

FDI in Retail Trading: A Pain or A Panacea

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Very recently India Government has announced that it will allow 51% FDI in Multi- Brand Retail Trading (MBRT). The issue of FDI in retail trading is very sensitive since it involves the interest of so many people engaged in a large informal sector in India. After taking the path of liberalisation in 1991 India allows the limit of FDI up to 51% for most of the industries and even 100% in some industries. The argument in favour of FDI was that it would facilitate the technology transfer to domestic industries and that increase export earning. It is argued that to compete with the foreign firms domestic firms has to improve their efficiency and productivity through better technology. Initially, FDI was invited in Infrastructure sector and to some extent in service sector like Banking, Insurance etc. Total FDI flows in India increased from 4029 Million US\$ in the year 2000-01 to 46533 Million US\$ in 2011-12. Thus there is high growth of FDI flows in India in recent period. From the figures of sectoral allocation of FDI equity inflows it is found that about 19% share of total cumulative FDI goes to Service sector, which comes to be the highest among all sectors. Construction Development with 12% share comes in second position while the percentage of share of FDI in other sectors, namely, Telecommunication, Computer Software, Drugs and medicine, Chemicals, Power, Automobile industry, Metallurgical industry and Petroleum & Natural Gas, cradles around 3% to 7 %. Inflows of FDI in other industries are negligible and most of which are not above 1%.

It is argued that Indian economy will be benefited in many ways from the inflow of FDI in manufacturing and services sectors. It is said that FDI will be allowed in some specific sectors where FDI will serve as catalyst in the technological development. There are basically two types of motivation work in FDI. Some FDI's are motivated by the high rate of return of their investment in a matured economy and aims at to get benefit from the industrial environment and locational advantage of the country. Such FDI would benefit the country in terms of growth and efficiency. The other motivation of FDI is to earn monopoly profit through comparative advantage over the domestic firms. These FDI's are purely rent seeking and could hardly benefit the economy of the country. However, from the regulatory point of view it is difficult to distinguish a priory between these two types of FDI. If the regulatory system of the country is not stringent

then the country can allow both type of FDI. But if regulatory process works properly there will be limited scope for FDI companies to enjoy monopoly.

India has taken various policies for attracting FDI in almost every sector except a few.

In their policy document, Department of Industrial Policy and Promotion has stated clearly that it is the intent and objective of the Government of India to attract and promote foreign direct investment in order to supplement domestic capital, technology and skills, for accelerated economic growth. It is stated that under the Automatic Route, the non-resident investor or the Indian company does not require any approval from Government of India for the investment. In some sectors/activities FDI is permitted up to 100% on the automatic route, subject to some conditionality.

However, the arguments in favour of FDI in general provided by the Government is not accepted by all communities and have different views that leads to controversy over this issue of inviting FDI in India. Opponents argue that the present scenario of Indian economy does not reflect the virtues of Foreign Direct Investment since the process begins in 1991. Some of the arguments against the policy of promoting FDI in India are the followings. One primary reason for opposing FDI is that the regulatory mechanism in India is not strong enough to prevent the MNCs to earn monopoly profit through comparative advantage over the domestic firms. Also, Foreign Direct Investment (FDI) companies use their economic power to influence government policies, which favour them. The FDI generally comes through MNCs and the technology of these MNCs is generally capital-intensive which in most of the cases proved to be inappropriate in a labour-abandoned country like India. This is one of the basic causes for the growing unemployment in India and FDI do not help much in reducing unemployment. Outflow of capital is another cause of concern of promoting FDI. Foreign Direct Investment leads to the outflow of capital from a country by the following ways: (a) the foreign investors repatriates their profits to their parent countries, and (b) they import raw materials and technologies from other countries or their parent countries thus leads to the outflow of capital.

Now the FDI in retail trade leads to a nationwide protest against the present Government. Some economists argue that there are both positive and negative effects of FDI in retail on the economy. Thus before going to say something against FDI one should calculate the pay-off between positive and negative impact of FDI. To initiate any discussion on FDI in retail trading let us discuss about the present picture of retail trading in

India.

Indian retail market is divided into organised sector and unorganised sector. Unlike the other advanced countries Indian retail market is dominated by the unorganised sector. It is about 94% of the total retail trading in India. Organized retailing refers to trading activities undertaken by licensed retailers that include the corporate-backed hypermarkets. Unorganised retailing refers to the traditional formats of low-cost retailing such as privately owned small grocery or vegetable shops, garments shops where good of different manufacturing companies are available. Since the establishment cost of these shops are low compared to big shopping malls the unorganised retail traders can charge less price compared to price charged by shopping mall. There are large numbers of people involved in this unorganised retail trading and earn their livelihood from different types of activities in retail trading. Since the number of traders is higher relative to actual requirement they practically share the pie of the cake among themselves and live as disguised unemployed. Indian retail sector in total accounts for 22% of the country's GDP and contributes to 8% of total employment. Since retail trading is dominated by unorganised sector these figures actually reflects the picture of unorganised retail market in India.

Some arguments in favour of FDI in retail are the followings. If FDI is allowed in retail trade job opportunities will be created in agro-processing, packaging, transportation and also in other areas of semi-skilled activities. According to the Government, 10 million new jobs will be created. Introduction of FDI in retail can help to stop the intervention of middleman in agriculture and the farmer can expect higher price of their product. Since the company like Wal-Mart can invest money to create large storage system the loss of food grains due to poor storage capacity can be reduced to a great extent. It is argued that new technology in transportation system, cold storage system and in other areas will come with FDI in retail trading. Again, it is expected that some new technology in cultivation will come along with FDI that may increase the yield substantially to combat the inflationary pressure due to inflow of foreign capital in the market. It is argued that though there will be less demand for worker in front-end of the chain there will be scope of new job creation at the back-end of the chain.

Now, there are some counter arguments against the policy of promoting FDI in retail trading. It is argued by the proponents of FDI that since the small traders appropriate a big margin of price the retail price in the market is much higher compare to what the farmers get from the traders and if the big traders come the farmers can expect higher price from them, which is close to market price. However, most of the Indian farmers are either

owner of small farm or they work as sharecropper in others big farmers' land. Naturally, those farmers have very little opportunity to bargain with the big traders like TESCO or Wal-Mart. Also, the small farmers usually sell their surplus products above their household consumption in the market. Now if the big multinational traders come there is a possibility that those traders will make advance payment to those poor farmers on the condition that whatever they produce they have to sell to the big traders at contract price. So there will be no left over of the total output they will produce from which the poor farmers can consume without paying higher market price. Thus there is very little scope of the small farmers to be benefited from the selling their product to big traders. But, on the other hand, the big farmers can afford to sell whole products to the big traders and rip the benefit of greater bargaining power.

It is said in the policy that MNCs can invest up to 51% in the retail and the rest will be domestic capital. In India about 6% of the retail trade controlled by organised sector and the pace of urbanisation and the changing shopping habit of urban people lead to a boom in organised retail trading. Domestic organised retailers like Pantaloons, Spencer's, etc will join hand with the foreign companies and take the benefit of advance technology of storage and distribution. They will also take the advantage of networking access of foreign companies and can sell good manufactured by foreign companies, which would not otherwise be possible in the present situation. Thus the local organised big traders could be benefited from FDI.

The argument in favour of employment creation is also not very clear. If the big traders are allowed to operate in the retail trading a large number of small traders will loose their jobs. It will be difficult to assume that these small traders will get jobs in the new marketing chain. Since the new method of trading will be based on automation, which required skilled persons, there is very little chance of those unskilled or semi-skilled small retail traders to absorb in the new marketing chain.

Now, whether the FDI in retail actually benefits the country depend on the trade off between the positive and negative outcome of the FDI. It will be difficult to judge a priori the net impact of FDI in retail since the reliable information required for such analysis is lacking at present. But one thing is very clear that effect of FDI in retail, through trickle down process, may be good for the economy in the long run but surely at the cost of present sufferings of the poor farmers and small traders.