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FDI'S IN RETAIL SECTOR IN INDIA - A SPECIAL FOCUS ON INDIAN FARMERS.

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WARANGAL. ? FDI'S IN RETAIL SECTOR IN INDIA - A SPECIAL FOCUS ON

INDIAN FARMERS. The Foreign Direct Investment means “ cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy.

FDI is also described as “ investment into the business of a country by a company in another country”. Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country”. Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e. g. tax exemptions) offered by the country. Major benefits of FDI : (a) Improves forex position of the country; (b) Employment generation and increase in production ; c) Help in capital formation by bringing fresh capital; (d) Helps in transfer of new technologies, management skills, intellectual property (e) Increases competition within the local market and this brings higher efficiencies (f) Helps in increasing exports; (g) Increases tax revenues GLOBAL RETAILING SCENARIO: Retail has played a major role in improving the productivity of the whole economy at large. The positive impact of organized retailing could be seen in USA, UK, and Mexico and also in China. Retail is the second largest industry in US.

It is also one of the largest employment generators. It is also important to understand that Argentina, China, Brazil, Chile, Indonesia, Malaysia, Russia, <https://assignbuster.com/fdis-in-retail-sector-in-india-a-special-focus-on-farmers/>

Singapore and Thailand have allowed 100% FDI in multi brand retail. These countries benefited immensely from it. Also small retailers co-exist. The quality of the services has increased. China permitted FDI in retail in 1992 and has seen huge investment flowing into the sector. It has not affected the small or domestic retail chains on the contrary small retailers have increased since 2004 from 1.9 million to over 2. million. Take for example Indonesia where still 90% of the business still remains in the hand of small traders. FDI IN RETAIL PRESENT STATUS: 51% FDI in multi brand Retail and 100% in single brand is put hold till the time consensus is reached between the political parties. There is stiff opposition being seen within the UPA allies in context of FDI in retail. Also opposition party is seeing this as an opportunity to get the political mileage. REASONS FOR ALLOWING FDI'S IN RETAIL MARKETS Foreign Direct Investment (FDI) complements and supplements domestic investment.

Domestic companies are benefited through FDI, by way of enhanced access to supplementary capital and state-of-the-art technologies; exposure to global managerial practices and opportunities of integration into global markets. Government had instituted a study, on the subject of " Impact of Organized Retailing on the Unorganized Sector", through the Indian Council for Research on International Economic Relations (ICRIER), which was submitted to Government in 2008. The ICRIER study indicated significant benefits for various stakeholders, such as consumers, farmers and manufacturers, arising from the growth of organized retail.

Based upon the study, as well as the experience of other countries, it is the Government's assessment that implementation of the policy permitting FDI, <https://assignbuster.com/fdis-in-retail-sector-in-india-a-special-focus-on-farmers/>

up to 51%, in multi-brand retail trading, is likely to facilitate greater FDI inflows into front and back-end infrastructure; technologies and efficiencies to unlock the potential of the agricultural value chain; additional and quality employment; and global best practices. This, in turn, is expected to benefit consumers and farmers in the long run, in terms of quality and price.

The 30% mandatory sourcing condition has been incorporated to encourage local value addition and manufacturing. The increased level of activity, in the front-end, as well as in the back-end, resulting from greater FDI inflows, is expected to create additional employment opportunities for rural and urban youth. It is, further, expected to encourage existing traders and retail outlets to upgrade and become more efficient, thereby providing better services to consumers and better remuneration to the producers from whom they source their products.

There is no procedure to shortlist companies. Foreign investors desirous of investing in retail trade (multi brand or single brand) in India are required to submit their applications in the Department of Industrial Policy & Promotion, where their applications are examined to determine whether the proposed investment satisfies the notified guidelines, before being considered by the Foreign Investment Promotion Board, in the Ministry of Finance, for Government approval. As per some news items published on 17. 11. 012, Wal-Mart, USA, is stated to be inquiring into allegations of potential violations, under the Foreign Corrupt Practices Act of USA, in certain countries where the company is operating. India has stringent anti-corruption laws. Any corrupt practices are liable to be dealt appropriately under applicable laws. This information was given by the Minister of State for <https://assignbuster.com/fdis-in-retail-sector-in-india-a-special-focus-on-farmers/>

Commerce & Industry Dr. S. Jagathrakshakan in written reply to a question in Rajy Sabha. IMMENSE GROWTH OPPORTUNITY FOR RETAILERS India is Asia's third largest retail market after China and Japan. Organized retailing is very virgin space in India.

It provides immense growth opportunity. Only 5% of the total sales are being done by organized retailer. Currently Indian Retail sector have sales of around \$500 billion. Retail sector is expected to have sales of \$900 billion by 2014. It still far behind China, whose retail sales by 2014 is expected to cross \$4500 billion mark. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer.

The Indian retail sector can be broadly classified into: Food Retailers, Health and beauty Products, Clothing and Footwear, Home Furniture & Household goods, Durable goods, Leisure & Personal Goods. Of these above segment Food and beverage and clothing segment is expected to grow exponentially. GROWTH DRIVERS OF INDIAN RETAIL SECTOR: Rising Income and increase in convergence of consumer taste and preferences. Dual family Income. Knowledge about different product through different medium like Internet, Television etc. Also knowledge about the latest trend and fashion. 7% of the India's population is under the age of 30. This category is driving the consumption story. Emergence of new retailing format. Availability of Credit Facilities. HOW FARMERS TO GET BENEFITED: Farmers in India get only 10%-12% of the price the consumer pays for the agri-products. Coming of organized retailing will benefit farmers in big way.

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Big retailers sell their product at very competitive prices. So, they source it directly from the farmers. Middle man does not have any place in this format of retailing. This will not only benefit farmers but also help in checking the food inflation.

Also India has very inadequate facilities to store the food grains and vegetables. As the investment will flow into back end infrastructure, supply chain will get strengthened. Storage is a major problem area and 20%-25% of the agri products get wasted due to improper storage. Another area which is also the cause of concern is movement of vegetable and other perishable agri item from one place to another. Lack of proper transportation forces the farmer to sell their produce in local market. This results in the lower realization on the produce. Impact of FDI on farmers all over the world: In 1970, hog producers received 48 cents of each dollar spent on pork. in 2000 they received only 12 cents. Prices to consumer did not decrease. ... In 1990 ranchers and farmers received 60 cents of the dollar spent on beef, retailers received 32. 5 and meat companies 7. 5 cents. In 2009 Farmers received 42. 5cent (down by 17. 5), retailers 49 cents, meat packers 8. 5cents. ... 4 pints of milk in UK costs 1. 45 pounds and farmer receives 40%(58 pence) of it. Causing a loss of 3 pence per 4 pints. Causing small farmers to close there shops. In Indian farmer receives 75% of consumer spend on a litre of milk. ... US farmers received direct commodity subsidies of over \$167 Bn in 1995-2010. EU paid farmers direct subsidies of \$51 Bn in 2010 alone. So why these big retailers are not helping reduce the subsidies to the farmers. In Mexico 25% of small farmers are off farming now due to big retail and imports under NAFTA. As mentioned in image above in Europe flow of

goods from 3.2 million farmers is controlled by 110 buying desks of big retailers catering to 160 million consumers. Today India has more than 600 million (78% of total farmer population) small and marginal farmers and a huge consumer base of more than a billion.

Now imagine what havoc it may create when our small and marginal farmers will have to compete with bigger farmers of developed nation who fetch huge subsidies from their governments. 32 Lakh European farmers received total subsidy of Rs 26,970 Crores i. e. average Rs 8,41,68 per head approx. Now 21 Crore Indian farmers received total subsidy of nearly Rs. 1,54,00 Crores i. e. average Rs 19,494 per head approx. Now if tomorrow these retail giants start importing (using free trade agreement) from foreign farmers since the prices would be much lesser with the help of their governments where would Indian farmer go?

Why FDI is Opposed by Local People or Disadvantages of FDI : (a) Domestic companies fear that they may lose their ownership to overseas company (b) Small enterprises fear that they may not be able to compete with world class large companies and may ultimately be edged out of business; (c) Large giants of the world try to monopolise and take over the highly profitable sectors; (d) Such foreign companies invest more in machinery and intellectual property than in wages of the local people; (e) Government has less control over the functioning of such companies as they usually work as wholly owned subsidiary of an overseas company; SIDE EFFECTS OF THE FDI AND SOLUTION: Nevertheless much said about good things that FDI in retail will bring but argument will not be justified if we do not take into account the grey areas. Some of the grey areas are: -Predatory pricing could strangle

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the domestic retailers. -It has been seen MNCs retailers uses there big size to kill competitors. -In order to bring goods at lowest possible price for customers they squeeze the margins of their suppliers. So as claimed by thousand that suppliers will benefit, it still doubted. In order to correct these anomalies, India need to have strong regulator for the sector.

And at the same time strengthen the Competition Commission of India before these Big Retailers prowls into the Indian Territory. How can Indian farmer compete with rival farmers, - when basic infrastructure is not in place? - when rival farmers receive subsidies almost triple the yearly turnover of Indian farmers? - when crop insurance is not in place? I'm afraid that such uneven and misplaced competition would lead our farmers off their land into labours jobs since they do not have enough capital and supporting government. On other hand that farmer's income will be improved argument fails sharply since even after having established big retailers network the USA and EU is consistently increasing the subsidies to the farmers and still their farmers are into losses.

What is the guarantee that FDI in multi-brand retail won't displace Indian farmers? and put pressure on government to increase the subsidies too? Lastly, lets not blindly copy paste western models. We can definitely learn from them but by looking evenly at all sides and not just one which is shiny.

Brief Latest Developments on FDI (all sectors including retail):- 2012 - October: In the second round of economic reforms, the government cleared amendments to raise the FDI cap (a) in the insurance sector from 26% to 49%; (b) in the pension sector it approved a 26 percent FDI; Now, Indian Parliament will have to give its approval for the final shape," 2012 - <https://assignbuster.com/fdis-in-retail-sector-in-india-a-special-focus-on-farmers/>

September : The government approved the a) Allowed 51% foreign investment in multi-brand retail, (b) Relaxed FDI norms for civil aviation and broadcasting sectors. - FDI cap in Broadcasting was raised to 74% from 49%; (c) Allowed foreign investment in power exchanges 2011 - December : (i) The Indian government removed the 51 percent cap on FDI into single-brand retail outlets and thus opened the market fully to foreign investors by permitting 100 percent foreign investment in this area. While the government claims that foreign direct investment (FDI) in multi-brand retail chains will create jobs, not a single global behemoth has come forward to set up shop in the country.

A senior official of the commerce and industry ministry confirmed to Mail Today that " we have not received any application so far for FDI in retail". According to industry sources, big foreign retail chains such as Walmart , Tesco and Carrefour that were expected to respond to the government's decision have gone into wait-and-watch mode due to uncertainty over the issue. Although Parliament had cleared the Bill to allow 51 per cent FDI in retail last December, the Opposition still had the right to a 30-day time limit to make amendments to the modifications in the Foreign Exchange Management Act (FEMA) that the government had made to implement the decision.

Since the notification on the changes in FEMA was tabled In Parliament on November 30 and the 30-day period did not end even on December 20, which was the last day of the Winter Session, this right can only be exercised in the Budget Session. Commerce minister Anand Sharma has been trying his level best to get Walmart, Tesco and Carrefour on board and held several <https://assignbuster.com/fdis-in-retail-sector-in-india-a-special-focus-on-farmers/>

meetings with them. However, there is little point for a foreign retailer to invest money until this uncertainty on FEMA is cleared, a ministry official said. Left parties, in fact, have now moved a motion against the changes made in FEMA to implement the FDI decision and this has been admitted by the chairman of the Rajya Sabha during the current Budget Session. This will require a fresh round of voting for clearance.

The Supreme Court has also added to the uncertainty as during the course of hearing a plea against FDI in multi-brand retail, it said that interests of small traders should not be affected. The apex court has said that there is apprehension in the minds of small traders that their business would be affected with the coming of multinational companies in the retail sector which needs to be addressed by putting some regulatory mechanism in place. The court Bench had also stated that big companies can bring down prices through unfair trade practices forcing small traders to shut their shops. Subsequently, these companies will increase the price and monopolise the market.

According to senior officials, with general elections fast approaching, the political opposition to the move is expected to become even more vociferous. A senior official said that although the Bahujan Samaj Party and the Samajwadi Party had bailed out the government during the voting for the Bill, they have made it clear that they are in principle opposed to the move as it will cost jobs in the country. CONCLUSION: We wish row over FDI in retail gets over soon and India should embrace new era of retailing. And Govt makes right kind of body to vigil these giants. Indian consumers are

waiting to splurge. Indian consumers' balance sheet is still clean, which provide much of room to consumption related debt.