



Foreign Direct Investment in Retail Sector A Prospect or Peril for India

FDI in retail sector, especially multi brand retail, has been a much debated issue since the government has passed the law. There are supports to this move of government on grounds of it being beneficial for farmers, consumers and other stakeholders. The issue note suggests that with the instruments of public policy in its hands, government should allow FDI in retail but can slow down its process and should not leave everything on foreign players in retail.

Indian retail sector is one of the sunrise sectors of the economy with huge growth potential and is expected to grow almost three times by 2015.¹ In spite of its significant contribution to India's GDP, the sector continues to be a least evolved sector and its growth is much slower in India as compared to rest of the world.

As a response, in November 2011, the Union Cabinet decided to completely open single brand retail to foreign players and allow up to 51 per cent FDI in multi brand retail trade (MBRT). But the move was kept in abeyance following protests from oppositions as well as some of allies of ruling parties. Despite of all this, the Union Government stood by its move of allowing 51 per cent FDI in MBRT, saying the final decision lies with the State Governments- whether to allow foreign retail establishment or not. Besides, FDI in retail has been subjected to following stringent conditions: (a) at least half of FDI should be made in back-end infrastructure; (b) minimum FDI in MBRT should be \$100 million; (c) stores can be set up in city with population of at least 1 million; (d) at least 30 percent of value of manufactured items procured should be sourced from Indian small and medium enterprises.

Key Issues

The decision to allow FDI in MBRT has attracted a fresh round of debate in the country. The proponents believe

that the policy will result in greater benefits to consumers and farmers, while the opponents are concerned about perceived adverse effects.

Will FDI in retail sector really help farmers?

Government and supporters of FDI claimed that this policy shift would benefit both farmers and consumers. They argue that emergence of FDI will bring better cold storage facilities and technological improvements for farmers which will help in reduction of wastage.

On the other hand, opponents of MBRT claim that this move would not help the farmers. In fact, it will make farmers vulnerable to exploitation by corporate retailers.

Another concern raised is that Indian rural agricultural households face production risks like irrigation, credit facility, technology etc. Therefore, in order to safeguard interests of farmers' government should first strengthen rural infrastructure and institution values than allowing FDI.

Will FDI in retail sector create employment opportunities or increase unemployment?

Retail operations are a labour intensive venture. Therefore FDI in MBRT will lead to expansion of organised retailing, leading to creation of new jobs not only in front-end retailing but also in related activities at back-end retailing. Moreover, improved wages and better working conditions will improve the standard of living of those employed in organised sector. In addition

¹ Gupta, A. (2010), "Foreign Direct Investment in Indian Retail Sector: Strategic Issues and Implications", vol. 1 (1), pp.55-68.

emergence of MBRT would not be a threat to small mom and pop stores, because these small stores provide various advantages to customers such as home delivery, convenience etc.

However, the opponents are concerned that entry of FDI in MBRT may adversely impact overall employment in unorganised retail business. Since labour productivity is higher in organised retail sector, it may entail loss of jobs. Another concern raised by opponents points that emergence of FDI would lead to displacement of rent-seeking middlemen those dealing in agricultural products, because global retailers would procure directly from producers, whereas supporters claimed that these displaced workers will be able to find jobs in food-processing activities due to presence of big retail chain.²

Will FDI help in curbing food inflation?

One of the most important problems in emerging market economies (EMEs) is issue of food inflation. Supporters of FDI claimed that government has allowed FDI in MBRT to curtail the gap between farm gate and food retail prices, bringing modern food supply chains and hence providing products at lower prices to consumers which ultimately helps in combating inflation. Opponents of FDI in retail sector claim that bringing FDI in retail will not be in interest of consumers as large big firms with deep pockets, can resort to unfair pricing by selling at lower prices which may wipe out of traditional retail sector and subsequently emerge as dominant retail chain with substantial monopoly power.³

Finally, Indian government has adopted FDI in MBRT on the basis of three claims: employment generation, improving the conditions of small farmers and combating food inflation.

Given the Indian scenario, the decision of government to open its retail sector to FDI cannot be regarded as completely wrong, as FDI will in future come forward with its benefits. Concerns regarding anti-competitive practices seem unfounded because given Competition Law in place; Competition Commission of India can deal with them.⁴

Retail business in India is largely unorganised, opening of MBRT to FDI will bring in benefits over the long run in terms of better supply chain management, reducing the role of intermediaries, providing better returns to farmers in terms of higher farm gate prices and dissemination of infrastructure.

While FDI seem to have promising benefits for the farmers as well as consumers, it is seen with equal suspicion. Therefore, entry of foreign players in retail sector must be gradual and with social safeguards so that the farmers, consumers and small retailers are resilient to any potential adverse situation. The government should try to ensure that foreign and domestic players are at equal footing, so that domestic players (especially traditional retailers) are not at back foot.

To see the overall impact of FDI in retail, India has to wait for some times and have to follow appropriate path and take necessary actions so that a mix of both foreign players as well as domestic can co-exist in India without harming each other.

² Mehta, P.S, "FDI in Retail will benefit all", *The Hindu-Business Line*; August 8, 2012.

³ Guruswamy, Mohan, Kamal Sharma, Jeevan Prakash Mohanty and Thomas J. Korah (2005)" FDI in India's Retail sector: More Good than Bad? *Economic Political Weekly* 40(7), pp.619-623.

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