMI Research, Consumer Leads report by FICCI and Deloitte, Oct.2018

The total market size of Indian retail industry reached US$ 680 billion in 2017. It is forecasted to increase to US$ 1,200 billion by 2021 and US$ 1,750 billion by 2026. India will become a favourable market for fashion retailers on the back of a large young adult consumer base, increasing disposable incomes and relaxed FDI norms. The retail sector in India is thus, emerging as one of the largest sectors in the economy.

Multiple factors have contributed to the retail boom over the last decade which has been discussed below:

- ***Stable economic growth:*** Countries with high per capita GDP are main source of attraction for inflow of FDI (Schneider & Frey, 1985). India is one of the world's fastest growing major economies with an increasing GDP. While the country's growth dipped in the immediate aftermath of demonetisation, it has recovered to surpass China and became the fastest growing economy globally. The per capita GDP has risen from US$ 809 billion in 2005 to US$ 2601 billion in 2017 indicating the raised living standards of the people in the country.

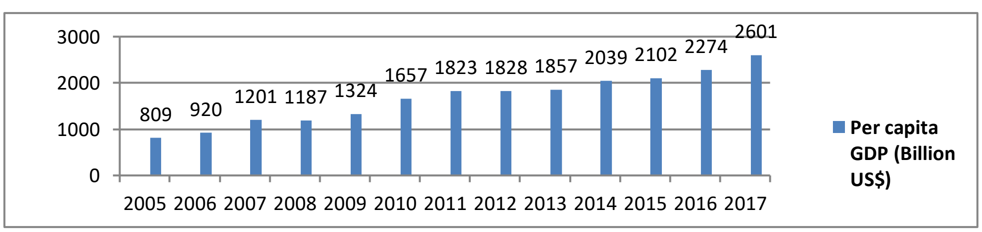

Fig. 4

Source: World Bank data, accessed in Feb, 2019

- ***Favourable demographic trends with high youth population:*** India has a median age of 27, which is relatively lower than the median age in major economies of the world. India has an increasing opportunity for consumer markets, owing to its young demographic dividend – nearly 70% of the country's population falls below the age of 30 years (Census 2011). Further, the youth is more exposed to content, is more digitally connected and possesses knowledge on their fingertips. It is thus, now, not just about retailing the products and services to the customer, but keeping up with their fast evolving tastes and preferences.

- ***Increasing workforce:*** Although a major share of the total workforce in India is engaged in the informal sector, there has been a considerable rise of 9.76% (2006 to 2016) in the total labour force, resulting in an increase in the purchasing power of the Indian consumers. The advent of foreign investors in the retailing is expected to increase employment opportunities resulting in more consumption in future, providing a boost to the retail industry.

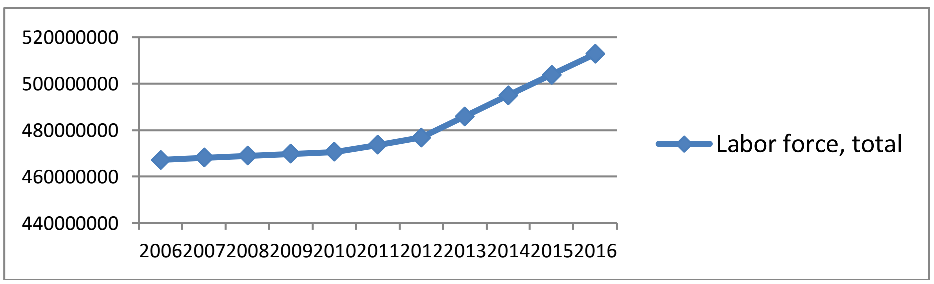

Fig.5

Source: compiled using data from International Labour Organization, ILOSTAT database and World Bank population estimates. Labor data retrieved in September 2018.

The growth of retailing especially in tier II and III cities is helping boost employment in the sector with more stores getting opened. A report by Boston Consultancy Group (Re-Imagining FMCG in India, December 2015) indicates a rise by 4.5 times in the population in tier II-IV cities by 2025, which means that the so far ignored tier-II and tier-III cities would emerge as markets driving retail growth in the country. Apart from 8 metros (Delhi, Mumbai, Bangalore, Hyderabad, Chennai, Kolkata, Ahmedabad, Pune), the Ernst and Young (2017) recognised 42 'new wave' cities including Jaipur and Surat as the two new metros, followed by 10 high potential cities and 30 emerging markets. As India grows economically, its rising purchasing power has made its emerging cities promising, yet untapped markets. These cities offer ample opportunities beyond saturated metros, including cheaper real estate and affordable labour to help businesses reduce costs. An important factor that has increased consumption in these markets is the growing penetration of the internet and easy accessibility to information with the growth of smart phone use. These factors are greatly influencing and altering purchasing habits in these cities. Lately, the retailers are planning to provide experiential shopping experience to their consumers. This shift in focus driven by technology will require significant re-skilling of current employees in soft skills and IT skills. As per a report by National Skill Development Corporation, India will need around 56 million strong workforce for the booming retail sector. The sector will have one of the highest incremental human resource requirements of 17.35 million by 2022, offering opportunities in sales, merchandising, store management, central management and procurement.

- ***Rapid urbanization:*** The urban population increased from 29.56% of the total population in 2006 to 33.18% of the total population in 2016 (UN population division report, 2018). Rapid urbanization and rising middle-class are driving the growth of retail sector in India. It is estimated that by 2025, the middle-class will be the largest income segment in the country, and will account for 40% of the country's consumption, up from 26% in 2015. The new middle-class, with higher disposable income, is shifting from buying just the essential commodities, to purchasing goods that can be described as luxury products. The increasing quantum of demand by the rising middle-class is going to be the key driver of employment generation in the retail sector. The rapid urbanization of smaller towns is leading to an increased number of malls and retail stores coming-up in tier II and III cities across the country. The urbanization in the country is not just driving growth in the organized retail sector, but also increasing the number of unorganized retail and kirana stores opening up to cater to this growing population. By 2025, it is estimated that about 40% of the population will be living in urban areas and accounting for more than 60% of the country's consumption (United Nations Population Division, World Urbanization Prospects, 2018).

- ***Evolving consumer households:*** Reports compiled from the World Bank data and Census of India, reveal that there has been a rise in the number of households but the household size has decreased (Consumer Leads, report by Deloitte and FICCI, October 2018). This indicates growing number of nuclear families with increasing demands. Large families' fragmenting into nuclear families translates into increased footfalls and more shopping baskets – providing a great opportunity for the retailers. Also advancement of technology, preference for convenience and increased disposable incomes are seen to have led the evolution in consumer households. As more urban women are seeking employment resulting in dual income families, there is more disposable income for the families. But, with greater work pressure on the women to strike a balance between family and work, the focus has shifted to convenience and comfort. The households in India have evolved from typically consisting of 4-5 major consumer appliances during 1990s to nearly 12-15 appliances today.

- ***Greater accessibility and connectivity:*** The primary source of employment in rural areas is agriculture, which is contingent on factors like season, water supply, market viability etc. Labour mobility is the expected outcome with increasing economic development and urbanization (World Bank 2009; UNDP 2009; IOM 2015). Better infrastructure and connectivity facilitates the movement of rural population to towns and cities for non-agrarian employment opportunities, leading to higher disposable incomes and higher consumption. While the supply and demand factors are expected to accelerate the growth in consumer markets, the government is also providing continuous support to make the business environment more conducive for companies operating in this space. Developments related to infrastructure – electricity, transport, housing; digitization of processes and economy; regulations pertaining to segments of consumer sectors; etc. are facilitating the growth of consumer sectors.

- ***Changing consumer tastes and preferences:*** While traditionally, consumers waited for the information to reach them, in current times, they actively gather information through various sources. Particularly, media invasion has changed the lifestyles of consumers resulting in greater demands on variety and assortment, value, service and convenience. Media, on the one hand, has resulted in booming sales for the retailers and on the other, by creating awareness, has ensured that the consumer gets 'value for money'. Consumers today are more connected than ever. They are seen to have a new set of value drivers, which are more intrinsically linked to their core values and beliefs. Traditional drivers such as price, taste (for food products) and convenience remain critical in making buying decisions, but new drivers such as social impact, health & wellness, safety and experience have been seen emerging to the forefront. According to a Deloitte survey, more than half of the consumers weigh these evolving value drivers more heavily than the traditional ones and nearly 63% are willing to pay more for products where social impact values are demonstrated (Deloitte Food Value Equation Survey, 2015). Increasing disposable incomes, preference towards unadulterated genuine products, increasing health & wellness consciousness and awareness regarding implications of unsustainable social and environmental practices, are a few major reasons driving these changes. Besides, owing to online medium, consumers have plethora of options to choose from. They are empowered by technology to get what they want, when they want and where they want.

- ***Growing internet penetration:*** Internet users in India are expected to increase from 432 million in 2016 to 647 million by 2021, taking the internet penetration from 30% in 2016 to 59% in 2021 (Deloitte Analysis, 2017). Smartphone users in India are expected to increase from 260 million in 2016 to around 450 million by 2021, which is also expected to drive the m-commerce sales from US$ 10.5 billion in 2016 to US$ 38 billion in 2020.With greater use of technology, especially in retail, consumers' shopping journey is becoming more experiential. Brands are responding to this evolution, by making the consumers' journey less transactional and are leveraging omni-channel ways to enable their purchases. The advent of technology has also enabled companies for individual and precision marketing, offering their consumers with relevant personalised content to encourage them for repeat visits. In the current digital age where consumers are getting cash rich but time starved, instant gratification is another aspect being worked upon by brands rigorously through various channels of communications.

- ***Easy financing options:*** Easy availability of credit and use of 'plastic money' have contributed to a strong and growing consumer culture in India. Plastic money an acronym for credit cards is an important driver of retail businesses. Indian consumers are increasingly using credit cards for shopping as well as dining. There has been an increase in purchasing power of the consumer due to easy availability of credit and payment options, which has given a push to higher value items and encouraged repeated purchases. For the FY 2017-18, the growth in annual consumption in rural India stood at around 9.7 per cent, while the urban consumption grew by 8.6 per cent. Rural Indian households are now spending more on consumer goods like durables, health and personal care, food and beverages and services than few years ago. The collective effort of the retailers and the financial institutions are enabling the consumers to go for consumers durables with easy credit. The S&P BSE Consumer Durables Index has grown at 20 per cent compounded annual growth rate (CAGR) for the years 2010-17 (www.ibef.org). Rise in disposable income, easy credit options and electrification are likely to accelerate the demand in the consumer durable sector.

- ***Government initiative:*** The government has acted as a key enabler in creating a conducive business environment for foreign and domestic consumer brands to thrive in the country. Post the opening of FDI in Single Brand Retail Trade (SBRT) in 2006 and subsequent liberal FDI reforms, the country has witnessed significant developments across various sectors. Investments, especially by foreign brands, seem to have not only helped in growth of the retail industry and the country's economy as a whole, but also upgraded consumers' buying experience throughout their shopping journeys. The Indian Government launched the Digital India campaign in 2015, with a vision to transform the country into a digitally empowered society and knowledge economy. The Digital India campaign aims to achieve universal internet access through broadband highways, mobile connectivity, and public internet access programme.

3.3: FOREIGN DIRECT INVESTMENT IN RETAIL TRADE IN INDIA

Since the economic liberalization, initiated in 1991, the Indian Government has allowed foreign direct investment (FDI) in almost all the sectors of the economy (Nagaraj, 2003). FDI of upto 51 per cent was allowed under the automatic route in select priority sectors and 100 percent FDI for wholesale trade of cash and carry products was allowed. The Government of India introduced reforms to attract FDI in retail industry. The major initiatives taken by the Indian Government to encourage FDI in the retail sector have been discussed below:

- **2006:** FDI policies were relaxed in the retail sector, allowing FDI of upto 51 percent with prior government approval in single-brand retail. The impact of opening up the retail sector for FDI is reflected by the remarkable increase in retail FDI inflows from US$ 1.68 million in the year 2005-06 to US$ 229.12 million in 2008-09 (fig. 4). From 2006 to March 2010, around 94 foreign firms applied to invest through the single-brand route of which 57 were approved. Consequently, the percentage increase in FDI flows in the retail sector between 2008 and 2010 was even higher than that in sectors such as the services sector, trading and telecommunications, which have a much higher share in the country's overall FDI (DIPP Report, 2010).

- **2012:** The Government finally approved 51 per cent FDI in multi-brand retail and increased FDI limit to 100 per cent (from 51 per cent) in single brand retail, 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. The policy also mandates a minimum investment of US$100 million with at least half the amount be invested in back-end infrastructure, including cold chains, refrigeration, transportation, storage, packaging etc. Retail outlets are allowed to be set up in cities with a population of more than 10 lakh as per 2011 census survey, or any other cities as per the decisions of the respective State Governments. Policy reforms allowing 100% FDI in single brand retail and 51% in multi-brand retail have set the momentum for long-term growth of the retail sector in

India. The inflow of Retail FDI rose from US$ 97.6 million (2011-12) to US$537.61 million for the year 2014-15.

- **2015:** To simplify and further rationalize the reforms, more and more FDI proposals were put on automatic route instead of Government route, allowing global technology brands like Apple and Sony to open fully owned stores in India. The Government aligned the FDI policy with NIC code for facilitating ease of doing business.

- **2016:** The Government approved 100% FDI in the marketplace format of e-commerce in 2016. 100% FDI was permitted in multi-brand processed food retailing with products to be sourced and manufactured from India. This paved the way for retailers like Walmart and IKEA. Walmart acquired Flipkart investing US$16 billion (77% stake) in August 2018.

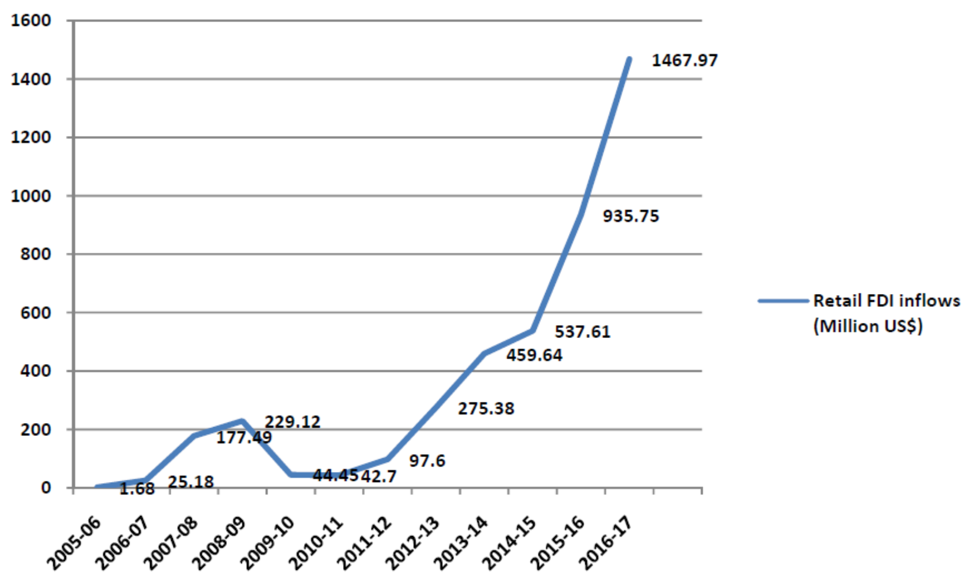

Fig.4

Source: prepared from the data sourced from the reports and publication of the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India.

The introduction of GST in July 2017 is expected to eliminate cascading tax impact and improve supply chain efficiency. Increased transparency through uniform tax policy is likely to attract higher levels of FDI making India as one of the preferred retail destinations in the world. According to Moody's Investors service "Combined with reforms such as the introduction of a goods and services tax, which lowers the cost and complexity of doing business, and a simplified and clarified bankruptcy code, FDI is likely to rise further," (ET Bureau, Sept 2017).

3.4: RISING PROMINENCE OF ONLINE-RETAIL

The e-commerce retail market is among India's fastest-growing markets and growth continues to be driven by various supply and demand side factors. The increasing penetration of internet and smart phones across the country, increase in the number of urban households, ease of payment and compelling commercials and discounts combined with the convenience, access and variety that online shopping offers, act as market drivers. Convenient payment options, customer-friendly policies, speedy deliveries and easy returns drive customers to online channels. Further, customer loyalty rewards, special discount coupons, cash-back policies and special online festivals continue to attract customers to shop online. With discount-based business models, backed by high doses of investors funding, e-commerce companies have been offering products at comparatively lower prices, causing a shift in consumer preference towards online retail. Along with low prices, e-tailers have redefined convenience, variety and customer service. Technology has also been leveraged to help customers buy better by comparing products and providing reviews. Retail e-commerce drives significant investment and value for the Indian logistics sector and has emerged as an important segment in this spectrum. It had a market size of US$ 32.70 billion in 2018 and is estimated to reach US$ 60 billion by 2020. The online retail market sales are forecasted to grow at the rate of 31 per cent year-on-year and projected to reach US$ 73.00 billion by 2022. Major Government initiatives like Digital India, Skill India, Startup India and India Innovation Fund are likely to facilitate growth of e-commerce. UPI, electronic wallets and digital payment products are expected to ease the payment process in e-Commerce.

In February 2019, the Ministry of Commerce and Industry tightened the norms for e-commerce firms having foreign investment through a revised FDI policy in online retail. The policy barred online marketplaces like flipkart and amazon from selling products of the companies where they hold stakes and also banned exclusive marketing arrangements that could influence product price. Despite the policy changes that could lower the profitability in long run, Walmart is optimistic about its prospects in India. The Executive Vice President and Regional CEO Walmart Asia and Canada, Dirk Vanden Berghe said, "We will continue to focus on serving customers, creating sustained economic growth and bringing sustainable benefits to the country, including employment generation, supporting small businesses and farmers, and growing Indian exports to Walmart's global markets."

(www.livemint.com.).This indicates the huge untapped potential of the retail sector in India which attracts the investors across the globe.

4. OPPORTUNITIES AND THREATS OF FDI IN INDIAN RETAIL SECTOR

Foreign direct investment is considered as an important mechanism for channelizing transfer of capital and technology and thus perceived to be a potent factor in promoting economic growth in the host countries. Many studies and surveys have been conducted to analyze the impact of FDI in various segments of the economy. It has been discussed in a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP, 2010) that FDI in retail must result in backward linkages of production and manufacturing and spur domestic retailing as well as exports. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits. By allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. Certain benefits of FDI in retail have been perceived as:

- **Infusion of capital –** Opening up the sector for foreign investors would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. FDI is one of the major sources of investments for a developing country like India wherein investments from Multinational companies could improve the country's growth rate, create job opportunities, bring in advanced technologies and expertise, and develop back-end infrastructure, and research and development.

- **Boost healthy competition-** Proponents of FDI argue that entry of the multinational companies will intensify the competition between the different companies offering their brands in a particular product market, resulting in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

- **Improvement in supply chain-** Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages. Improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages.

- **Enhanced customer satisfaction-** FDI in retail would create such an environment in which consumer in a true sense would be the king. Consumers in the organized retail would have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, easy return and exchange conditions, maintenance of hygiene and better customer care. The products and services provided by the retailers would focus more on providing satisfaction to the customers. The competition in the consumer market would result in customers getting quality products and services at affordable prices.

- **Improved technology and logistics**- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

- **Benefits for the farmers-** Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. The advocates of FDI believe that FDI in retail in the agriculture will help in improving supply chain, infrastructure and ensure economic security for farmers through the elimination of middlemen in the country. Moreover, the elimination of intermediaries and direct procurement by the MNCs would secure better prices for the farmers. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can benefit with the "farm-to fork" ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will ultimately benefit, both the farmers and consumers.

- **Creation of more and better employment opportunities-** The retail sector today is among the top three employers in the country employing around 45.11 million people across sub-sectors, accounting for 8% of the country's employment. The food and grocery sub-sector accounts for approximately 47% of the sector's employment. The growing FDI in the sector is expected to create more jobs in coming years. More supermarkets are opening up across the country to cater to the diversity of preferences of the Indian consumers, making this the fastest growing sub-sector in retail. Food service, lifestyle and home improvement are the next biggest sub-sectors, together accounting for 38% of the sector (NSDC report, 2011). The entry of foreign companies into Indian retailing will not only create many employment opportunities but, will also ensure quality in them. This will help the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations. FDI regulation in multi-brand retail stipulating 50% investment in creating back-end infrastructure such as warehouses, logistics, accounting, customer services etc. is expected to create significant jobs in allied sectors as well.

However, critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood. The major threats to the domestic retailers in India are specified below:

- **Domination of organized retailers-** allowing FDI in single and multi-brand retail would strengthen organized retail in the country; thereby increasing the dominance of these organized retailers in the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets, who would find it difficult to compete with the large retail outlets.

- **Create unemployment-** Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.

- **Lead to increase in real estate cost**- The foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. The demand for retail space would result in increase in the cost of real estate in the cities, eventually affecting the interest of the ordinary people who desire to own their houses within the cities.

- **Effect on farmers** – The entry of giant MNCs into agricultural procurement would make the problems worse for the farmers. The fact that the giant retailers would have far greater buyer power vis-à-vis the farmers compared to the existing intermediaries cannot be completely ignored. As against the "mandis" that operate today, where several traders have to compete with each other in order to buy the farmers' produce, there would be a single buyer in case of the MNCs. This would make the farmers dependent on the MNCs and vulnerable to exploitation.

5. CONCLUSIONS

The Indian retail industry has emerged as one of the fastest growing in the world and multiple drivers are leading to strong growth in Indian retail through a 'consumption boom'. Increasing per capita GDP, young and digitally connected population, urbanization, rising levels of disposable income, and changing consumer tastes and preferences have favoured the retail boom in India. The major initiatives taken by the Indian Government to attract foreign investors in India, through FDI policy reforms are shown to have considerably increased the retail FDI inflows in India. The reforms have reduced the complexity and increased the ease of doing business in India.

Liberalization of FDI in retail has faced opposition concerning the possible threat of employment losses, promotion of unhealthy competition leading to exit of domestic unorganized retailers from the market and the distortion of urban cultural development. However, the argument that the advent of FDI and large MNCs would displace a large number of kirana or small family-run retail shops, may not stand completely true in the long run. The kirana shops operating in large part of the country could enjoy built-in protection from supermarkets, as the latter can only exist in urban cities. As large part of Indian consumers are still not reached by supermarkets, the small mom and pop or kirana stores will continue to thrive, owing to the advantages offered to the consumers in the form of more variety of localized products, ease of access, personal relationship with the customers, credit facility to regular customers and lesser requirement of retail space compared to the supermarkets. Moreover, the supermarkets have the ability to demand pricing and quality standards from the manufacturers, which would even benefit the kirana shops, as they can buy from the supermarkets to sell the same products in smaller towns or villages. Thus, the consumers residing even in the rural areas could avail quality products at reasonable prices.

The Government's stance over implementing changes in the FDI policy (changes in Para 5.2.15.2 of the Consolidated FDI Policy 2017) also restricts online marketplaces from influencing the sale price of products and bring respite to e-commerce vendors and offline retailers against deep discounting policies by e-commerce companies. Realizing the remarkable presence of kirana stores at every street corner, the US retail giant Walmart plans to partner with the kirana owners and members to help them modernize their retail practices and adopt digital payment technologies. In mid-2014, Walmart launched its Mera Kirana programme, aimed at helping these mom and pop stores improve the efficiency of their operations, especially in terms of assortment and sourcing. Under the pilot programme, Walmart introduced spaces in its Best Price stores that resembled kirana stores, but with a number of technological modifications in order to showcase what these stores could be doing better. It also offered training modules to kirana store owners that focused on best practices, tech adjustments and cost savings. These kirana stores comprised roughly 70% of the orders from its wholesale cash-and-carry business, so by making them adopt new technologies, it made the process of supplying and distributing products to them a lot easier. While kirana stores are important customers for Walmart's wholesale business, they act as competitors in the retail sector. With their last mile connectivity, strong customer loyalty, reasonably low overheads, they cater to the demographic that isn't used to shopping online or at large retail stores.

Thus, the opening up of the retail sector for FDI is expected to not only increase the total size of retail trade in India but also modernize the existing unorganized retailing format in the coming years. Further, the international experience and advanced technological skills that may come from FDI, is bound to pull up the quality standards and cost-competiveness of Indian producers in various segments. This would not only benefit the Indian consumers but also open the doors for Indian products to enter the wider global market.

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