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   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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FDI IN RETAIL SECTOR: CONSEQUENCES OVERLOOKED

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ABSTRACT

Foreign Direct Investment (FDI) is an important source of private capital for developing countries. Foreign capital mobilization plays a very significant role in resource mobilization, needed for achieving higher growth and earning potential. It's been felt that FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). This also can result in net gains in employment at the aggregate level. But an issue of current interest is whether FDI can contribute to the objective of reducing poverty? Also the issue is being highly debated by opposition party stating that –"India will become a country of sales girls and boys where shops run by American and British companies will sell mostly Chinese goods". Considering all the facts this paper bring forth a few conceptual issues that may be overlooked.

KEYWORDS

FDI, Overlooked factor , Retail sector.

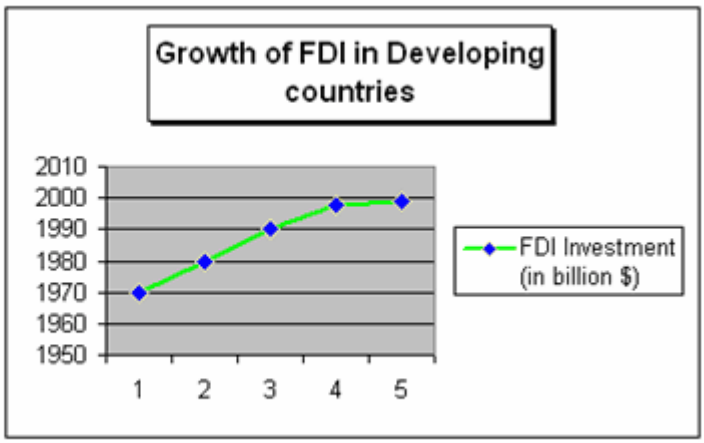
INTRODUCTION TO FDI

In the past decades, FDI was concerned only with highly industrialized countries. US were the world's largest recipient of FDI during 2006 with an investment of 184 million from OECD (Organization for Economic Co-operation and Development) countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in FDI investments. Now, during the course of time, FDI has become a vital part in every country more particularly with the developing countries. This is because of the following reasons: Availability of cheap labor, uninterrupted availability of raw material, less production cost compared with other developed countries, Quick and easy market penetration.

India being a signatory to World Trade Organization's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment. Licensing was eliminated by Indian government, and firms not in all but a few sectors were allowed to start operations without government approval. The impact of de-licensing was most evident in sectors like steel, automobiles, FMCG and consumer electronics which witnessed a surge in entry of new firms. Over time, capital account restrictions were eased to allow Indian companies to raise capital abroad, by way of Eurobonds and GDR/ADRs, and acquire firms in other countries. The domestic capital market was restructured with the Securities and Exchange Commission and the National Stock Exchange as the driving forces, and interest rates were liberalized. In brief, market forces were unleashed both in the product and, by and large, in the factor markets, and firms were given much more freedom to realize gains associated with allocation efficiency. The government also made is easier for MNCs to invest in India. According to a recent survey by UNCTAD India is projected as the second most attractive destination for FDI (only after China) for multinational corporations during the years 2010-2012. As per the data, the sectors such as telecom, services, infrastructure and computer hardware and software attract the FDI the most. The leading sources of FDI are from the economies such as the US, the UK, Singapore and Mauritius. Today, India welcomes foreign investment in virtually all sectors except defense, railway transport and atomic energy. In sectors like road and port infrastructure, mining of gold and minerals, and pharmaceuticals, MNCs can own up to 100 percent of their Indian affiliates without government approval. In certain other lines of business like generation of power and development of integrated townships, 100 percent foreign ownership is possible with government approval. In activities like exploration for petroleum reserves, development of marketing infrastructure for petroleum products, and exploration and mining of coal, MNCs are allowed majority stake in the affiliates, usually varying between 51 percent and 74 percent. In most cases, however, their stakes in SOEs are restricted to 26 percent. Finally, in sectors like media and insurance, MNCs are restricted to minority stake, and are expected to obtain government approval prior to initiation of business. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to Foreign Direct Investment ("FDI"). In 1997, FDI in cash and carry (wholesale) with 100 percent ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. 51 percent investment in a single brand retail outlet was also permitted in 2006.Still FDI in Multi-Brand retailing is prohibited in India. FDI in Multi-brand Retail Sector created uproar in the Parliament. Consequently, it has now become the debatable issue among corporate, political groups, academicians and industrialists.

FIG. 1

Year	$ (in billion)
1970	10
1980	20
1990	26.7
1998	179
1999	208



PRESENT SHAPE OF FDI IN RETAIL

The retail industry in India is the second largest employer with an estimated 35 million people engaged by the industry. There has been opening of Indian economy to foreign organization for foreign direct investment through organized retail. The union government has sanctioned 51% foreign direct investment in multi-brand like Wal-Mart, Carrefour, Tesco and up to 100% in single brand retail like Gucci, Nokia and Reebok. This will make foreign goods and items of daily consumption available locally, at a lower price, to Indian consumers. The new policy will allow multi-brand foreign retailers to set up shop only in cities with a

population of more than 10 lakhs as per the 2011 census. There are 53 such cities. This means that big retailers can move beyond the metropolises to smaller cities. The final decision will however lies with the state governments. Foreign retailers will be required to put up 50% of total FDI in back-end infra-structure excluding that on front-end expenditures. Expenditure on land cost and rentals will not be counted for the purpose of back-end infra-structure. Big retailers will need to source at least 30% of manufactured or processed products from small retailers. The government will go for surprise checks and if found irregularities then the deed will be broken with a second of time.

Still, all is not well with the business environment in India, however. Aside from continuing bureaucratization of many processes affecting business, the reforms process in India has weak links. The policy of protecting small firms in some sectors has not completely been eliminated, thereby preventing entry of larger and more solvent firms, with greater economies of scale, to these sectors. This has had adverse impact on the competitiveness of firms in these sectors. And if the government may allow such multi-brand like Wal-Mart considering the economic growth, it may pound such domestic firms.

WAL-MART IN INDIA (OVERLOOKED FACTORS)

Wal-Mart is the largest retail corporation in the world with $ 400 million annual turnover and about two million employees. Wal-Mart discount store was first established in a small town Rogers in Arkansas by Sam Walton in 1962. The basic strategy was to enter small towns with population of 5000 to 25000 which were not served by large retailers and derive scale advantage in relation to the size of small town markets and eliminate small players. This is similar to a natural monopoly where, given the size of the market, one large player with global economies of scale can serve the market more efficiently than large number of small players.

According to the Fortune Global 500 list for 2012 and it has become the poster boy for anti-FDI protests and increasing opposition rhetoric. Economists are divided on the effect that Walmart and other retail chains will have on the domestic economy. The prime minister claims this step will increase prices paid to farmers, reduce prices for customers, reduce agricultural wastage and create thousands of jobs. Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission, said the measure is not a threat to small retailers and it will create efficiency in supply chain infrastructure. Wastage will fall, leading to lower prices of primary commodities. In India, 30% of fruits and vegetables, and 5-7% of grains are wasted between harvest and consumption.

Considering the fact that retail sector is in a developing stage in India, so none of the retailer has achieved a stage of economies of scale. Though in the short run many of the retail stores may earn super normal profits, normal profits or may be losses. But in the long run due to competition many of the retailers who are suffering losses will quit the market and the retailers who are earning super normal profits will face completion of new entrants will earn normal profits in long run. Since they are not able to earn super normal profits as in the case of monopoly these retailers can not reasonable reduce there product prices. Also retail sector need many more years to reach the level of economies of scale. Let us take that a large player with global economies of scale enters the market, obviously they will be able to charge less from customers and increase the supply, since there average cost is far less from domestic retailers. The decline in the market price causes exit of small firms due to which these big players will create monopoly in Indian retail market and can further manipulate prices in future. Will it result in unemployment as small firms employ more labor per unit of output produced than the large firm with economies of scale?

Increase in the output supplied can absorb some of the labor released from exit of firms. Although reduction in prices may lead to increase in real income which will flows towards investment and can be used by banks for further financing projects in country. So few more projects are expected to absorb those labors which are unemployed due to entry of big retailers.

But the fact that is overlooked here is that the 35 million people who are employed in retail sector are those who are not highly educated and the idea that the increase in supply of output by large players like Wal-mart which is expected to absorb unemployed labor who were employed domestically is impractical because they would prefer people who would have basic knowledge of computers. Also one more issue which can be overlooked is that its been expected that reduction in prices may lead to increase in real income which will flows towards investment and can be used by banks for further financing projects in country but it was overlooked that people who got unemployed were also contributing their savings towards investments. So before assuming about the increase in savings government must take in to account the propensity of saving (marginal propensity to save) of both, consumers as well as people who got unemployed.

Another important point which can be overlooked under FDI disguise is that although the prime minister claims that this step will increase prices paid to farmers, reduce prices for customers but how much is the certainty of the same; it is very obvious that due to economies of scale as discussed above certainly Wal-mart will be able to sell its products in market at lesser price which is going to kill all the domestic retailers in our home country but yes as claimed by government, may be Wal-mart will pay higher prices to farmers which can seem fruitful as today farmers do not get that higher prices and suffer losses, but the question is- "for how long?".Since Wal-mart has already achieved economies of scale in other countries so it can offer products in the market at lower prices without suffering losses this is going to kills few of the competitive retailers in home country. Initially Wal-mart can pay higher prices to farmers which may seem fruitful to the farmers as existent retailers in India are not able to pay higher prices to farmers since they have not achieved economies of scale, but even due to this farmers will start to supply their products to Wal-mart and will start avoiding home country retailers which is further going to kill remaining retailers present in India. But the thing which got overlooked is not just that this whole activity is going to affect the retailers in home country but it can effect and can even exploit the farmers in home country, now you must be wondering how? A big reason behind this is; after capturing whole Indian market farmers will be fully depended up on Wal-mart for supply of their product and at that time after killing whole competition in Indian market wal-mart may not agree to pay that higher price to our farmers. The strategy of paying higher prices can be just a strategy to lure farmers towards them and to penetrate deep in Indian market. But as soon as they may achieve this position in Indian market they may infringe their promise with farmers which will leave our farmers in even more bad situation. Wal-mart has got an option to get the supply of material from china at lower prices so after fully getting established in India Wal-mart can switch their interest from improving the standard of living and status of our farmers to earning higher profits for themselves by getting supply of material from china. Government must take into consideration of this factor before allowing Wal-mart to enter in Indian market because though their promise may seem fruitful today but this can exploit our farmers as well as our retailers. On the one hand the government is trying to convince that FDI would not harm the local trading practices and on the other hand various traders associations, vendors are fearing its exit from the retail market in the long run when various multi brand retail giants with their deep pockets and marketing skills would create direct contacts with farmers and producers of essential commodities. Whether it's a small vendor selling fruits on his bicycle or a trader who has a kiosk in a neighborhood where he sells grocery or a weekly market trader who sells garments, all three of them depend on a vegetable mandi, grain mandi and wholesale market for garments respectively.

ADVANTAGES OF FDI IN RETAIL

Foreign direct investment has many advantages for both the investor and the recipient. One of the primary benefits is that it allows money to freely go to whatever business has the best prospects for growth anywhere in the world. That's because investors aggressively seek the best return for their money with the least risk. This motive is color-blind, doesn't care about religion or form of government.

This gives well-run businesses -- regardless of race, color or creed -- a competitive advantage. It reduces (but, of course, doesn't eliminate) the effects of politics, cronyism and bribery. As a result, the smartest money goes to the best businesses all over the world, bringing these goods and services to market faster than if unrestricted FDI weren't available.

Investors receive additional benefits. Their risk is reduced because they can diversify their holdings outside of a specific country, industry or political system. Diversification always increases return without increasing risk.

Businesses benefit by receiving management, accounting or legal guidance in keeping with the best practices practiced by their lenders. They can also incorporate the latest technology, innovations in operational practices, and new financing tools that they might not otherwise be aware of. By adopting these practices, they enhance their employees' lifestyles, helping to create a better standard of living for the recipient country. In addition, since the best companies get rewarded with these benefits, local governments have less influence, and aren't as able to pursue poor economic policies.

The standard of living in the recipient country is also improved by higher tax revenue from the company that received the foreign direct investment. However, sometimes countries neutralize that increased revenue by offering tax incentives to attract the FDI in the first place.

HIGHLIGHTS

1. More investments in the end to end supply chain - For the Foreign Multi Brand retailers, entering India later would be a significant disadvantage and they would try and introduce a lot of innovations hitherto not introduced. For one, they would invest heavily into end-to-end supply chains including world class cold storage facilities.
2. Low spillage and wastage - In India, the supply chain is considered highly inefficient due to the huge wastage during the transportation. The global world class retailers would introduce quality standards that are second to none and would lead to more farm produce reaching the end consumer in a consumable condition. Wastage will fall, leading to lower prices of primary commodities. This would improve productivity of the entire system.
3. Increase in efficiency and more options for the consumer - The consumer would get compelling options for doing their shopping which would lead to a fulfilling consumer experience. Under the pressure of competition human being will strive to give best of their effort. It is going to put an emphasis on consumer concern, delivering the consumer the very best quality and variety of goods. This helps to bring down prices because consumers have a choice and can drive inefficient operators out of business.
4. Raising the Level of Investment-transference of capital from developed to underdeveloped countries will be mutually beneficial. The developed countries have surplus capital; it is going to help in flow of surplus capital of developed countries to underdeveloped countries. Since saving does not increase in the same ratio as the income does, this void is filled by flow of foreign capital. Foreign investment can fill the gap between desired investment and locally mobilized savings. Local capital markets are often not well developed.
5. Up gradation of Technology and infrastructure-Foreign investment brings with it technological knowledge while transferring machinery and equipment to developing countries. Production units in developing countries use to produce goods of low standard that is why new technological advancement may help them in further growth. Also entry of FDI will definitely lead to development in infrastructure which in turns is going to contribute towards economic growth.

Government is in favor of FDI by supporting it with few of these points:

- Increase economic growth by dealing with different international products
- 1 million (10 lakhs) employment will create in three years - UPA Government
- Billion dollars will be invested in Indian market
- Spread import and export business in different countries
- Agriculture related people will get good price of their goods

DISADVANTAGES OF FDI IN RETAIL

1. 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.
2. Cut throat foreign competition – The critics are of the view that FDI will lead the foreign to cut throat competition.FDI might be in a position to manipulate things to their advantage, which will prove detrimental to the interest of poor nations. Will there be a net gain for consumers in terms of Price savings? No, not at all. Competition market has offered several opportunities but its proper exploitation is only possible when India realizes the fact that the rich take away from poor more than they give.
3. Increase in consumerism: FDI is further criticized on the account of sacrifice of necessities and comforts in favour of conspicuous consumption. This discourages savings and encourages consumption. The increasing trend towards consumerism was one of the cause of economic crisis faced by east asian.FDI will promote demonstration effect.
4. Too much foreign ownership of companies can be a concern, especially in industries that are strategically important. Second, sophisticated foreign investors can use their skills to strip the company of its value without adding any. They can sell off unprofitable portions of the company to local, less sophisticated investors. Or, they can borrow against the company's collateral locally, and lend the funds back to the parent company.

- Will affect 50 million merchants in India
- Profit distribution, investment ratios are not fixed
- An economically backward class person suffers from price raise
- Retailer faces loss in business
- Market places are situated too far which increases traveling expenses

The adverse impact of the FDI would befall the unorganized retail sector with great intensity if the State makes more stringent rules of zoning and regulation. We have researched the local weekly markets of Delhi. These markets are very prominent feature in all parts of Delhi and NCR. There are around twelve hundred weekly markets of which only one fourth are recognized by the Municipal Corporation of Delhi (consequence of zoning). Approximately 2.5 million people are employed through these markets. This figure would just double if we take in to account additional employment that is created around these markets. Various own account and household enterprises are producing commodities on a daily basis for such low end markets. Local weekly markets provide a very easy channel of distribution of commodities produced not only in local small scale industries but also in the neighboring States. For instance, rubber chappals and shoes made in Agra, sarees made in Surat, hosiery made in Coimbatore, woollens made in Ludhiana are all sold at affordable prices here in these very markets. FDI in multi brand retail would either displace various wholesale markets or the size of such markets would shrink. Today the local markets run on capital which has a fluid or floating nature. But with the coming of multi brand retail stores this floating capital would freeze and small retailers and vendors will be evicted from the market.

SUGGESTIONS

1. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organized and unorganized sectors to expand and improve efficiencies.
2. A National Commission must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI – as and when it comes.
3. The proposed National Commission should evolve a clear set of conditions on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditions must be aimed at encouraging the purchase of goods in the domestic market, state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc
4. Entry of foreign players must be gradual and with social safeguards so that the effects of the labour dislocation can be analyzed and policy fine tuned.
5. In order to address the dislocation issue, it becomes imperative to develop and improve the manufacturing sector in India.
6. The government must actively encourage setting up of co-operative stores to procure and stock their consumer goods and commodities from small producers. This will address the dual problem of limited promotion and marketing ability, as well as market penetration for the retailers.
7. Set up an Agricultural Perishable Produce Commission (APPC), to ensure that procurement prices for perishable commodities are fair to farmers and that they are not distorted with relation to market prices.

CONCLUSION

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. Opening up of FDI in multi-brand retail in India could potentially be a mixed

blessing for domestic investors. While at initial level the small indigenous retailers' business would be impacted once modern retail enters the locality, this adverse impact is expected to be short-lived and to weaken over time. FDI is being treated by our government as universal panacea which is going to resolve possibly every problem occurring in economy. Such act are beneficial to a country only if its economy has grown to a level of skills.FDI is mutually beneficial when capital, labour, technology and goods flow between equals. In other words when country is ready to face the world competition on equal terms. Otherwise any attempt by the underdeveloped can rebound adversely on the vast majority of the people. It must be emphasized that the policy which does not address the people of a nation is meaningless. Our commitment to people is more important than the global economic environment in which the developed countries work on the basis of competition.

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