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Is FDI in Retail Sector Good for India?

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Abstract

The retail sector in India is vast, and has huge potential for growth and development, as the majority of its constituents are unorganized. The retail sector of India handles about $ 250 billion every year, and is expected by economists to reach to $660 billion by the year 2015.The government led by Dr.Manmohan Singh announced new reform in Indian retail sector. The FDI in single brand retail which was earlier 51% has been increased to 100%.The FDI up to 51% is allowed in multi-brand retail stores. The retailers will have to source at least 30% of their goods from small and medium sized Indian suppliers. All retail stores can open up their operations in population having over 1million. Out of approximately 7935 towns and cities in India, 55 suffice such criteria. Multi- brand retailers have to bring at least US$ 100 million of investment. Out of which 50% will be used for infrastructure. the. This article attempted at highlighting positive &negative aspects of FDI in retail sector.

Keywords: *Foreign Direct Investment, GDP, Retail Sector, Multinational Retailer*

Introduction

In 2004, the High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customer's. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit. Until 2011, foreign direct investment (FDI) was not allowed in multi-brand retail, forbidding foreign companies from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51 per cent ownership. In January 2012, India allowed 100 per cent FDI investment in single-brand stores, but imposed the requirement that the single brand retailer would have to source 30 percent of its goods from India. On 7 December 2012, India allowed 51 per cent FDI in multi-brand retail. Manmohan Singh, the then prime minister of India, felt that this would be beneficial for both consumers and farmers. Agricultural marketing was also expected to be benefited with the introduction of new technologies. Manmohan Singh was credited with bringing about this policy change aimed at making India friendlier for businessmen. With this decision, international companies, especially the supermarkets, were able to increase their presence in the multi-brand retail sector of India. However, they were not allowed to own more than 51 per cent stakes in these establishments. This step was regarded as the most important one in the last two decades, especially with regard to reforms in India.

Sri Shyam Bihari Mishra, President of the Bhartiya Udyog Vyapar Mandal (BUVM), said "If the government is serious about stopping wastage of food and empowering farmers it should work on a sustainable model of distribution of food considering factors of demand and supply. It does not make logical sense to allow supermarkets which are known for wastage of food throughout their supply chain operation and squeezing farmers".Mohan Gurnani, President of the Federation of Association's of Maharastra (FAM) opposed the move saying, "We know for a fact that small farmers, traders and hawkers are impacted when large corporations enter into the retail sector, the Government should be restricting their entry, but instead are allowing them in through various routes, and in the mean time appeasing the public by saying they are not in favor of FDI in multi brand retail". Vijay Prakash Jain, Secretary General of BUVM stated that, "the entire supply line of food, which is such an important part of this nation's retail culture and history, stands to be threatened".

With a view to benefit farmers and reducing wastage of fruits and vegetables, the government in the budget proposed allowing 100 percent FDI in marketing and processing of food products. In his budget speech, Jaitely the Finance Minister said the move would benefit farmers, give an impetus to the processing industry and create vast employment opportunities.[1]

Harsimrat Kaur Badal Union Cabinet Minister of Food Processing said that the policy of allowing 100% foreign direct investment in the marketing of food products produced and manufactured in India, proposed in the budget, will provide impetus to the sector, benefit farmers and create vast employment opportunities, food processing industries minister." This step will lead to creation of swadesi infrastructure with videsi money". Farmers will get remunerative prices for their produce and benefit from the transfer of technology and modern agricultural practices, which are required for large production to meet the requirements of organized marketing. The creation of a unified agriculture marketing platform proposed in the budget will bring the creation of a unified agriculture marketing platform proposed in the budget will bring 585 regulated wholesale markets in the country to the doorstep of farmers. "This, coupled with 100% FDI in marketing of food products produced and manufactured in India, would result in big buyers reaching out to farmers for their agri-horti produce,". Foreign investment is Foreign investment is targeted to bring in higher efficiencies in the food processing industry and trade and is expected to make Indian food products more competitive in international markets. The budget of the food ministry has been enhanced by 21% against an overall increase of 11% for the Government of India as a whole, Badal said.[2]

At a time when the risk capital by way of equity is hard to come by over-leveraged domestic companies in important sectors of the economy, foreign direct investment is the best option to look for. Given the fact that India remains among the few bright spots in the world, the global investors would find it compelling to seriously look at these opportunities.[3]

Changes By Multinationals

The storage technology is the first important change that the multinational retailers are likely to introduce. This technology will be possessed by only multinational retailers and will be unknown by big domestic retailers .It is expected that this technology will improve the supply chain and prevent the wastage in big way as it is estimated that there is wastage of 20% to 40% fruits, vegetables, food grains in our country. With the help of this technology this wastage will be avoided. International trade is second big change that multinational retailers are likely to bring. One can buy a commodity in a country where it is cheaper and can sell it in another country where price are better. Scale operation of big retail in India is the third change .The giant multinationals going to form joint venture with domestic firm are going to have much financial power than the domestic retailers alone.[4]

Positive Aspects of FDI

The benefits of FDI in retail, as per experts, carry greater weight age than the cost related implications. With FDI in retail, operations in distribution and production cycles are expected to become better. Owing to factors such as economic operations, the cost of production facilities will come down as well. This will mean a greater choice of products at lesser and justifiable prices for the customers. As a result of FDI, companies will be able to bring in technology and skills from other countries and this will help in infrastructural development of India. This will also help in creating more value for money for the buyers. After FDI in retail, it is possible to set up a properly organized chain of retail stores as the capital to do is readily available. The investment can be regarded as a long term one as the physical capital put into a domestic company is not liquidated easily. This is its main difference from equity capital. ICRIER had also predicted that if FDI in retail was introduced in India during 2011-12, the Indian economy could have grown by 13 per cent; the unorganized sector could have seen a 10 per cent growth and the organized sector could have increased by 45 per cent. FDI 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 realizes only one-third of the price, which the final consumer pays. Intermediaries and mandi system will be evicted, hence directly benefiting the farmers and producers: the prices of commodities will automatically be checked. Quality Control and Control over Leakage and Wastage: due to organization of the sector, 40% of the production does not reach the\ ultimate consumer. Cost conscious and highly competitive retailers will try to avoid these wastages and losses and it will be their endeavor to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society. 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.

The Union government has given its nod to 100 per cent foreign direct investment (FDI) in e-commerce retail business ("Centre gives nod for 100% FDI in e-commerce retail", Mar.30) is welcome. This will allow India to considerably enhance its foreign exchange earnings. Also, domestic retailers will have to raise their standards to compete with their superior quality peers from other countries. However, the government needs to ensure that sub-standard/ discarded products don't enter the country through the online route. Frankly speaking, it is not the consumer who is the sovereign in our country.[5]

Negative

It is being said that the lobby favoring FDI in retail in India has invested at least Rs 52 crore and experts opine this could have had a major say in the way things turned out. 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. Big players can knock-out competition: they can afford to lower prices in initial stages, become monopoly and then raise price later. 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.

An economically backward class person may suffer from price raise in future and retailer faces heavy loss of employment and profit. If the Multinationals are into the market, the local supply chain will be destroyed and retailers will emerge as monopoly procurers. Once they establish themselves as monopoly procurers they can dictate their price and it goes without saying that their dictated price will not be favorable to

farmers. Small farmers will not benefit by FDI policy and the rural India will remain deprived of the services of foreign players Swadeshi Jagaran Manch (SJM), the economic wing of RSS, has objected to the BJP-led government's decision to allow 100 per cent FDI in e-commerce retailing, saying the move would kill small retailers and give legitimacy to law-breakers.[6] Opposing the Budget proposal to permit 100 per cent FDI in food processing segment, traders body CAIT said the move would adversely impact farmers and will result into mass unemployment. According to Confederation of All India Traders (CAIT)"Allowing foreign investment in any form of retail will have adverse impact on traders, farmers, hawkers, transporters, small industries and will result into mass unemployment,". [7]

Conclusion

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. 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 per cent of trade is conducted through independent local stores. It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and it will lead not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP. Nobody can force a consumer to visit a mega shopping complex or a small retailer/sabji mandi. Consumers will shop in accordance with their utmost convenience, where ever they get the lowest price, max variety, and a good consumer experience. In view of the above analysis, if we try to balance opportunities and prospects attached to the given economic reforms, it will definitely cause good to Indian economy and consequently to public at large, if once implemented. Thus the period for which we delay these reforms will be loss for government only, since majority of the public is in favor of reforms.

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