

# Foreign Direct Investment and Indian retail Sector

India's economy has largely been driven by domestic consumption, where retail accounts for about 60% of the gross domestic product. A move to open up the sector for competition could have helped improve the sector and GDP alike. Also, Young consumers consume products very differently than older ones. They are far less emotional in their buying behaviour, and much more experimentative.

Retail industry had been waiting for FDI clearance from the government for a long time. The decision to raise FDI limits in single brand retail can be a big boost to the industry. The organized sector of India retail industry, which is still in its infancy in a country of 1.2 billion people, is something that needs to be propping up if India is to achieve economic success in long term. The decision to allow 51% foreign ownership in the retail sector and then to back out from that decision, does not effect good for a country that is striving to be an "economic powerhouse". India's Politicians, which is engaged in corruption, saw its own coalition members come out to oppose the move to open up the US\$475 billion sector to foreign direct investment. The influx of foreign retailers could have helped India in many ways, among the best of which would have been reduction in the wastage of perishable goods that costs the country's retail sector annual losses of more than \$11 billion. India's various ministers have over the past few years been trying to lure investors to participate in lowering the wastage in perishable goods, by building manufacturing plants to add value to the fruits and vegetables that are produced seasonally. The entry of foreign retailers is they the Tescos or Wal-Marts of the world, would have built the logistics to speed up delivery of produce from the farmers to consumers. This speedy transfer would have benefited consumers and at the same time helped India become a better consumption driven economy.

## Benefits of FDI in Retail:

- At least 10 million jobs will be created in the next three years 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.
- Policy mandates a minimum investment of \$100 million with at least half the amount to be invested in 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.
- Another major factor favoring the (FDI) policy in India is the emergence of franchising market in India. The Foreign Direct Investment (FDI) policy for organized retail does not permit the direct entry of foreign retailers. The latter, therefore, have to resort to franchised business models to enter the Indian market.
- 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 upgradation and income generation.
- A strong legal framework in the form of the Competition Commission is available to deal with any anti-competitive practices, including predatory pricing.
- 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.
- In Indonesia, even after several years of emergence of supermarkets, 90% of fresh food and 70% of all food is still controlled by traditional retailers.
- In any case, organized retail through Indian corporates is permissible. Experience of the last decade shows small retailers have flourished in harmony with large outlets.

## Arguments for holding back FDI in Retail

- Once FDI in retail is implemented, a lot of MNCs will come and bring along their own practices and policies, which may exploit Indian retail industry.
- If level of FDI in Retail is increased, then there will be a huge loss of jobs and small retailers will be affected badly.
- Global retail giants will resort to predatory pricing to create monopoly/oligopoly. This can result in essentials, including food supplies, being controlled by foreign organizations.