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FDI IN RETAIL TRADE: BOON OR BANE

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ABSTRACT

India is the World's largest democracy; it is the second-most populous country and the 7th largest in terms of land area. As one of the oldest civilization of world, India represents a nation rich in diversity in terms of its culture, people, language, geographic and climate conditions and natural resources. To fully realize the country's immense economic potential, the government launched the Economic Reform Programme in July 1991. Since then, successive governments have progressively liberalized and deregulated the economy. Today the government policies are simple, transparent and promote domestic and foreign investment. The result of this ongoing process has been a radical change in the course of economy.

KEYWORDS: FDI, Democracy, Economic

INTRODUCTION

Foreign Direct Investment

Foreign Direct Investment (FDI) or Foreign Investment refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long-term capital, and short-term capital as shown in the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movement.

Foreign direct investment refers to investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm, or starting a joint venture in the foreign country. In India, as per the rules of liberalization, FDI comes through five routes. These are Government (SIA/FIPB) route, RBI (automatic route), NRIs investment, acquisition of shares and equity shares of unincorporated bodies.

To bridge the gap in the flow of funds in the public sector, more participation of the private sector is necessary. For developing countries foreign capital can be a good source of funds. It may involve equity participation by foreigners as (i) direct investment and (ii) portfolio investment.

DEFINITION

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development. Foreign direct investment, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property, in the past decade, FDI has come to play a major role in the internationalization of business. Reacting to changes in technology, growing liberalization of the national regulatory framework governing investment in enterprises, and changes in capital markets profound changes have occurred in the size, scope and methods of FDI. New information technology systems, decline in global communication costs have made management of foreign investments far easier than in the past. The sea change in trade and investment policies and the regulatory environment globally in the past decade, including trade policy and tariff liberalization, easing of restrictions on foreign investment and acquisition in many nations, and the deregulation and privitazation of many industries, have probably been the most significant catalysts for FDI's expanded role.

IMPORTANCE OF FDI

- Avoiding foreign government pressure for local production.
- Circumventing trade barriers, hidden and otherwise.
- Making the move from domestic export sales to a locally-based national sales office.
- Capability to increase total production capacity.
- Opportunities for co-production, joint ventures with local partners, joint marketing arrangements, licensing, etc.

FDI IN RETAIL

The Government feels that FDI in multiband will help farmers, create jobs and benefit consumers resulting in an improved supply chain, and reduced inflation. It thinks of a win-win situation.

Prof. Jagdish Bhagwati has strongly supported FDI in retail. His argument is that the retailers may face some problems initially, but after sometime, they are bound to gain. He has observed, "The entry of multinational retailers may lower the sales increase for unorganized retailers, but it will not reverse their growth in the near future". (Untenable Critiques of Retail Liberalisation, The Economic Times, October 15, 2012). He felt that we have to learn from the Japanese experience. Dr. C. Rangarajan feels that as India is a large country, there will be a place for large retailers as well as small farmers.

Prof. Bhagwati argued that the farm sector is going to benefit from FDI in retail. He said that Indian farmers typically earn a third instead of the international norm of two thirds of the final price of their produce either because of wastage or because of exploitation of the farmers by middlemen. This situation will improve with FDI in retail sector. The Indian cold chain market has the potential to grow to Rs.32,000 crore by 2015 from around Rs.18,500 crore in 2010-2011.

THE PITFALLS

Critics of FDI in retail say the move will displace farmers, create huge unemployment and will leave consumers at the mercy of a powerful cartel known for its tough bargaining power. The move will distort the existing economic harmony in the unorganised retail, dismantle the economic spine of the country, its social capital and enrich corporate capital, but impoverish India's social capital (S.Vaidhyasubramaniam,"Misplaced Hype over FDI", The New Indian Express July 25, 2012).

Our small traders are not in a position to compete with big and powerful ones. They do not have expertise and capital. They do not have expertise and capital. They are not in a position to buy goods at a lower price. The big chains have a capacity to sustain losses for a longer period. They can also undercut prices of good to eliminate small traders. Also, most labourers in India are semi-skilled. The retail sector is the most appropriate source of

livelihood for them. The Government is not in a position to provide jobs to all those who are forced to close their retail shops. Their hardships naturally mount. The Government, as in the case of China, may gradually increase FDI in retail (Gourav Vallabh: 'The FDI Question in Retail', The New Indian Express, August 15, 2011).

THE RIGHT COURSE

India has to learn some lessons from China. China has achieved phenomenal progress in the manufacturing sector and transportation infrastructure. The big foreign investors felt that in their own interest, they should boost the local economy. For instance, Walmart, with more than 350 supermarkets in China, has 15,000 Chinese suppliers. More than 90 percent of the merchandise it sells in China is Chinese products. Export of these produce to the US has risen. In China, the small and big retailers had time to adapt.

The FDI in retail should lead to improvement in infrastructure in rural India. In the absence of cold storage facilities, India is losing around 30 per cent of fruits and vegetables output. Also, there is loss of 5 to 7 per cent of food gain output. These losses are very huge. And need to be curtailed.

Retail trade is a process through which goods are consumer. In other words, retailing consists of the activities involved in selling directly to the ultimate consumers for personal, non-business use. The retailer is a specialist who maintains contact with the consumer and producer and is an important connecting link in a gigantic mechanism of marketing.

Indian retail sector is the largest employer after agriculture. Approximately eight percent of the population is employed in the retail business.

In India there are about 15 million small retailers scattered around the country. They constitute 98 percent of the country's retail trade business and are contributing to 10 percent of the country's GDP. The country's retail market is among the top ten in the world, estimated to be worth around $ 20 billion or close to one-third of country's GDP. The retail trade in India is divided under two categories, namely, organized retail trading and unorganized retail trading. The organized retailers are those who do the trade in large scale with government licence. Unorganized retailing is a traditional method which includes local kirana shops, hand cart sellers, payment vendors, etc.

The organized segment of the total retail market in India is worth nearly $7 billion or around 4 percent of the market. In other words around 96 percent of retail sales, in India take place through some 12 million small shops and retail outlets. But organized retail market accounts for 20% in China and 40% in Thailand. Proponents of FDI in retail business believe that the FDI paves way for more organized retailing in India.

FDI IN RETAIL SECTOR-MORE BAD THAN GOOD

The supporters of FDI in retail sector argue that

- Entry of retail majors would bring in finance technology and efficient supply chain management systems.
- To bring more FDI into the country to improve market efficiency and bring down the double digit inflation prevailing in the country.
- Consumers will get quality products at low prices.
- There is some truth in it. At the same time one cannot refuse that retail trade would be completely taken over by big retail giants which was not good for the country.
- The decision on FDI in retail sector would seriously hit the domestic manufacturing and service sectors.
- Such a policy decision would affect the livelihood of millions of vendors, besides destroying the unorganized retail sector.
- Whenever local governments opened up the retail sector, local prices went up sky high. Further, such an invasion by multinational companies led to monopolization of the market, exploitation of both farmers and producers on the one side and the consumer on the other side.
- While the government of India talks about creation of 10 million jobs in the next three years, this will lead to 40 million people being uprooted and thrown out from their business. Most of these people are not well educated and will remain unemployed forever.
- Organized retail trade had wiped out small traders in countries like Thailand. Mr.Swamy said three retailers had taken over 38 percent of the market in Thailand where the local traders were displaced.

RECOMMENDATIONS

Based on the above discussion, the following recommendations could be suggested.

- Suitable policy to enable the organized and unorganized retail sectors to expand and improve efficiency by providing Bank Finance.
- A thorough study on the problems of the retail sector so as to evolve policies that will enable this sector to cope with FDI is to be carried out.
- A clear set of conditionality’s on foreign retailers should be evolved.

- Entry of foreign players must be gradual and with social safeguards.
- The contribution of manufacturing sector to GDP must be improved.
- The concept of co-operative stores must be encouraged.

CONCLUSIONS

The entry of FDI in the retail sector in India is inevitable. But Government may slow down their entry by creating some conditions as it is done by Japan. Government can ensure that domestic traders are not at specific disadvantage. The retail sector in India is a highly sensitive one by its very nature. Therefore decisions regarding FDI in this sector should be taken with utmost care.