

## A NOTE ON FDI IN INDIAN RETAIL TRADE

After miserable failure and facing deflation in their own country of origin the global retailers are now gearing themselves to hijack vast Indian Retail Trade with their *outstanding outsourcing skills and financial capabilities and purely in order to make up their losses and to keep their flag high in global stock exchanges in order to remain a blue chip company* are eager to enter Indian retail trade due to courtesy the Government of India which, in utter disregard of ground realities of Indian Retail Trade, is apparently looking more eager to extend cordial invitation to MNC's may be at the cost of hardship to existing retail trade. Various reports concerning retail trade, carried by so called 'think tanks' and organizations representing corporate houses and others are being cited to substantiate the stand taken by the Government, *whereas unanimous report of Parliamentary Standing Committee of Commerce consisting of 42 MP's of all political parties headed by Dr. Murlu Manohar Joshi, has been gaining dust.* Though the said report was tabled in the Parliament on 8<sup>th</sup> June, 2009 but so far the Government has neither accepted nor reject the unanimous recommendation of the panel, what to say of holding discussion in the Parliament.

It is a matter of surprise that instead of making efforts and evolving strategies to upgrade and modernize the existing retail trade the Government is more keen to invite FDI in retail sector and so far it has not been able to clarify as to why the country needs Foreign Direct Investment in Retail Trade except with a single hollow logic that the operations of global retailers in Indian Retail Trade will accrue benefit to both producer and consumer and for this purpose, the existing intermediaries i.e. the down trodden cart men, transport, small industries, traders and other sections needs to be wiped out as these intermediaries are holding 2/3 cost of any commodity as their profit. This claim has not been substantiated by any facts and figures. On the other hand it is also interesting to observe that MNC's and Corporate Houses are offering *hefty sum of multi crores of Rupees to renowned persons like M. S. Dhoni etc to sponsor their product Brands.* Are these Brand Ambassadors are not working as intermediaries of such MNC's and Corporate Houses. ? Impliedly and ultimately such a financial burden shall be reflected in the sale price to Indian Consumers. Therefore the plea of the Government that intermediaries are major profit centers is unsustainable as it maligns a large number of countrymen who are making their handsome contribution to national exchequer. Resolving to wipe out existing intermediaries of retail trade and allowing intermediaries of MNC's is a discriminatory act of the Govt which reflects its unmatched love towards the MNC's.

The parliamentary panel report quoted that *"India is a land of retail democracy-hundreds of thousands of weekly haats and bazaars are located across the length and breadth of the country by people's own self-organizational capacities. Our*

*streets are bazaars - lively, vibrant, safe and the source of livelihood for millions. In a country with large numbers of people, and high levels of poverty, the existing model of retail democracy is the most appropriate in terms of economic viability."*

In the context of above observations of parliamentary panel report, the FDI in retail Trade needs to be declared laudable if it really brings the most innovative technology to India which is aimed to benefit not only the economy but to end consumer as well. The best standards and the highest quality of the goods for which these global retailers are known, if brought to India, needs a rousing reception. But if with mala fide intention to capture flourishing Indian retail market, the MNC's instead of marketing their original standard product, shall try to dump lower grade of material by procuring them from third countries, will prove to be a nightmare for Indian economy and detrimental to interest of existing Indian Retail Trade as it will create an un level playing field where Indian retailers will not be able to compete them and after a period of time the Indian market will turn into 'crony capitalism' and few global players will dominate and dictate the consumer on their own terms.

The Indian Retail Trade which is presently being run by more than 5 crore small shopkeepers across the Country including far flung areas and who provide livelihood to about 40 crore people as employees, cartmen, transporters, and porters etc, who are dependent upon retail trade is being made scapegoat unnecessarily. Foreign Direct Investment in Retail Trade and attempts of Big Corporate Houses to capture domestic trade is considered to be much detrimental to the interest of not only retail traders but also of people of other sections of society including farming, cooperative, service sector in non corporate enterprises etc. and will lead to large scale unemployment. It is noteworthy that, besides the field of Agriculture, retail trade is the largest sector which is providing employment in India. The retailing is probably the primary form of disguised unemployment/underemployment in the Country. It is regretted that in spite of its magnificent contribution to national exchequer, no efforts to provide assistance by the Govt.were made to upgrade or modernize the retail trade rather on the other hand the Government is more inclined to invite MNC's to invade the retail trade at the cost of dislocation of traditional well establish Retail Trade.

After great deal of study, the parliamentary panel opined that ***Corporate retailers practice product bundling, whereby products of single or different brands are sold as combinations and bargains in the malls. This also adversely effects small shopkeepers and restricts over-all competition. The Committee feel that opening up of FDI in Retail Trade in India will result in unemployment due to slide-down of indigenous retail traders. Consumers' welfare would be side-lined, as the big retail giants, by adopting a predatory pricing policy, would fix lower price initially, tempting the consumers. After wiping out the competition from local retailers, they would be in a monopolistic position and would be able***

*to dictate the retail prices. Local manufacturers, in particular the small scale industrial sector, would be gradually wiped out. The entry of few big organized companies, may result in distortions in the economy and the gap between 'haves' and 'have nots' in the country. Procurement centres constituted by big corporates for making direct bulk purchases would initially pay attractive prices to the farmers, and cause gradual extinction of mandis and regulated market yards. Then on the strength of their monopolistic position, farmers would be forced to sell their produce at rock bottom prices. Farmers would be unduly affected due to the non-remunerative prices.*

*The Committee further said that in a country with huge numbers of people and high level of poverty, the existing model of retailing is most appropriate in terms of economic viability. Unorganized retail is a self-organized industry, having low capital input and high levels of decentralization. The Committee, therefore, recommends that the Government should ensure that some in-built policy must be established to relocate or re-employ the people who are dislocated due to opening up of big malls in the vicinity of their shops.*

*The Committee also recommended that the Government may consider to establish a National Commission, to study the problems of the retail sector, and to evolve policies that will enable it to cope with FDI. Cooperatives and cooperative marketing should be encouraged to strengthen the unorganized retailers. Akin to MSME (Micro, Small and Medium Enterprises Development Act, 2006) Act, an Act to promote small and medium retailer should also be formulated. Further there was a need to enact a law against predatory pricing and anti-competitive actions.*

It is also pertinent to point out that technological development is always needed for a developing Country like India and therefore it would have been a boon if these MNC'S were interested to bring their innovative technology and high end products to India so that our Country could be reckoned as one of the advanced countries. But the situation has taken different turn in as much as these global players plan to penetrate into products which are already available in India and our small & medium industries, cottage industries are producing such products with good and match able quality, coupled with affordable prices while providing mass scale employment. Keeping into consideration the per capita income of Indians and studying the market behavior, these MNC's will outsource products from third countries and will market the same in India under their brand name and will make huge profits whereas at the same hand, the Indian importers are also importing same products from different countries and selling them in Indian market. Therefore, no technological contribution is expected from these global players with the result that they will rout the existing retailers and at one point of time and will create their own monopoly.

It will not be out of place to mention that global players intend to invade all sectors from back end to front end keeping all channels i.e. from producing stage to its transit to last consumer which includes procurement, transportation, storage and supply chain ending at their own retail stores. They do not want to leave any scope for second party to enter into their system of operations which will surely alienate the indigenous people from the system. It is a matter of common knowledge that even the ordinary products like Kites, Rakhi, God Idols, Toys, furniture and many more like items are being imported from China and other countries and our traditional house hold industry is slowly and gradually being eliminated. Are we rendering yeomen service to nation by creating such kind of retail sector in India?

Being a very sensitive matter having vital bearing on livelihood of crores and crores of people in India, the Government should constitute a National Commission as suggested by the Parliamentary Committee to study the problems of the retail sector and to evolve remedial policies. Such commission may be comprised of senior techno-commercial officials, retail experts and representative of stakeholders to examine the issue in depth taking into consideration the ground realities of retail trade in India. It is further suggested that:

- a. The report of Parliamentary Standing Committee on Commerce headed by Dr. Murli Manohar Joshi be considered by the Government and it should take final decision as per the outcome of such discussion.
- b. Instead of inviting FDI in Retail, the Government should work out a comprehensive strategy to upgrade and modernize the existing retail trade which could meet all requirements of modernize retailing.
- c. **It is also suggested that Government should formulate a National Policy for Retail Trade with defined parameters for its structured and well designed growth including availability of finance from Banks & other financial institutions at primary sector lending rate to enable the existing retailers to expand their business and to meet the global challenges.**