FDI In Indian Retail Industry : Challenges & Prospects For Agrarian Economy

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Key Words: *FDI, Retail Sector of India, FDI in Retail Sector, Indian Agriculture Sector, Impact of FDI on Indian farmers.*

Indian economy is a fast growing economy in which retail sector is one among the many emergent sectors with enormous growth possibilities. Retail trade contributes around 10-11% of India's GDP and currently employs over 4 crores of people. In spite of its substantial contribution in Indian economy, retailing is still the least developed industry. Moreover, the growth of organized retail sector of India has been much slower as compared to rest of the world. It is argued that the failure of FDI encouraging policy in Indian retail sector is one of the important reasons for the sluggish growth of this sector even after two decades of economic reforms. Foreign Direct Investment in Indian retail business at this stage is a burning issue. In this context, the present paper attempts to examine the policy initiatives by Indian government regarding inflow of FDI in Indian retailing. Besides the recent action of Indian government to permit 100% FDI in single brand and 51% in multi-brand retailing sector, the paper attempts to analyze the prospective impacts of these changes on Indian farmers and the responses of many Indian Farmers' Associations in this reference. The paper also puts forth the challenges faced by Indian agriculture which need to be tackled on priority basis to achieve the objective of benefitting Indian agrarian economy through this move. The findings of the study exhibit that FDI in retail would benefit Indian farmers and help them reach global market to get better prices for their produce. Finally, the paper concludes that for the development of agriculture sector of India, FDI in Indian retail sector should be freely allowed as well as encouraged but with proper safety and regulatory measures.

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Foreign Direct Investment has been exhibited to play a vital role in promoting economic growth, generating new employment opportunities and improving a country's technological level. It strengthens the integration of developing economies with the world economies and leads to greater inflow of capital as well as brings marketing and managerial expertise. All these result in reduced poverty and improved living standard. The inception of New Economic Reforms in 1991 has paved the way of higher growth in Indian economy in which FDI has been playing an important role. Since then India has opened its doors for FDI in many sectors including retailing in a phased manner.

World Bank in its Report (2000) gave surprising fact that more than 1 billion of world population were compelled to live on not more than US $ 1 a day and approx. 2 billion subsisting on less than US $ 2 a day and out of these around 70% live in rural areas. Agriculture is the mainstay of Indian economy as it forms the backbone of rural India which accounts for more than 70% of total population and contributes around 19% of Indian Gross Domestic Product (GDP). But Indian agriculture is in vulnerable situation as it is registering a very slow growth rate because of the hardships faced by the farmers. To accelerate agricultural growth rate there is a need for reforms in the way agriculture produce need to be procured, stored & marketed; encouraging policies for the huge investments in supply and distribution chain and most importantly ushering in competition in the supply and distribution chain where the farmers decide whom to sell and at what price.

It is argued that by opening up of India's retail sector for foreign capital and competition would bring with them the best practices and investment in supply and distribution chain and at the same time open up linkages to the global markets for Indian agriculture and dairy products. Allowing 100% FDI in retail would lead to an agriculture boom.

Literature Review-

Empirical studies suggest that FDI is very important because it provides a source of capital and complements domestic private investment. Many studies (e.g., Blomstrom and Kokko, 2003; Chen and Demurger, 2002; and FAO, 2001) conclude that FDI contributes to total factor productivity and income growth in most economies over and above what domestic investment would trigger. Besides, these studies find that those policies which promote indigenous technological capability, such as education, technical training, and R&D, increase the aggregate rate of technology transfer from FDI and that export promoting trade regimes are also important prerequisites for positive FDI impact.

Replying to the debate on FDI in Lok Sabha, Commerce & Industry Minister Anand Sharma (2012) said that 'the lack of infrastructure and cold storage in the country was leading to excessive wastage. He added that 'as an agrarian economy, we have to ensure minimum wastage...farmer suffer due to lack of food management in the country...farm product losses are seen at 35-40 percent". He further stated that 'the decision of FDI in retail had been taken by the government after consulting all the stakeholders including farmers".

Minister of State for Agriculture and Food Processing Tariq Anwar (2012) said at the Third International Potato Expo 2012 organised by Indian Chamber of Commerce 'The steady emergence of the organised food retail and the decision to allow FDI in multi-brand retail will surely take the Indian food processing industry to greater heights ....the private sector must join hands with the government in improving the prospects of the food processing sector".

Research Methodology-

The methodology used for this paper is basically analytical, descriptive and comparative. The present paper is based upon secondary sources of information collected from books, journals, newspapers and online databases.

Policy Initiatives by Indian Economy regarding FDI in Retail Sector[2]

Recognizing the importance of FDI for Indian retail industry, the government in a series of moves has gradually opened up the retail sector for FDI.

1. FDI was allowed with 100% ownership in wholesale industry with govt. approval in 1997.
2. In 2006, the condition of govt. approval was waived off and FDI in cash & carry (wholesale) was allowed under automatic route.
3. In the same year 2006, FDI in retail industry was also allowed by permitting investment upto 51% in retail outlets having single brand but for this government approval was needed.
4. In January 2012, India approved further reforms for single brand stores with 100% ownership with certain conditions.
5. On 14th September 2012, the Govt. of India announced the opening of FDI in multi-brand retail also, subject to:

1. Approval by Indian states.
2. Minimum FDI amount to be invested would be $100million.
3. 50% investment would be in backend infrastructure.
4. 30% of the products by these retail giants would be purchased from Indian small industries.
5. These retail stores would be set up in cities having population more than 10 lakh as per 2011 census.

Current Scenario of Indian Retail Industry-

The last two decades have registered rapid growth in Indian economy along with growing domestic consumer markets which in turn pushed the faster growth of Indian retail sector also, mostly in unorganized sector. According to FICCI President R.V.Kanoria 'The Indian retail is poised to become a $1.3 trillion opportunity by 2020. With the current market size estimated at $500 billion, this translates to an additional $800 billion in the next eight years"[3]. The seventh annual Global Retail Development Index(GRDI) prepared by A.T. Kearney[4], Indian retail industry ranked fifth among the world's largest retail detinations. In 2008[5] Indian retail sector especially organized retail is growing rapidly, with customer spending growing in unprecedented manner. Till 1980 retail continued in the form of kiranas that is unorganized retailing. Later in 1990s branded retail outlets like Food World, Nilgiries and local retail outlets like Apna Bazaar came into existence. Now big players like Reliance, Tata, Bharti, ITC and other reputed companies have entered into organized retail business. The multinationals with 51% FDI in single brand retail has led to direct entrance of companies like Nike, Reebok, Metro etc. or through ventures like Walmart with Bharti, Tata with Tesco etc.

In the overall Indian retail Industry unorganized sector dominates Indian retailing having 97% of the total while a negligible 3% comes from organized sector which is very less in comparison to other developing economies (Table -1). Though organized retail has a small share but it has a huge growth potential and is also expected to go up further in the future. As the country has got a high growth rate, the consumer spending has also gone up and this resulted in high growth rate of organized sector which is growing at the rate of 30% annually[6]. The share of urban and rural sector in total retail market is given in table-2. It is shown that in food, clothing & footwear and miscellaneous consumer goods, the rural share is greater while urban sector has majority shareholding in consumer and consumer services. It also shows that rural sector too plays an important role in Indian retailing.

Liberalization of Indian Economy, increase in spending per capita income, the advent of dual income families, growing middle class income and improving demand from rural markets help in the growth of retail sector. Moreover, consumer preference for shopping in new environs, availability of quality real estate and mall management practices and a shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc. also contributes to the spiral of growth in this sector. Furthermore, the Internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains.

(Table 1)
Retail Trade in India and South East Asia
(%share of organized & unorganized sectors)

Countries	Organized(%)	Unorganized(%)
India	4	96
China	20	80
South Korea	15	85
Indonesia	25	75
Philippines	35	65
Thailand	40	60
Malaysia	50	50

Source:CRISIL

Table-2
Share in Retail Market: Urban vs Rural (in percent)

Segment	Rural	Urban
Food	64	36
Clothing & Footwear	61	39
Misc Consumer Goods	57	43
Consumer Durables	50	50
Consumer Services	44	56
Entertainment	33	67

Source: NSSO and KPMG analysis, Retrieved from current economic statistics and review of the week 2006 EPW

Impact on Indian Farmers-

Retail market of agricultural produc in India is in a poor condition. Due to the imperfect knowledge of the markets as well as infrastructural bottlenecks, the agricultural production in India remains unable to have access both in the huge domestic markets and the giant world markets. The causes for this sorry state of affairs are the use of obsolete technology and working with the old marketing systems which make these primary products inefficient and uncompetitive especially for the international markets. Due to inadequate storage facilities, peasants are compelled to sell their produce at throw away prices which are sometimes, not even sufficient to cover production cost. For removing the sufferings of Indian farmers it is suggested that the emphasis should be on to promote the development of organized retail sector both by inviting indigenous capital as well foreign capital in this industry. In this way along with the big farmers, the small and marginal farmers will have access to diversified national and world markets by supplying their produce to these big retailers. In this way the role of mediators will also be limited as they are highly responsible for the poor conditions of Indian farmers. The following table exhibits the expected benefits for agriculture sector by opening the retail industry for Foreign Direct Investment:

FDI in retail Sector: Expected Benefits for Agriculture Sector

1.	It would help to build rural infrastructure especially back-end infrastructure. This will help in reducing wastage of agriculture produce. India has only 5,300 cold storages, a figure that sits uneasily when placed against the 12 million small and medium retail outlets in the country7.
2.	Enable our farmers to get better prices for their crops. Small & marginal farmers can supply their products directly to these big retailers and thus can avoid the inefficiencies of long supply chain from farm to consumers in the form of intermediaries.
3.	It will increase market access for Indian agriculture and dairy products throughout the country as well as across the border thus will result in increased foreign earning.
4.	Due to reduced loss of agricultural produce because of increased investment in cold storage infrastructure, the problem of high level of food inflation can be solved.
5.	By ensuring higher and assured income to small farmers as well as the certainty of purchase by the big retail chains will protect farmers from shocks thus is expected to prevent suicidal cases among them.
6.	With the entry of new players into the retail industry, the demand for agricultural products is set to rise. This is anticipated to increase the productivity and competitiveness of Indian agriculture and bring better farming practices into the agriculture sector.

Support for Retail Reforms by Farmer groups-

Many of the farmer groups in India have supported retail sector reforms including FDI inflow in agriculture retailing. For example:

Indian farmer and Industrial Alliance (IFIA), a joint venture of Consortium of Indian Farmers Associations (CIFA) said the Government move to allow 51 per cent FDI in retail will be helpful to the farm community as it would provide backward and forward linkages[8]

Bharat Krishak Samaj, a farmer association with more than 75,000 members says it supports retail reform including govt. move in allowing FDI in Indian retail sector. Ajay Vir Jakhar, the chairman of Bharat Krishak Samaj, asked the government to make it mandatory for organized retailers to buy 75% of their produce directly from farmers, bypassing the middlemen monopoly and India's sabzi mandi auction system.[9]

Shriram Gadhve of All India Vegetable Growers Association (AIVGA)[10] claims his organization supports retail reform. He claimed that currently, it is the middlemen, commission agents who benefit at the cost of farmers. He urged that the retail reform must focus on rural areas and that farmers receive benefits.

Consortium of Indian Farmers Associations (CIFA)[11] announced its support for allowing FDI in Indian retail sector. Chengal Reddy, secretary general of CIFA claimed that by this way of retail reform lots of Indian farmers would be benefitted. Reddy commented 'India has 600 million farmers, 1200 million consumers and 5 million traders. I fail to understand why political parties are taking an anti-farmer stand and worried about half a million brokers and small shopkeepers.

Prakash Thakur, the chairman of the People for Environment Horticulture &Livelihood of Himachal Pradesh, announcing his support for retail reforms claimed FDI is expected to roll out produce storage centers that will increase market access, reduce the number of middlemen and enhAnce returns to farmers.[12] **Sharad Joshi**, founder of Shetkari Sangathana (farmers'association), has announced his support for retail reforms.[13] Joshi claims FDI will help the farm sector improve critical infrastructure and integrate farmer-consumer relationship. Joshi feels retail reform is just a first step of needed agricultural reforms in India, and that the government should pursue additional reforms.

Challenges for Agriculture-

By the above analysis, the benefits for the agriculture are obvious by opening retail sector for FDI. But it alone will not be able to achieve the desired objectives. V.K. Madhvan[14] has explained many challenges which according to him need to be addressed first if we really want to help Indian agriculture. They are:

1. Marketing of agricultural produce, being a state subject, is governed by APMC Acts[15] of respective states that has become very restrictive which do not allow direct marketing from producer to buyer (including the consumer) and necessitates the produce pass through a chain of intermediaries.

2. Even if organized retail, Indian or foreign, is to buy directly from farmers it will have to contend with adatiyas or commission agents. These relationships are crucial for small and marginal farmers since the agents provide food, inputs and even cash to meet off-season needs. To do away with these commission agents is simply not possible alone by allowing FDI in retail. It needs government's strong will power to adopt other crucial retail reforms.

3. There are further restrictions imposed by the Essential Commodities Act[16] relating to volume of business and all India movement of produce. The net result of this is that price spread in farm commodities is getting larger without any real value addition and middlemen are cornering substantial share of increase in prices paid by consumers. No political party in any state takes the risk of annoying them.

4. The costs of procurement from small and marginal farmers are high. These high transaction costs create disincentives for organized retail to venture into areas with no irrigation and small-scale decentralized production. Who will work with these farmers?

5. The greatest benefits are supposedly expected to accrue in reducing post-harvest losses. Even before one considers the infrastructure, it is important to remember that these losses start to occur even before the produce gets to the road-head. Fixing this requires a change in agricultural practices and processes. Can FDI in retail fix this?

6. No large-format organized retail venture in fresh fruits and vegetables in India is making money. Will FDI in retail break the jinx? The costs of organized retail are high, and in the current form, the only way they can provide consumers with better produce at cheaper prices is by importing or suppressing the prices offered to farmers. FDI or not, these are the problems that plague Indian agriculture need to be fixed first.

Conclusion-

Capital investment either by indigenous or by foreign capital seems to be a powerful catalyst to spur the investment climate in agricultural retailing due to current scenario of inefficient supply chain, lack of proper storage facilities and presence of multi-level intermediaries between farmers and direct consumers. Huge investment in marketing infrastructure is required to protect the agricultural sector which is not forthcoming with the government sector. FDI driven 'modern retailing" being a direct interface between farmers and retailers triggers a series of reactions which in the long run improve supply chain and transport sector of the rural economy in India. Allowing foreign capital in the retail marketing of primary products will lead to fill the gap between demand and supply of capital flow in agrarian economy. This will help in building strong infrastructure in rural India, use of modern technology of production, managerial and marketing expertise as these all are often clubbed with FDI. All this will lead towards faster economic development in general and better growth prospects for farmers and consumers in particular. This will help not only in improving peasants income but also in controlling sky-rocking consumer price index. In this era of globalization, the quality standard and cost competitiveness is very crucial for the survival of any industry, FDI is supposed to bring both these qualities. Thus allowing foreign investment in agricultural retailing has the capability to sustain primary sector growth.

To sum up, it can be said that by permitting FDI in Indian retail market will help in assimilating the Indian agrarian retail market with the world retail market. It will lead to increased productivity in Indian agriculture and higher income and better living of standard for our farmers. Besides, due to higher growth in Indian agriculture, the whole economy will achieve higher growth trajectory. However, reaping the benefits of foreign investment in agricultural retailing, the government must adopt certain safeguards so as to ensure farmers benefits in the maximum possible way. A strong regulatory framework is needed which will have a watch on the functioning of these giants and which will restrain them to adopt unfair and monopolistic trade practices.

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पृष्ठ 45 का शेष

75.	हिंदइआर	कुचिआ माछ	न मारते और न खाते हैं।
76.	हेमरामिआर	पान पात	व्यवहार नहीं करते हैं।
77.	नागटुआर	बेबसतरअ गुपुत पुजा	गुप्त पूजा करते हैं।
78.	नेलुआर	नेउला	न मारते और न खाते हैं।
79.	लाकडुआर	लाकड़ा	नहीं मारते, पूजा करते हैं।
80.	खेड़हुआर	खेड़ा (खरगोश)	न मारते और न खाते हैं।
81.	केटिरिआर	कठुआ	व्यवहार नहीं करते हैं।[8]

मारगन के अनुसार एक से अधिक टोटेम के सम्मिलित संगठन को कनफेडेरसि आर्फ ट्राइब्स कहते हैं। इस हिसाब से काड़वार, मुतरुआर, हंसतुआर, हिंदइआर इत्यादि के टोटेम के सम्मिलित नाम को कनफेडेरेसि ऑफ कुड़मी ट्राइब्स कहते हैं। कुड़मी कनफेडेरेसी स्वयं काछिम टोटेम है। कुड़म का अर्थ 'कछुआ' होता है जिसमे 'ई' प्रत्यय जोड़कर कुड़मी शब्द बना है।

निष्कर्ष:-

इस प्रकार हम कह सकते हैं कि कुरमी समाज में गोत्र एक महत्त्वपूर्ण शक्तिशाली संगठन है। वह अपने सदस्यों को सूत्र में पिरोता है, उनकी सहायता और सुरक्षा करता है, उन पर नियंत्रण और शासन करता है। गोत्र भाईचारे और रक्त संबंध की भावना के आधर पर बहिर्विवाह के नियमों का भी पालन करवाता है। यह अपने सदस्यों के लिए विधिक, धार्मिक, सांस्कारिक और आर्थिक कार्य सम्पन्न करता है। इस प्रकार गोत्र सामाजिक और सामुदायिक जीवन में शक्ति प्रवाहित करनेवाला स्रोत है।

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