

FDI in Retails – a boon or a curse for Indian Economy

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The opening up of the retail sector for the foreign investors has led to a fresh debate on its viability. There is a continuous logjam over the matter in the legislatures of India for liberalizing Foreign Investment Policies in this sector. The ruling party Congress has ruled out the intention to roll back the decision of allowing 51% foreign direct investment in retail sector. The opposition was on fire to stop the proceeding of parliament until the decision has been put on hold.

The Foreign Investors who have been long seeking this liberalization by Indian Government are welcoming this decision and are of the view that the same would strengthen business ties between the countries and also open up more options for the Indian Consumers.

Amid the continuous debate over the feasibility of Foreign Direct Investment in Retail sector in the Indian Economy, it is very important that we first analyse the pros and cons of the same in our economy.

The direct supply of agriculture produce to supermarket giants may give better prices to the farmers who can in turn earn more profits as the role of the mediators would be curtailed. Besides, the shelf life of vegetables and fruits will also increase as a result of the improved storage facilities provided by the Retail Chains. On the other side, there is an obvious chance that these companies may roll out conditions to the farmers regarding the use of hybrid seeds and chemicals so as to obtain uniform sized products which in turn lead to hazardous effects on health.

It cannot be denied that the proposed move will definitely assist in improving the capital inflow within the country. Also, experts note that the Cabinet's decision to open multi-brand retail to 51 per cent FDI and raise it to 100 per cent in single brand retail will help financing the current account deficit at a time when portfolio inflows are at its modest. As compared to FIIs, FDI has always been the preference for the Finance Ministry because of its permanent nature. Theoretically it seems that this move will certainly assist in developing the country's back-end infrastructure and supply bottlenecks however, practically solving of agricultural and supply problems in a vast country like India will be a long and gradual process.

Mr Ramesh Chand, director, National Centre for Agricultural Economics and Policy Research, believes that there are "too many reasons" for inflation. In this regard, FDI "may only reduce" marketing costs and margins. "We will not see any impact in the first one or two years. After that, the increased costs in packaging and grading will bring the situation back to square one, adding new cost", he says.

The Wholesale price inflation in India has been pinching the common man's pocket. The price inflation in India was above nine per cent mark for 11 months in a row till October, 2011. Within that, for months now, food inflation hovers around 8-11 per cent.

An inter-ministerial group on inflation, headed by chief economist Kaushik Basu, had said FDI in retail will help fight inflation. The Commerce and Industry Minister Anand Sharma said more competition in retail space should bring down prices.

The main criteria which the Central Government is proposing for FDI in Retails are:

- The Stores should be opened in the cities having a population of over 1 million. As per 2011 Census, 45 Cities in India satisfy this condition.
- The minimum capital requirement for FDI in Retails which is \$100 million out of which 50% should go for back-end infrastructure development. Thus , the retail chain will have minimum \$50 million for core business, i.e. to set up retail chain across India.
- 30% of goods and commodities should be purchased from local suppliers.

The opening up of the Retail sector would definitely add efficiency by introduction of modern & globally competitive supply chain in Indian retail sector. The retail prices to the ultimate consumer are also predicted to be comparatively lower than what it is now.

However the Small traders and store owners (called Kiranas in India) are lacking enough capital and expertise to compete with the big retail chains like Wal-Mart and Carrefour. They also lack the strong supply chain network for having a high bargaining power to buy goods at lowest price.

The limiting condition of 30% of goods to be bought from Local Suppliers could also come as a distress to Local Manufacturers as presently retail chains purchase around 65%-70% of their supplies from the local suppliers. Further majority items to be sold by international retailers could be sourced from cheaper manufacturing economies like China. Clothes, shoes, toiletries and other items of daily use are not likely to bear Indian signature. It could also cause a downfall in manufacturing sector jobs. India needs manufacturing sector reforms in the first instance, so as to enable us develop into low-cost manufacturing economy.

However as the ruling party states "There has been impressive growth in retail and wholesale trade after China approved 100% FDI in retail. Thailand has experienced tremendous growth in the agro-processing industry". However we still need to compare our economy with that of Chinese and see whether the same would apply to the Indian Economy as well. India has the highest shopping density in the world with 11 shops running 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.

However this cannot be the reason to hold the decision of opening up markets in the Multibrand retailing. The wastage of Food Items due to excessive production in some areas of the country and inadequate basic Storage and transit facilities cries for the need for more efficient infrastructures. If the past is proof, much of the excess stock rots away in godowns, sometimes in the open.

Conclusively, taking all the positives and negatives of the opening up of Multibrand Retailing to the world, the benefits associated outweighs the disadvantages attached to it if implemented & regulated in a standard synchronised manner. The Government needs to look into the disadvantages while framing a policy so that this sector proves a support to the emerging economy of India.

