FDI IN INDIAN RETAIL SECTOR–PROMISES, ISSUES AND CHALLENGES

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Abstract

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 per cent 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 by economic value. As per the recent revelations by the popular International Management Consultancy AT Kearney, India has been considered the second most lucrative destinations of the world for retail business. India is one of the fastest growing retail market in the world, with 1.2 billion people. Indian retail industry is one of the sunrise sectors with huge growth potential. The Indian retail sector comprises of organized and unorganized retail sectors. Foreign direct investment has boomed in post-reform India. Moreover, the composition and type of foreign direct investment has changed considerably since India has opened up to world markets. This has fuelled high expectations that foreign direct investment may serve as a channel to the higher economic growth of India. As part of the economic liberalization process set in place by the Industrial Policy of 1991; the Indian government has opened the retail sector to FDI slowly through a series of steps. After months of policy paralysis, Manmohan Singh's government roared back to life on Friday, 14th of September by unleashing a blitz of reforms. It also made drastic progress in allowing multi-brand retailing, which had so far had been prohibited in India. India has liberalized its retail industry to permit foreign investment, with regulatory issues and legal structures pertinent to establish operations in this new dynamic market. In this context, the present paper attempts to review the promises (positive impacts and negative impacts), issues and challenges of FDI in Indian retail sector.

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Introduction

The Indian retail industry is the 5th largest in the world. The Indian retail sector Comprises of organized and unorganized sectors. India has witnessed a surge in organized retailing in the recent past. While the retailing industry is still in its infancy stage and growth opportunities are significant, the lessons from more developed markets suggest that increased competition in this area will demand better operational efficiencies to remain viable in the long run. The FDI policy has been moving away from the license mentality of protection against imagined foreign dictators towards a more open, healthy and competitive environment. The policy frame work for the retail and trading sector has continued to be highly restricted initially This policy would have provided a window for the world class retailer Hermes, Tiffany & Co and Wal-Mart, etc. to set their foot in the booming Indian retail sector. The Indian Government believe that the opportunity of FDI in multiband retail and further liberalization of single-brand retail trade will facilitate greater FDI inflows providing new opportunities and benefits besides quality improvement.. The Retail sector of India is vast, and has huge potential for development, as the majority of its constituents are un-organized. The retail sector of India contributes about 15% to the national GDP, and employs a massive workforce of it, after the agriculture sector. The existence of large supermarket brands displacing traditional Indian mom-and-pop stores is a hot political issue in India, and the current move to allow 100% FDI in single –brand retail sector 51% FDI in multi brand retail industry will remain a burning issue for some time yet to come. No doubt the opening of investment opportunities in retail sector will enable a country's product or service to enter into global market, provide more employment opportunities and make availability of quality products at cheaper rate.

Retail Sector in India

Retailing in India is the largest private sector and second to agriculture in employment. India has highest retail outlet density –Around 1.5 retail crore retail outlets. The Retail 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. Retailing is the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. The retail industry in India is of late often being hailed as one of the sunrise sectors in the economy. AT Kearney, the well-known international management consultancy, recently identified India as the 'second most attractive retail destination' globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 14% to the national GDP and employing 7% of the total workforce in the country, the retail industry is definitely one of the pillars of the Indian economy.

Structure of Indian Retail Sector

The Indian retail industry is mainly divided into Organized and Unorganized Retailing

- **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 hypermarkets and retail chains, and also the privately owned large 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.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP. The performance of this sector has a strong influence on consumer welfare. Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. India has highest number of outlets per person (7 per thousand) Indian retail space per capita at 2 sq ft (0.19 m^2)/ person is lowest in the world Indian retail density of 6 percent is highest in the world.1.8 million households in India have an annual income of over ₹45 lakh (US$81,900).While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90% of trade is conducted through independent local stores.

Entry Options for Foreign Players prior to FDI Policy

Although prior to Jan 24, 2006, FDI was not authorised in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

1. Franchise Agreements

It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. Cash And Carry Wholesale Trading

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route. (Giant in Hyderabad, Metro in Bangalore)

3. Strategic Licensing Agreements

Some foreign brands give exclusive licenses and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd. Non-store formats – direct marketing (Amway).

4. Manufacturing and Wholly Owned Subsidiaries.

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

FDI Policy with Regard to Retailing in India

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps. Up-to 51% investment in a single- brand retail outlet permitted, 2006 – FDI in cash and carry (wholesale) brought under the automatic route, 1997 – FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route, 1995 – World Trade Organization’s general agreement on trade in services, which include both wholesale and retailing services, came into effect, 2011 – 100% FDI in single –brand retail permitted, 2012, Sep – 51% FDI in multi- brand retail permitted. After months of policy paralysis, Manmohan Singh’s government roared back to life on Friday, 14th of September by unleashing a blitz of reforms. It also made drastic progress in allowing multi-brand retailing, which had so far had been prohibited in India. India has liberalized its retail industry to permit foreign investment, with regulatory issues and legal structures pertinent to establish operations in this new dynamic market.

FDI Single and Multi-Brand Retailing

FDI in Single brand ‘retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ‘kirana’ store.

Promises of FDI in the Indian Retail Sector

With the advent of FDI, retail sector is likely to make massive strides, and catalyze the growth of the country’s economy. As far as developing nations are concerned it is the life blood of economy. Retailing is one of the world’s largest private industry. Liberalization in FDI has caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment availability of quality products at a better and cheaper price. It enables a country’s product or service to enter into global market.

Positive Impacts of FDI in the Indian Retail Sector:

(i) **Cheaper production facilities:** FDI will ensure better operations in production cycle and distribution. Due to economies of operations, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price.

(ii) **Availability of new technology:** The Micro Small & Medium Enterprises (―MSME‖) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganised sector in overall manufacturing has declined from34.5% in 1999-2000 to 30.3% in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface. FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. Greater managerial talent inflow from other countries is made possible. Domestic consumers will benefit getting great variety and quality products at all price points.

(iii) **Lead driver for the country's economic growth:** FDI would create a competition among the global investors, which would ultimately ensure better and lower prices thus benefiting people in all sections of the society. There would be an increase in the market growth and expansion. It will ensure better managerial techniques and success. Higher wages will be paid by international companies. Urban consumers will be exposed to international life styles.

(iv) **FDI opens new doors for Franchising:** Restrictions on FDI are considered as trade barriers as they deny direct market access to foreign firms. Retail giants who are at their wings, seeking entry into foreign market look for other available alternatives. These restrictions on the global retailers regarding the inflow of FDI, leads them towards acquiring the market entry through franchises. Thus, countries which offer promising market potentialities for retail growth offers substantial growth in the franchising sector as well.

(v) **Growth in economy:** Due to coming of foreign companies new infrastructure will be build, thus real estate sector will grow consequently banking sector, as money need to be required to build infrastructure would be provided by banks. In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would inter alia also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (kirana) and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them.

(vi) **Job opportunities:** Huge investments in the retail sector will see gainful employment opportunities in agro- processing, sorting, marketing, logistics management and front-end retail. At least 10 million jobs will be created in the next three years in the retail sector. Estimates shows that this will create about 80 Lakh jobs. These career opportunities will be created mostly in retail, real estate. But it will create positive impact on other sectors as well.

(vii) **Benefits to farmers:** FDI in retail will help farmers secure remunerative prices by eliminating exploitative middlemen. In most cases, in the retailing business, the intermediaries have dominated the interface between the manufacturers or producers and the consumers. Intermediaries often flout mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3rdof the total price paid by the final consumer, as against 2/3rdby farmers in nations with a higher share of organized retail.Hence the farmers and manufacturers lose their actual share of profit margin as the lion's share is eaten up by the middlemen. This issue can be resolved by FDI, as farmers might get contract farming where they will supply to a retailer based upon demand and will get good cash for that, they need not to search for buyers.

(viii) **Benefits to Consumers:** Consumers will get variety of products at low prices compared to market rates, and will have more choice to get international brands at one place. Apart from this, 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. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

(ix) **Channelizing the Resources:** Lack of infrastructure in the retailing chain has been one of the common issues in India for years which have led the process to an incompetent market mechanism. For example, in spite of India being one of the largest producers of vegetables and fruits, lack of proper count of cold storages has significantly affected the selling of these perishable items. FDI might help India overcome such issues by channelizing the resources in the right manner.

(x) **Effective PDS:** In the last years, the Public distribution system (PDS) is proved to be significantly ineffective. There is a big question mark on the efficacy of the public procurement and PDS setup and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a 'farm-to fork' retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.In spite of the fact that the government arranged for subsidies, the food inflation has caused its negative impact continuously and it can be handled by FDI.

(xi) **Create transparency in the system:** The intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realises only one-third of the price, which the final consumer pays.

(xii) **Quality Control and Control over Leakage and Wastage:** Due to organisation of the sector, 40% of the production does not reach the ultimate consumer. According to the news in Times of India, 42% of the children below the age group of 5 are malnourished and Prime Minister Dr.Manmohan Singh has termed it as ―national shame‖ . Food often gets rot in farm, in transit and in state-run warehouses. Cost conscious and highly competitive retailers will try to avoid these wastages and losses and it will be their endeavour to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society. This will have a salutary impact on food inflation from efficiencies in supply chain. This is also because food, which perishes due to inadequate infrastructure, will not be wasted.

(xiii) **Healthy Competition:** Healthy Competition will be boosted and there will be a check on the prices (inflation):Retail giants such as Walmart, Carrefour, Tesco, Target and other global retail companies already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices. Supermarkets tend to charge consumers lower prices and offer more diverse products and higher quality than traditional retailers—these competitive advantages allow them to spread quickly, winning consumer market share. In most countries supermarkets offer lower prices

(xiv) Building up the Infrastructure: Heavy flow of capital will help in building up the infrastructure for the growing population: India is already operating in budgetary deficit. Neither the government of India nor domestic investors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base. There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 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. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

(xv) Phased Approach towards Liberalizing: Industrial organisations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centers Association of India (a 44 member association of Indian multiband retailers and shopping malls) favour a phased approach toward liberalizing FDI in multi-brand retailing, and most of them agree with considering a cap of 49-51 per cent to start with. The international retail players such as Walmart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multinational retailers such as US-based Walmart, Germany‘s Metro AG and Woolworths Ltd, the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalisation of FDI rules on multi-brand retail for some time.

(xvi) **Supply-Chain Efficiencies:** Foreign retail majors will ensure effective supply-chain efficiencies. That will also create an opportunity for the local players in retail to learn from them. If anything, the entry of retail big boys is likely to hot up competition, giving consumers a better deal, both in prices and choices. Mega retail chains need to keep price points low and attractive - that's the USP of their business. This is done by smart procurement and inventory management: Good practices from which Indian retail can also learn. Existing Indian retail firms such as Spencer's, Foodworld Supermarkets Ltd, Nilgiri's and ShopRite support retail reform and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management.

(xvii) **Reduction of post-harvest losses:** Policy mandates a minimum investment of $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 post-harvest losses

(xviii) **Long term cash liquidity:** FDI will provide necessary capital for setting up organized retail chain stores. It is a long-term investment because unlike equity capital, the physical capital invested in the domestic company is not easily liquidated. It is to be noted that the Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to conclusion that investment of big' money (large corporate and FDI) in the retail sector would in the long run not harm interests of small, traditional, retailers.

Negative Impacts of FDI in the Indian Retail Sector:

(i) **Job Losses:** Primary among these is the concern regarding the kirana stores as well other locally operated Mom and Pop stores being adversely affected by the entry of global retail giants such as Walmart, Carrefour and Tesco. As these brands would come with advanced capabilities of scale and infrastructure in addition to having deep pockets, it is argued that this would result in the loss of jobs for lakhs of people absorbed in the unorganised sector. India has the highest shopping density in the world with 11 shops per 1,000 people. It has 1.2 crore shops employing over 4 crore people; 95% of these are small shops run by self-employed people. Many of the small business owners and workers from other functional areas may lose their jobs, as lots of people are into unorganized retail business such as small shops. Will affect 50 million merchants in India. Workers safety and policies are not mentioned clearly.

(ii) **Lack of Competitors:** AT Kearney‘s study on global retailing trends found that India is least competitive as well as least saturated markets of the world. The domestic organized retail sector might not be competitive enough to tackle international players and might lose its market share. An economically backward class person suffers from price raise. Inflation may be increased.

(iii) **Share of Revenue:** According to the non-government cult, FDI will drain out the country's share of revenue to foreign countries which may cause negative impact on India's overall economy. Profit distribution, investment ratios are not fixed

(iv) **Highly Unorganised:** The unorganised portion of retail sector is only 97% as compared to US, which is only 20%. Fears have also been raised over the lowering of prices of products owing to better operational efficiencies of the organised players that would affect the profit margins of the unorganised players.

(v) **Creates Monopoly/Oligopoly**: Global retail giants will resort to predatory pricing to create monopoly/oligopoly. This can result in essentials, including food supplies, being controlled entirely by foreign organizations, resulting in elimination of local stores.

(vi) **Low Productivity:** Mckinsey study claims retail productivity in India is very low as compared to its international peers. Retailer faces loss in business. Market places are sustained too far which increases travelling expenses.

(vii) **Shortage of Talented Professionals:** The retail trade business in India is not considered as reputed profession and is mostly carried out by the family members (self-employment and captive business). Such people are not academically and professionally qualified

(viii) No Industry 'status: The retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds

(ix) Again India becomes slaves: India does not need foreign retailers as they can satisfy the whole domestic demand. Remember East India Company it entered India as trader and then took over politically. Again India becomes slaves because of FDI in retail sector.

(x) Comparison between India and China is misplaced: China is predominantly a manufacturing economy. Its the largest supplier to Wal-Mart and other international majors. It obviously cannot say no to these chains opening stores in China when it is a global supplier to them. India in contrast will lose both manufacturing and services jobs. "FDI in multi-brand retail was taken under pressure from countries like America, whose economic interests stand inversely proportioned to that of small traders and farmers." Laxmikant Vajpayee, BJP State Chief

(xi) Fears of small shopkeepers: Fears of small shopkeepers getting displaced are vastly exaggerated. When domestic majors were allowed to invest in retail, both supermarket chains and neighborhood pop-and-mom stores coexisted. It's not going to be any different when FDI in retail is allowed. Who, after all, will give home delivery? The local kirana. Why would anyone shun them?

Issues of FDI in Retail Sector in India

The following are some of the issues in permitting FDI in Indian retail sector

(i) Existence of Indian biggies

Already multiple Indian corporate are well entrenched into the Indian market with their organized multi brand retail offerings. Under this situation is an FDI influx truly required? That is one of the biggest questions that are being asked.

(ii) Little incremental value

The critics of the move say that India as a country requires different fundamentals to survive and deliver value to the consumer. The last mile delivery of a lot of goods happen to the consumer's home - the retailer goes to the consumer in India and not the other way round, thus far in a lot of cases. Hence, the critics claim that there is little incremental value by implementing FDI in retail rules.

(iii) Will prices reduce for consumers?

Not at all – Will there be a net gain for consumers in terms of price savings? Not at all. Not even the biggest supporters of FDI in retail claim that the consumer will spend less from his/her pocket due to this FDI in retail influx.

(iv) Power of Buyers

Individually, consumers have very little bargaining power with retail stores. It is very difficult to bargain with the clerk at Big Bazaar for better price on grapes. But as a whole if customers demand high-quality products at bargain prices, it helps keep retailers honest. Taking this from Porter‘s side of the coin we can say customers have comparatively high bargaining power in unorganized sector than in organized sector. As the customer will demand products from organized units he will be more focused towards quality aspect.

(v) Power of Suppliers

Walmart's efficiency at supply chain management leads to "direct" procurement of goods from the supplier. In addition to eliminating the "middle-man", due to its status as the leading retailer, suppliers of goods also bend over backwards to drop prices in order to assure consistent cash flow. There is the fear that this may not benefit the farmer, or the suppliers of Walmart.

(vi) Availability of Substitutes

The tendency in retail is not to specialize in one good or service, but to deal in wide range of products and services. This means what one store offers is likely to be same as that offered by another store. Thus threat from substitutes is high.

(vii) Competitive Rivalry

Retailers always face stiff competition and must fight with each other for market share and also with unorganized sector. More recently, they have tried to reduce cut throat pricing competition by offering frequent flier points, memberships and other special services to try and gain the customer‘s loyalty. Thus retailers give each other stiff but healthy competition which is evident from their aggressive marketing strategies and segment policies.

(viii) Massive job losses

Independent stores will close, leading to massive job losses. Walmart employs very few people in the United States. If allowed to expand in India as much as Walmart has expanded in the United States, few thousand jobs may be created but millions will be lost. The government claims modern retail will create 4 million new jobs. This cannot be true because Walmart, with over 9000 stores worldwide, has only 2.1 million employees

(ix) Monopoly

Walmart will lower prices to dump goods, get competition out of the way, become a monopoly, and then raise prices. We have seen this in the case of the soft drinks industry. Pepsi and Coke came in and wiped out all the domestic brands. India doesn't need foreign retailers, since home grown companies and traditional markets may be able to do the job.

(x) Allowed in some states, banned in others

The government hasn't built consensus. The governments of some states, particularly Congress-ruled states have said they will allow Foreign supermarkets to open in their state:

AndhraPradesh, Assam, Delhi, Haryana, Kashmir, Maharashtra, Manipur, Rajasthan, Uttarakhand, Daman & Diu and Dadra and Nagar Haveli, will allow foreign retailers. Other states, particularly BJP-ruled states have said they will not allow foreign supermarkets to open in their state, these are: West Gujarat, Bihar, Karnataka, Kerala, Madhya Pradesh, Tripura and Orissa.

(xi) Killing the local economy

The small retailer and the middle man present in the retail industry plays a large part in supporting the local economy, since they typically themselves procure goods and services from the area they have their retail shops in. This leads to increased economic activity, and wealth redistribution. With large, efficient retailers, the corporate profits are not spent in the areas where they're generated, hence killing the local economy. Work will be done by Indians, profits will go to foreigners.

(xii) Current Independent Stores will be compelled to close

This will lead to massive job loss as most of the operations in big stores like Walmart are highly automated requiring fewer work forces.

(xiii) Big players can knock-out competition

Big players can afford to lower prices in initial stages, become monopoly and then raise price later.

(xiv) Other issues

To become a truly flourishing industry, retailing in India needs to cross the following hurdles:

- Automatic approval is not allowed for foreign investment in retail.
- Regulations restricting real estate purchases, and cumbersome local laws.
- Taxation, which favours small retail businesses.
- Absence of developed supply chain and integrated IT management.
- Lack of trained work force.
- Low skill level for retailing management.
- Lack of Retailing Courses and study options
- Intrinsic complexity of retailing– rapid price changes, constant threat of product obsolescence and low margins.

Challenges of Retailing in India

In India the retailing industry has a long way to go and to become a truly flourishing industry, retailing needs to cross various hurdles. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, and little use of IT systems, limitations of mass media and existence of counterfeit goods.

(i) The first challenge facing the organized retail sector is the competition from unorganized sector. Needless to say, the Indian retail sector is overwhelmingly swarmed by the unorganized retailing with the dominance of small and medium enterprises in contradiction to the presence of few giant corporate retailing outlets.

(ii) The trading sector is also highly fragmented, with a large number of intermediaries who operate at a strictly local level and there is no barrier to entry', given the structure and scale of these operations. The tax structure in India favors small retail business.

(iii) Organized retail sector has to pay huge taxes, which is negligible for small retail business. Thus, the cost of business operations is very high in India.

(iv) Developed supply chain and integrated IT management is absent in retail sector. This lack of adequate infrastructure facilities, lack of trained work force and low skill level for retailing management further makes the sector quite complex.

(v) Also, the intrinsic complexity of retailing- rapid price changes, threat of product obsolescence, low margins, high cost of real estate and dissimilarity in consumer groups are the other challenges that the retail sector in India is facing.

(vi) The status of the retail industry will depend mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailers and demands of the customers also show impact on retail industry. Even though economy across the globe is slowly emerging from recession, tough times lie ahead for the retail industry as consumer spending still has not seen a consistent increase. In fact, consumer spending could contract further as banks have been overcautious in lending. Thus, retailers are witnessing an uphill task in terms of wooing consumers, despite offering big discounts. Additionally, organised retailers have been facing a difficult time in attracting customers from traditional kirana stores, especially in the food and grocery segment.

(vii) The scenario is kind of depressing and unappealing, since despite the on-going wave of incessant liberalization and globalization, the Indian retail sector is still aloof from progressive and ostentatious development. This dismal situation of the retail sector undoubtedly stems from the absence of an FDI encouraging policy in the Indian retail sector.

(viii) Total retail employment in India, both organized and unorganized, account for about 6% of Indian labor work force currently - most of which is unorganized. This about a third of levels in United States and Europe; and about half of levels in other emerging economies. A complete expansion of retail sector to levels and productivity similar to other emerging economies and developed economies such as the United States would create over 50 million jobs in India. Training and development of labor and management for higher retail productivity is expected to be a challenge.

Conclusion

From the above discussion, it can be drawn that there is no doubt in opening of opportunities for the foreign investor will make the Indian industries more competitive some of the small retailers and shop keepers may have to struggle for survivals. It will also bring forth benefits in terms of advance employment availability of quality products at a better and cheaper price. The possibilities of cheating and deception by local retailers will be minimized. It enables a country's product or service to enter into global market thereby improving foreign exchange reserve. However, the negative aspect of FDI should not be made an excuse to adopt protectionist attitude. Rather FDI policy should be handled very carefully. FDI itself is not a panacea for India's economic woes, but it does help the government to switch over from the constraint of resource generations to resource-utilization. In future, FDI policy should strive towards attracting quality FDI that help to deliver the kind of socio-economic growth we want: **Growth with Equity**. This necessitates at the very least much faster tariff reforms and privatization, along with improved governance and regulatory structure in places. However the government is quite stringent on this issue and determined to allow FDI in India. The actual impacts would be observed over time and till then the laymen have nothing but to hope for the best.

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