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CAUSTIC EFFECTS OF FDI IN MULTI BRAND RETAIL- AN INDIAN PERSPECTIVE

Dr. S. Arockia Baskaran
Asst. Professor & Head, Govt. Arts & Science College, Hosur, Tamilnadu.

Abstract
An intense debate has been raging in the country on the policy towards FDI in the organised retail sector. Those who oppose foreign investments in retail highlight the deleterious effect of retail FDI on the unorganised sector comprising around 12 million the so called 'pop and mom' stores. "While the negative consequences of FDI in retail to the economy are real, it has socially-liberating potential. In this context, this paper attempts to enlist negative externalities of allowing FDI in retail sector in India. The concludes that in a country like India where millions of people are semi-skilled, it is the retail sector which offers them source of earning as one can easily open a small shop with a little capital. Whatsoever be the controversy over the issue of opening this sector to foreign giants, governments need to be pragmatic and do homework on expanding job opportunities in other sectors so as to accommodate the growing educated population in search of jobs in metropolis built unplanned.

Key Words: FDI, Retail sector, India.

1. Introduction

A retailer is engrossed in the act of selling goods to the individual consumer at a margin of profit. In India, besides this economic function of selling, a retailer is a friend who knows the preferences, interests, needs, wants, any events in the customer family, any emergencies, financial issues, etc of the customers. This is more than 360 degree view of a customer which has helped the Kirana merchant to sell the right product to right customer and even give credit at times, if required. They rendered a helping hand during emergencies and thus gained customer trust and loyalty. A strong bond exists between customers and retailers in Indian retail market.

The retail industry in India is often being hailed as one of the sunrise sectors in the economy. AT Kearney, the well-known international management consultancy identified India as the 'second most attractive retail destination' globally from among thirty emerging markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 14% to the national GDP and employing 7% of the total workforce (Singhal) in the country, the retail industry is definitely one of the pillars of the Indian economy. India has the highest shopping density in the world with 11 shops per 1,000 people (Navdanya). It has 1.2 crore shops employing over 4 crore people; 95% of these are small shops run by self-employed people. The Indian retail market is estimated to be US $ 450 Billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

At this juncture, the policy decision to allow FDI in multi brand retail in India has been welcomed by economists and the markets, however has caused protests and an upheaval in India's central government's political coalition structure. The benefits envisaged by policy makers through FDI in retail are:

- Huge investments in the retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail
- Million jobs will be created in the near future in the retail sector.
- FDI in retail will help farmers' secure remunerative prices by eliminating exploitative middlemen.
- Foreign retail majors will ensure supply chain efficiencies.
- Enhanced back-end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce post-harvest losses.
- This will have a salutary impact on food inflation from efficiencies in supply chain. This is also because food, which perishes due to inadequate infrastructure, will not be wasted.
- Sourcing of a minimum of 30% from Indian micro and small industry is mandatory. This will provide the scales to encourage domestic value addition and manufacturing, thereby creating a multiplier effect for employment, technology up gradation and income generation.

2. The Purpose of The Paper

The paramount topic for discussion in major forums in India, be it politics or academics, is the contentious issue of allowing foreign direct investments in multi brand retail in India. The attempt by the Indian National Congress led government at the centre has provoked social groups, traders union and political parties to view their opinion against foreign investment in multi brand retail. In this context, this paper attempts to make a holistic view of the treacherous impact of allowing FDI in multi

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brand retail in India. The data required for the descriptive study has been drawn chiefly from the published sources which have been adequately acknowledged wherever required. The author has adopted an independent approach to evaluate the effects as he believes that negative effects outweigh positives. The paper is structured as follows. The following section put forth India's bitter experience of foreign capital in the past and each of the following sections deals with unhelpful aspects of allowing FDI in multi brand retail in India. The final section concludes.

2.1 Foreign Capital in India: A Lesson Learnt
The capital penetration in to India started with the establishment of Portuguese factory at Calicut in 1500. The British East India Company was then founded in 1600 and then followed by Dutch East India Company in 1602 and French companies in 1614. The development of the country never remained the objectives of the foreign capitalist. The interest had always been the welfare and progress of the parent country. The far reaching effects of the creation of vested interest, powerful and strong enough to mould government policies in their own favour, suppression of political consciousness and ruthless exploitation of India's natural resources etc, all due to the advent of foreign capital in India. The so called capital investment in India did not by any means imply a development of modern industry rather it was the exploitation of raw material and market for British goods and in no way connected with industrial development.

2.2 India - a Country of Entrepreneur
Retail in India has started with the concept of weekly markets, where all merchant assemble at one big place to sell their goods every week. The people come to these weekly markets to buy the household stuff for the next one week. Village fairs and melas were also common as it had more of an entertainment value. Once the people started getting busy with their lives and when they turned entrepreneurial, there emerged the mom and pop shops and the kiranas in the neighbourhood. In deed, India is a sacred land of retail democracy, hundreds of thousands of weekly hats and bazaars are to be found across the length and breadth of our country by people's own self-organizational capacities. Our streets are bazaars that are active, vibrant, nontoxic and the source of revenue for millions. For the people of India, retail apart from trade, it is about culture, ecology, employment and food security.

2.3 Discourages Entrepreneurship – Suppress Creative Thinking of Young Minds
One of the principal reasons behind the explosion of retail and its fragmented nature in the country is the fact that retailing is probably the primary form of disguised unemployment/underemployment in the country. Given the lack of opportunities, it is almost a natural decision for an individual to set up a small shop or store, depending on his or her means and capital. And thus, a retailer is born, seemingly out of circumstance rather than choice. This phenomenon quite aptly explains the millions of kirana shops and small stores. The explosion of retail outlets in the more busy streets of Indian villages and towns is a visible testimony of this. The presence of more than one retailer for every hundred persons is pinpointing the lack of economic opportunities that is forcing natives into this form of self-employment, even though much of it is marginal. The typical traditional retailer follows the low-cost-and-size format, functioning at a small-scale level, rarely eligible for tax and following a cheap model of operation. FDI in multi brand retail can effortlessly eradicate the entrepreneurial quotient of our young minds.

2.4 Unorganized Retail – Flawed Description
It is excruciating why the existing system of business of food grains, fruits and vegetables is termed unorganized. Can an unorganized system provide food to millions of Indians since ages, and at the same time provide adequate returns to millions of farmers? Can an unorganized system act as the major link between rural and urban societies, where both of them are so much interdependent on each other? Is it only the mega retail enterprises of the corporate giants, which are organized? or unorganized retail is a term used by the corporations for their vested interest. So that they can organize it according to themselves, and control the whole food market from farm to fork in India. It is ridiculous to think that the existing system is unorganised, as there is no farmer in the country who does not have an access to a mandi, and there is no mandi in the country which is not connected to other mandi. The supply chain is so well arranged that no part of the country is devoid of basic necessities. Where ever there has been a demand, the supply has reached and it has reached on just prices. In a country with large numbers of people, and high levels of poverty, this model of retail democracy is the most appropriate in terms of ecological sustainability and economic viability. The real difference is however not unorganized vs. organized. It is self-organized vs. corporatised retailing.

2.5 Predatory Strategy – wipe out dispersed competition
A Company like Wal-Mart if it enters India, with its incredibly deep pockets, can sell everything from vegetables to the latest electronic gadgets at unbelievably low prices, which an ordinary retailer can never imagine selling. Foreign retailers will be able to do grand purchases from India and abroad and will be able to sell low to the consumers. Once a situation of monopoly

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is created they will buy at a low level and sell at high price. The small merchants will never be able to stand the price war created by foreign giant retailers and as a result they will perish at the end. It is quite evident that the even domestic corporate retailers too will be unable to meet the onslaught competition from firms such as Wal-Mart which can sustain losses in its operation for many years till its immediate competitor is wiped out. This is a common predatory strategy used by large players to drive out small and dispersed competition.

2.6 Aggravate Unemployment – Augment Social Tension

The predatory pricing strategy of foreign retailers will render millions of small retailers jobless by closing the small slit of opportunity available to them especially in urban and in semi-urban areas. These persons will not be able to find jobs in other sectors, as retail sector in India is one of the sectors in which maximum people are employed. The heavy competition would result in closing down of small scale retailers and lead to job losses. The rash comment made by Mr.Anand Sharma, union Commerce and Industry minister, that "the bold move would lead to creation of 10 million jobs" the job lost as a direct or indirect consequences of FDI in multi-brand retail would easily supersede this highly inflated hypothetical figure. *FDI driven "modern retailing" is that it is labour displacing to the extent that it can only expand by destroying the traditional retail sector*. If we assume 40 mn adults in the retail sector, it would translate into around 160 million dependents using a 1:4 dependency ratio (Navdanya). Opening retailing sector to foreign investors means dislocating millions from their occupation and pushing a lot of families under the poverty line. Plus, *one must not forget that the western concept of efficiency is maximizing output while minimizing the number of workers involved – which will only increase social tensions in a poor and yet developing country like India, where tens of millions are still seeking gainful employment*. What doubly suspicious is that, by definition, a net gain in employment can only be calculated by subtracting jobs that would be lost. It is pertinent to note that "Only 1 employee is recruited in 400 yards of a Wall-Mart's showroom" (Indian warriors). So it is estimated that on an average only 1 will be able to get job in Multi-brand stores while at least 10 people would be losing their jobs due to FDI.

2.7 Health Hazards – Slow Poisoning

One of the key arguments in favour of FDI in multi-brand retail in India is that it can augment backend infrastructure such as cold storage. As these foreign stores claim to provide everything fresh vegetable and fruits all round the year, average amount of pesticides and preservatives used for vegetables and fruits will increase phenomenally and pose a health hazard problem to the people in the long run. Numerous researches in the western world have been conducted to prove this and no wonder if the same happens to India when the retail follows the similar pattern. Along with this there is a huge pressure on the farmer to produce fruits and vegetables of a particular size, colour and shape so that they look cosmetically perfect. If the produce of the farmers do not fall under the standards set by the retail giants, it means the farmer will be left with the rejected produce and would have no buyer for it, as these powerful players would have already thrown away other buyers out of business. In order to maintain the standards of the crops, farmers use excessive fertilizers and pesticides. As a result the food items people buy from these stores contain much more pesticides than the food one get now (Navdanya).

2.8 Emerging Zamindars - Threat to the Agricultural Sector

The corporate control of food and agriculture, from seed to retail, is a recipe for disaster in our context of more than 650 million farmers and millions involved in retail at the tiny scale (Mohan Guruswamy et.al). Besides, with the coming in of large retail there will be more instants of contract farming, which in turn will lead to monopoly buying powers and monopolistic control over the farmers and their products. Contract farming is a system for the production and supply of agricultural produce under forward contacts between farmers, suppliers and buyers. The suppliers of the inputs and the buyers of the produce will be the big retail companies. In contract farming, the contract basically entails that a cultivator would sell his crops to the company that will leave the suppliers with no choice at all. They will have to be satisfied with the price the company gives them for the produce. The contract can give the company the power to make the choice of refusing to pick the contracted produce and can even be penalized for defaulting the commitment. TNCs such as Monsanto, Cargill, Pepsi etc., who are emerging as new Zamindars may follow a pricing strategy that will maximize their profits and not those of producers and consumers.

The high-quality farm produce through contract farming arrangements would have a negative impact on other farmers who could be harassed to become part of the foreign retailing system which would create a monopolistic situation that would yield lower realisations to farmers. As Nick Robbins wrote in the context of the East India Company, "*By controlling both ends of the chain the company could buy cheap and sell dear*". The producers and traders at the lowest level of operations will never find place in this sector, which would now have demand mostly only for fluent English-speaking helpers.

2.9 Abandon Indigenous Products - Loss of Biodiversity

The supermarkets have their own standards according to which they buy the products (manufactured and agricultural). If a

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product does not pass through that standard test, it will be dumped back on the farmers, and because of the monopsnistic market, the farmer does not have any other place to sell it. Thus the farmer always tries to produce products that are uniform and standard. This needs huge amount of pesticides and leads to loss of the numerous indigenous varieties of crops. These crops are highly resistant and are fit for the local conditions; they will be of great use in present times of climate change, when other crops are failing due to slight change in condition (Navdanya). But with the pattern of agriculture being pushed by the corporations, India will lose enormous bio-diversity, mother earth and the hard working farmer has created over the thousands of years of civilization, and forces monoculture in food.

2.10 Exclusive Growth – hidden arithmetic

The growth at the cost of a self sufficient healthy indigenous market with local produce and manufacturers is a very short term goal and has consequences that the government fails to foresee. It brings "exclusive growth" as local retailers cannot compete with the competitive pricing strategies and marketing capabilities of foreign retailers. India being a developing economy should focus on its infrastructural development and also take advantages of globalisation but not at the cost of its own people and their welfare because *holistic welfare of people is more important for an economy than the statistical growth rate.*

2.11 Repatriation of Profit - Depreciates Rupee

Notwithstanding that FDI in India will strength the rupee in the short run due to raise in its demand, in the long run rupee would depreciate as return on investments to the foreign companies would be paid in dollars raising its demand. Depreciating rupee would result in higher prices paid for imported foreign goods especially for crude oil resulting in increasing fuel costs and the increasing cost would lead to inflation. Moreover, in the long run, the host countries' balance of payments is likely to deteriorate through the repatriation of funds since market seeking FDI often does not generate export revenues. Hence, the growth impact of this type of FDI should be weaker than the growth impact of efficiency-seeking FDI.

2.12 Endanger food Supply Chain - National Insecurity

FDI in multi brand retail entails that the food supply chain of the country is to pass on to foreign companies. This can result in essentials, including food supplies, being controlled by foreign organizations. India cannot risk overseas entities gaining any sort of control or even influence over the nation's food supply chain. Authorities in India must keep in mind that India's food supply chain is a matter of national security and it is not about opening up markets in the wake of globalisation. One must also not forget how countries like China, Malaysia and Thailand, who opened their retail sector to FDI in the recent past, have been forced to enact new laws to check the prolific expansion of the new foreign malls and hypermarkets (The Financial Express).

A Maxican Warning – A Lesson to Be Learnt

Wal-Mart entered Mexico in 1991. In two decades, the company has grown to a position of domination with nearly 50 percent market share of the retail sector. At this juncture, the *New York Times* examination found credible evidence that bribery played a persistent role in Wal-Mart's rapid growth in Mexico (Shekharswamy). The information came out in the open when a Wal-Mart de Mexico employee who was in charge of obtaining permits became disgruntled and disclosed the facts to the US headquarters. When it is an acceptable practice that an individual with a deplorable criminal or litigation record is denied a visa to enter countries such as the US, companies that have been convicted of fraud or been the subject of investigation for monopolistic and restrictive practices or other serious wrong doing should be denied permission to enter India.

3. Conclusion

Advocates of FDI in retail give China as an example, which witnessed enormous growth in retail sector after allowing FDI. But they don't inform that China allowed a gradual increase in FDI in retail - it allowed an FDI of up to 26 per cent in 1992 and increased it to 49 per cent in 2002 and allowed 100 per cent in 2004. It is also not justifiable to compare India with China: China is a communist country where job market is regulated in contrast India is a democratic country where people have an option to start their own business. In China, manufacturing sector offers numerous employment opportunities but this is not the case with India. Only until the tardy growth of the manufacturing sector is addressed properly and its productivity chart starts to look prettier, could one begin thinking of dislocating some of the retailing workforce into this space. Until that day, disturbing the hornet's nest would be one very painful experience for the economy. In a country like India where millions of people are semi-skilled, it is the retail sector which offers them source of earning as one can easily open a small shop with a little capital. The government should understand that before approving any policy reform in the retail sector it must create jobs in other sectors which can accommodate these people. While the facts may be true and infrastructure and development needs are also undeniable, the belief that it can be developed only by allowing FDI is unfounded. It is the failure of all governments since the last green revolution that they are not able to provide any major reform in agriculture and related

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sectors. Now to hide their failure and inability to provide better infrastructure they are taking the help of foreign players whose very existence is based on making profit for their shareholders.

The foreign retail giants, who have access to different retail markets in the world, would definitely source required materials from the destinations where the cost is low and sell them at competitive prices in other locations thus increasing the choices available to consumer, this undeniably means that Chinese made items from green leaves to electronic gadgets would flood the Indian retail market at through away prices and ever widen India's trade deficit with China. Does welfare mean only more choice for a consumer and more facilities and malls at the cost of the small traders losing their businesses? FDI in multi-brand retail must be dealt cautiously as it has direct impact on a large chunk of population. It is true that it is in the consumer's best interest to obtain his goods and services at the lowest possible price. But this is a privilege for the individual consumer and it cannot, in any circumstance, override the responsibility of any society to provide economic security for its population. Clearly collective well-being must take precedence over individual benefits. Indian farmers and consumers need food freedom and food sovereignty, not the corporate controlled system the World Bank and the W.T.O. is imposing on us. *Let the liberalisation in India be in steps rather than being a leap.*

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