SJIF Impact Factor: 6.047 Volume:5 | November - October 2018 -19 ISSN(Print): 2250 – 2017

International Journal of Global Economic Light (JGEL)

FDI IN INDIAN RETAILING: CHALLENGES AHEAD

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ABSTRACT

The retail sector is unorganized which covers nearly 97 per cent of retail business in India. FDI in retail is a non-critical area of intervention. Its disadvantages are likely to outweigh the advantages. However, the reality is that India cannot prevent the flow of FDI into retailing business as it is a founder member of WTO and the signatory of GATS. Thus, the need of the hour is to control and regulate the foreign retailers and restrict their functioning. The following measures are retrieved before permitting FDI in Multi-Brand Retail Trade (MBRT).

KEYWORDS: *FDI, retailing, WTO, Multi-Brand Retail Trade*

INTRODUCTION

Indian retailing is a sunshine sector with tremendous growth potential. It is big in size with 15 million retail outlets and the largest source of employment after agriculture. It contributes 14 to 15 per cent to GDP and absorbs 6 per cent of Indian labour force. Retail trade in India was valued at USD 411.26 billion in 2011 and it is expected to grow to the level of USD 1.1 trillion in 2020. Grocery is the biggest component with 50 per cent share, followed by Apparel. The Global Retail Development Index ranks India as the fourth largest retailing globally. However, the sector is unorganized which covers nearly 97 per cent of retail business in India. Further, the sector is cash starved with poor infrastructure. The Government of India has been permitting FDI in retailing since 1997 to strengthen the sector with adequate infrastructure. It allowed 100 per cent FDI in cash and carry (wholesales) in 1997 and 51 per cent FDI in single brand retail in 2006. To augument investment in the sector it permitted 100 per cent FDI in single brand retailing (press note 4 of 2012) and 51 per cent in multi brand retailing (press note 5 of 2012). FDI in multi brand is now allowed in India with the following conditions; i) Minimum Foreign Direct Investment of USD 100 billion, of which 50 per cent should be used for creation of Back-End Infrastructure. Permission for foreign retail outlets in the areas with the population more than 10 lakhs as per 2011 census, ii) at least 30 per cent value of the products procured should be from Indian MSME sector, and iii) minimum limit of 10,000 square feet on the floor space of foreign retail chains and reserving at least 500 – 600 square feet of retail space for foods and processed foods alone. It is claimed that FDI in retailing will result in higher contribution to GDP. Trained and educated man power can be utilized to increase efficiency in retail business. The government will get more tax revenue by curbing tax evasion. Indian MSME sector will enjoy increased demand for its products from foreign retail outlets in India. As it is mandatory for foreign supply chains to create Back-End Infrastructure including warehouses and cold storage facilities, wastages may be avoided. It is also claimed that consumers will get a wide range of products in good quality at lower prices. There will be inflow of foreign currency. Despite these advantages, FDI in Indian retailing will pose the following changes:

- Existing small middle men may be replaced by bigger and more organized middle men. These organized intermediaries are likely to charge exorbitant commission for their services.
- Big retail and food procurers may alter the crop selection in Indian farming. Let us here draw our attention on how Pepsi has been influencing the

farmers decision on crop selection in Punjab. Pepsi need potatoes for chips. Thus, farmers in Punjab skip the selection of other crops in favour of extensive potato cultivation. Now dal, cereals and other vegetables are in shortage.

- Big retail is relative to real estate. It will create the grounds for hike in property price in major cities.
- We have to trade off our cultural and dietary habits for the western paradigm of conspicuous consumption.
- Though the government prescribes the condition that at least 30 per cent of the goods procured should be from Indian MSME sector, we cannot stop the foreign retail outlets from purchasing goods from international markets as per WTO law.
- Wal-Mart, Carrefom, Tesco, metro and IKEA will not like dealings with too many small Indian producers. They will focus on one or two large producers. In other words, foreign super markets will aim at creating oligopolistic condition in Indian retail market.
- Wal-Mart is able to procure many goods at lower prices in international market due to its huge purchasing power. This power may be used to bring Chinese goods to India to displace Indian production. This may result in loss of jobs in Indian manufacturing sector.
- Predatory pricing, though it is illegal under anti-trust laws, will be followed by big foreign retailers to drive out Indian small retailers.

CONCLUSION AND POLICY IMPLICATIONS

FDI in retail is a non-critical area of intervention. Its disadvantages are likely to outweigh the advantages. However, the reality is that India cannot prevent the flow of FDI into retailing business as it is a founder member of WTO and the signatory of GATS. Thus, the need of the hour is to control and regulate the foreign retailers and restrict their functioning. The following measures are retrieved before permitting FDI in Multi-Brand Retail Trade (MBRT).

- India should enact laws to prevent foreign retailers from gaining a high concentration of business in our country. For example, Argentina passed the Act that no business could control more than 30 per cent of the market.
- It is important to restrict the growth of foreign retailers in our country by exercising the mechanisms such as zoning, business licenses and trade retailers. There are several instances in other countries where super markets are not kept away from the traditional markets. In Indonesia, large stores of more than 40,000 Sq.ft. each are not permitted within 2.5 kms from traditional markets. In particular, we may allow foreign retailers to set up super markets in Metros only.
- It is important that the domestic retail sector must be allowed to grow first before opening the sector to foreign investors. Thus, allow FDI in MBRT up to 49% instead of 51 % as the Indian retail sector is still under developed.
- Japan has effectively slowed down the sources of FDI in MBRT by the instruments of public policy. China also controlled the speed of opening process and this benefitted small retailers. Now in China the top ten retailers are China Companies.
- Like China, India must strengthen the domestic organized retail sector through the adopting the following:
- A retail commission is to be set up to monitor whether any super market and hyper market including the practice of predatory pricing.
- Small retailers must be given to the offer more personalized services.
- Competition Act of 2002 must be amended to check the abuse of dominant position by major players, including predatory pricing.
- The Indian Consumer Protect Act should be amended according to the present business environment.

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