

FDI ON RETAIL AND ITS EFFECT ON AGRARIAN SECTOR

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Abstract

The Indian consumers have undergone a remarkable transformation. Just a decade or two ago, the Indian consumers saved most of their income, purchased the bare necessities and rarely indulged themselves. Today, armed with a higher income, credit cards exposure to the shopping culture of the west and a desire to improve their standard of living, the Indian consumers are spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets is fueling their addiction. Their new mentality, in turn, is fueling the growth of organized retail in India. But India to the world is known as an agrarian nation and it is completely true that about 65% of Indian population is engaged in agriculture. Indian economy cannot do well without its lion's share coming from it. But the state of affair of Indian farmers is still not very progressive as expected. FDI in retailing can be taken a rescue work for Indian farmers to free them from the clutches of n- numbers of middlemen; it is a ray of hope that will take them away from darkness of exploitation to light of progress. But is it going to be a myth or reality is my lookout. My paper highlights on farmer's issues towards FDI in multi brand retailing.

Keywords: FDI in Multi Brand Retailing, Agriculture, Intermediaries, Farmer's Perspective, Supply Chain

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➤ **Introduction**

The retail industry in India is of late often being hailed as one of the sunrise sectors in the economy. AT Kearney, the well-known international management consultancy, recently identified India as the 'second most attractive retail destination' globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. The Indian consumers have undergone a remarkable transformation. Just a decade or two ago, the Indian consumers saved most of their income, purchased the bare necessities and rarely indulged themselves. Today, armed with a higher income, credit cards exposure to the shopping culture of the west and a desire to improve their standard of living, the Indian consumers are spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets is fueling their addiction. Their new mentality, in turn, is fueling the growth of organized retail in India. But India to the world is known as an agrarian nation and it is completely true that about 65% of Indian population is engaged in agriculture. Indian economy cannot do well without its lion's share coming from it. But the state of affair of Indian farmers is still not very progressive as expected. FDI in retailing can be taken a rescue work for Indian farmers to free them from the clutches of n- numbers of middlemen; it is a ray of hope that will take them away from darkness of exploitation to light of progress. But is it going to be a myth or reality is my lookout. My paper highlights on farmer's issues towards FDI in multi brand retailing .With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy. Indian farming is inherently one of the riskiest economic activities agricultural production is unstable because of its dependence on weather and inherent biological uncertainties in managing crops. Agriculture is an important sector in India and it not only contributes to the national income but also provides livelihood to about 2/3rd of the population of the country. The fluctuation in agriculture is impelling on other sectors of the economy due to its forward and backward linkages. FDI will generate foreign capital and foreign players in India that will widen the sphere of retailing not only domestically but globally. 1991 reforms have mushroomed FDI destination in various sectors in Indian economy like insurance, banking, outsourcing, IT, manufacturing, telecommunication Construction and transportation, which has lead to series of development in all these sectors and made them stand in global platform. India is second most sought after destination for FDI after China. FDI opens up new

frontiers to the farmers as today the present state of affairs regarding farmer in India is dissatisfactory, the endless and unnecessary chain of middleman takes away the fruits of the agriculture, from its deserving party i.e. farmers. Farmers suffer as the middlemen add to the profit margin and provide the farmers with the price which is sometimes even below its cost of production. Suicidal cases among farmers are an alarming issue and needs to be urgently taken care of by the government

➤ **Paradigm shift in FDI- retailing perception**

FDI in retailing has undergone a facelift since its initial stage. The government of India has allowed 51% FDI in retailing. FDI in retailing is also gone sea change as it has seen many up gradation in policies by GOI; retailing is a sector which has the highest connectivity as it reaches out from the top to the bottom of the society. Indian corporate houses like Raheja, Tata, reliance, Birla and Singhanian have already entered into this money making business. Now foreign players are eyeing on Indian retail sector. Indian economy in world scenario is growing faster and agriculture is major sector that contributes in our economy. Traditionally India is an agrarian country; food sufficiency is maintained by farmers by constantly engaging themselves in agriculture irrespective of fair rewards for their efforts. Indian food chain is a defective one because of which after 65 years of independence farmers still live in the darkness of poverty, illiteracy, inequality and negligence. The devils are many and endless adding to their plight is a vicious chain of middlemen. Retailing can be taken as a complimentary sector to agriculture and new formats in retailing will bring about new horizon of growth and prosperity to farmers in India. New policies regarding FDI in retailing is going to be proved a major catalyst in upliftment of economy of farmers and country. Now government in July 2011 has recommended 100% in single brand and 51% in Multi brand retail outlet that will transform retailing sector from unorganized to organized. Foreign retail giants like Wal mart, Carrefour, Tesco, Metro AG etc. are eyeing on the ever promising Indian retailing through FDI. They will also try to elimination long supply chain in distribution process in India and they will purchase on large scale directly from farmers and offer good prices.

➤ **Need for Retailing**

- Employment Generation Organised Retail-5 lakhs People Unorganised Retail-3.95crores
- Improvement in living standard
- Integration of local economy into global economy
- Multi brand retail outlet that will transform retailing sector from unorganized to organized.
- There shall be no room for middlemen
- Purchasing Management –fast in fast out of products
- Provides Marketing Platform for small industries

➤ **FDI in Retailing—Farmer’s Perspective**

Multi-brand global retail giants like the Wal-Mart, Metro and Carrefour have entered and may enter into multi brand retail in Indian retail markets if this bill gets approved. However, the expansion of supermarkets in developing countries is expected. In India, growing middle class with changing consumption patterns are ideal for supermarkets to prosper. The total size of Indian retail sector, including organized and unorganized sector is \$300 billion, where currently the organized sector accounts for 2% only but near future the supermarket retail chains are going to play major role in agro-food sector in India. The supermarkets concerns are stable, year around supply with high quality and competitive prices. Supplying to large chain supermarkets gives both potential and large opportunities to our Indian farmers. The biggest challenge is to follow the strict guidelines by the retail groups in terms of quality and safety standards since most of the farmers usually deliver their goods to open markets or to local wholesalers. Mainly Indian farmers are marginal and small who are having average farm size of 3.3 acres, lack of infrastructure and poor post harvesting practices. In India 40% of harvests are lost in storage and transportation. India is the second largest producer of fruits and vegetables but the country is loosing Rs.1 trillion per annum, (estimated 50% of produce) going waste due to lack of storage facilities and difficult to link to far-away markets. We need large investments to improve our agriculture infrastructure in terms of seed supply, agrichemicals, processing, machinery, storage facilities, rural transportation and supply chain linkage to support the current retail trends. This could be achieved through private investors preferably by organized retailers whether domestic or Global. If it truly improves the farmer’s income, agriculture growth and food security, there

is no need to be concerned about FDI. Before bringing the global retailers into the multi brand retailing in India, the following points should be considered.

a) First and foremost... the multinational retailer's trade practices should not dampen the spirit of Indian farmers and consumers. FDI – Retail should be a process of integrating Indian economy to the global economy as well as farmers can be integrated into the world class retail market not on the mercy or control of global retail giants.

b) The Government should make sure that the farmers will receive the remunerative price should be between 60% - 70% (based on product category) of the price paid by the consumer.

c) International retailers should be mandated to work with farmers to improve yields by enabling them provide quality inputs, best farm technologies, timely credit and remunerative prices for their produces.

d) Government needs to identify the trends and ways of supporting farmers to meet the needs of modern supply chains and marketing systems to enable with the supermarket sector.

e) Government should ensure that the agro produces should be procured from the local producers and local people must be given priority in employment opportunities in processing and supply chain.

f) Government needs to identify the trends and ways of supporting farmers to meet the needs of modern supply chains and marketing systems to enable with the supermarket sector.

➤ **Impact of Organized Retailing on the Unorganized Farming Sector- Rural Retailing**

Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers. The adverse impact on sales and profit, however, weakens over time. There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers. The rate of closure of unorganized retail shops in gross terms was found to be 4.2 per cent per annum, which is much lower than the international rate of closure of small businesses. The rate of closure on account of competition from organized retail was found to still lower, at 1.7 per cent

per annum. There was competitive response from traditional retailers through improved business practices and technology upgradation. Consumers definitely gained from organized retail on multiple counts. Overall consumer spending has increased with the entry of the organized retail. While all income groups saved through organized retail purchases, the lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers. Proximity is a major comparative advantage of unorganized outlets. There was no evidence of an adverse impact by organized retail on intermediaries. There is, however, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel. Over two-thirds of the intermediaries planned to expand their businesses, in response to increased business opportunities opened by the expansion of retail. Farmers were found to benefit significantly from the option of direct sales to organized retailers. The average price realization for cauliflower farmers selling directly to organized retail was about 25 per cent higher than their proceeds from sale to regulated government mandis. The profit realization for farmers selling directly to organized retailers was about 60 per cent higher than that received from selling in the mandis. The difference was even larger when the amount charged by the commission agent (usually 10 per cent of sale price) in the mandi is taken into account. Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures. Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers. The entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy. Small manufacturers, however, did not report any significant impact of organized retail.

➤ **The Real Picture is Something Else!!**

The recent government decision to bring radical economic reforms mainly by bringing FDI in multi brand retail is in no way going to change the India's Economy. According to some eminent economist, the present economic growth rate of 6.5 will remain for another three years. FDI in multi-brand retail notification of government of India has many shortcomings. The government of India has not laid down any provision for autonomous regulatory mechanism for infrastructure buildings instead Walmart has been empowered with self certification. Without having regulatory mechanism Walmart has been made god in it, it will only benefit Walmart.

The government's argument that it will help in building world class infrastructure and save from wasting million of quantities of food grains which has become order of the day at government's warehouses is nothing but eyewash. Another shortcoming is that there will be no legally abiding contract between the farmers and middle suppliers which will lead to farmer's sufferings. The relation between Walmart and farmers will be linked through middle suppliers, which means there will be no legal contract between farmers and middle suppliers. The rights of farmers are not protected and Walmart will not be responsible as a final employer. The Walmart will have direct contract with middle suppliers which is an indication that hundreds more dummy companies will be formed. The so-called creation of large number of employment will only be unfulfilled dreams. There is no possibility of creating more employment except the present small vendors becoming an employee of Walmart. The street vendors at the least may be employed by Walmart but it will not help in creating million plus employment therefore it will not help in solving the rising unemployment problem of the country.

The politician and media are making different and wrong argument without understanding the real cause and issues related with the FDI notification. Politician of this country is only concern with their own benefit so they are hiding the real concern associated with FDI in multi brand retail. The government is trying to sell their faded face with some sort of cosmetic surgery in the form of FDI in multi brand retail and propagating wrong arguments. The FDI is neither good nor bad but it is more towards bad.

The economy in 1991 was quite different from the present economy; in 1991 there was no Facebook. The situation and circumstances 21 years before and today cannot be compared. India's today liberalised economy is in more bad shape than 21 years ago. The world has also changed enormously in terms of economic equation. In past more than fifty years, the government of India has failed to bring any positive change or improvement in India's agriculture sector than do we can think that Walmart will ever bring improvement. The answer is obvious no. In past fifty years, the irrigation system, productivity level, use of new technologies to improve the Indian agriculture products has been given marginal importance though India's economy mainly depends on agriculture. The conditions of Indian farmers is still pathetic and government has never seriously thought or brought any landmark reforms to improve their conditions accept lips service. When the farmers' produce reaches the end consumer directly (without going through the middlemen) and it is sorted and packaged on the way to the cities, the

farmers will naturally be benefited. Once the government proves its commitment to the issue, then the pace of implementation of the decision will not remain a major factor.

The government should not remove all the restrictions on futures trade. The Commission of Agricultural Costs and Prices (CACP), the Food Corporation of India (FCI) and the public distribution system (PDS) should all be abolished. CACP is not needed when futures trade is open up because the farmer will know the price trend at the time of sowing.

Agricultural scientist MS Swaminathan has opposed the decision of allowing FDI in retail on the grounds that it might create monopoly.

When there are many players in the market, the question of monopoly will not arise. Within two years, we will see (Gujarat chief minister) Narendra Modi and (Maharashtra chief minister) Prithviraj Chavan competing for attracting FDI in retail in their states.

The concern that the Indian farmer is illiterate and hence more prone to exploitation is not correct. Though the farmer is illiterate, he is wise.

➤ **Is Impact of FDI on Rural Retailing a Bane!!**

- Indian Retail Industry is highly fragmented-97% comprises of Unorganised Retailers,Family owned Business
- It has the highest form of disguised employment and underemployment as there is not much job in agricultural and manufacturing sector so a retailer is born,millions of kirana shops have the same history
- These Kirana stores will be Hard Hit as they would not be able to meet the onslaught of the Gaint Retailers like WalMart,Tesco,Carrefour
- Farmers will be engulfed in the viscious cycle of poverty
- Gaints like Wal-Mart is large enough to drive out the small and dispersed competition ,it will lead to job loss by millions especially employed in unorganized retail sector creating disruption in the balance of economy leading to increasing in social tension
- For need of more space the multi gaint retail outlets would be set up in the outskirts of the cities and thereby usurping the farmers land

➤ **Major Recommendations**

- i. Modernization of wet markets through public-private partnerships.
- ii. Facilitating cash-and-carry outlets, like Metro, for sale to unorganized retail and

procurement from farmers, as in China.

iii. Encouraging co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers.

iv. Ensuring better credit availability to unorganized retailers from banks and micro-credit institutions through innovative banking solutions.

v. Facilitating the formation of farmers' co-operatives to directly sell to organized retailers.

vi. Encouraging formulation of "private codes of conduct" by organized retail for dealing with small suppliers. These may then be incorporated into enforceable legislation.

vii. Simplification of the licensing and permit regime for organized retail and move towards a nationwide uniform licensing regime in the states to facilitate modern retail.

viii. Strengthening the Competition Commission's role for enforcing rules against collusion and predatory pricing.

➤ **Conclusion**

The process of liberalization and industrialization, fast gained importance in India in the 1980s. However it was only in 1990s, after the phenomenon of globalization gaining momentum in India, that the Indian economy truly opened up. Globalization has led to increased opportunities to the average Indian - an increase in employment, income, output, investment and also to a rapid expansion of the banking and financial sector, telecom sector, growth in export potential and social sector projects.

The government implemented the new industrial policy in 1991. There was a regard that the benefits of policy implementation would trickle down to the lower sections of the population.

The rural economy comprises 71% of the total population of India. Agriculture and allied activities are the main sources of income and this primary sector contributes to almost 25% of India's GDP. The advantages of globalization, as envisioned by the government, have not trickled down to the rural poor. There has been no evidence of positive growth in the unorganized sector of the economy. Globalization, it is said, is adversely affecting the rural Indian. And FDI in agrarian sector is not bringing much change.

The opening up of the economy signifies cheaper imports in a country where agricultural prices are constantly fluctuating. This hampers the producers and leads to further losses. The producers

might be hesitant to produce the same crops next year and also, multiple cropping is not common in India. Thus, farmers cannot shift from food grains to more marketable crops.

Farmers, artisans, unskilled labor and workers bear the impact of losses due to increased competition and comparative advantage enjoyed by the more developed countries. The critics of globalization also affirm that Multi-national Corporations (MNCs) have penetrated the economy only to gobble up Indian enterprises and also to gain a foothold in one of the largest and fastest growing economies of the world.

India is characterized as a dualistic economy, where a modern economy exists side by side with a traditional one. This technological dualism is further exaggerated owing to globalization. The disparity between the rural and urban rich and poor is widening at a greater pace than ever before. However, this disparity is not evident at the initial stages and will show up when the gap is extended.

India is a labor surplus country facing an acute problem of population explosion. Most of India's population comprises the rural people. Increased Foreign Direct Investment and growth in capital or adopting technology that is capital intensive will lead to unemployment. Governmental schemes and measures to control poverty and unemployment in rural India are deficient due to bureaucracy and widespread corruption. Thus, inequalities in rural India are exceedingly difficult to tackle.

Due to the failure of the trickle down effect, the rural Indian suffers his miserable fate at the hands of foreign FDI. The MNCs and investors are also unlikely to bring about development due to regional disparity and lack of development in the financial sector. The multinational retailer's trade practices should not dampen the spirit of Indian farmers and consumers. FDI – Retail should be a process of integrating Indian economy to the global economy as well as farmers can be integrated into the world class retail market not on the mercy or control of global retail giants. The recent spate of suicide of farmers in the Vidharbha region and the attacks on retail outlets in rural areas bears testimony to this ugly reality. Without adequate improvement in the government's delivery mechanism, the despair of the average rural Indian will be prolonged and often left ignored. The farmers and agrarian sector which is the life blood of Indian Economy will have to bear the cost of Modernisation and Foreign Investment without its basic needs remaining unnoticed and unfulfilled for years together.

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