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Fdi In Retail And Its Influence On Indian Agriculture

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ABSTRACT: *India is witnessing phenomenal growth in economy for past two decades exclusively the middle class in India has significantly stretched and its purchasing power also increased on the other hand. From the year 2006, for the first time the government alleviated retail policy, creates provision through the single brand retail route to allow maximum of 51 per cent FDI. Subsequently then, an unleashed flow can be witnessed in Indian retail sector. Conversely, structured retailing in the agricultural sector of India however remains in nascent stage. A considerable change in new economic policy, Indian government initiated the concept of allowing Foreign Direct Investment (FDI) in retail sector. This paper focusses to explore potential influences on agricultural sector due to introduction of FDI in retail. A number of contrasting views have been expressed regarding this policy decision. However the researcher is of the opinion that a lot of views that have been expressed are extremely biased and one needs to look at both sides of the coin and come to an informed decision regarding this issue. In this paper the researcher has discussed how allowing FDI in retail could be beneficial as well as detrimental to the interest of farmers in India, a number of policy changes have also been suggested*

I. Introduction

There has been a vast development in the Indian economy since liberalization. After globalization FDI in retail business grew in many countries except India who has been reluctant to expose its retail segment of foreign investment.

Erstwhile India was a restricted economy and during that era retail segmentlargely comprised of small privately held shops that did not have any company's administration and were recognised as traditional vendors. The thought of branding was restricted and very few bands were present in the Indian market. After liberalization Indian companies and foreign corporations made their entry to the Indian retail sector. This led to the explosion of brands. Even though FDI was restricted in retail multinational brands made their access into the Indian market throughseveral channels like manufacturing, licensing and distribution agreements, franchising and commission agents.

The contribution of retail trade in GDP is roughly 11-12 per cent. The share of structured retail was $30.05 billion out of the total of $435 billion of the Indian retail market. In 2010 the major fragment of retail in India with a contribution of around 50% was food and grocery.

Product groupings of modern retail like clothing, footwear, watches, where there has been a noteworthy diffusion of branded products has a larger share. In spite of the restrictions of FDI a number of studies such as as A.T. Kearney (2011), McKinsey & Company (2007) and A C Nielsen (2008) forecast that modern retail will continue to see massive progress in India. The Indian market is unsaturated and A.T. Kearney 2011 has pointed out that it is the right time for global retailers to enter the Indian market.

In India FDI in retail sector is limited. The government reduced retail policy for the first time in the year 2006 permitting 51 % FDI in single brand retail. Subsequently, astable increase in FDI in the retail sector was observed. However, one sector which is still in the phase of finding its base in planned retailing is the Indian agriculture. With modification in new economic policy, the government is announcing the idea of approving Foreign Direct Investment (FDI) in the Indian retail sector. The financial development of a closely populous country such asIndiais enhanced through the investment in the Indian retail sector.

2002, September 14, Prime Minister Manmohan Singh professed that multi-brand retail would be open to FDI on a state to state basis. The argument of the government is that introduction of multi brand retail to FDI will aidadvance andupdate India's agriculture sector and produce higher income for agriculturalists. However, this step has pinched a lot of criticism and has been evaluated on various heads.

The paper tries to figure out probableeffects of such FDI in agricultural retail publicising. A number of divergent views have been stated regarding this policy decision. Yet the researcher is of the view that a lot of opinions that have been stated are tremendouslyprejudiced and one needs to look at both sides of the coin and come to alearnt decision regarding this issue. In this paper the researcher has discussed how allowing FDI in retail could be valuable as well as damaging to the concern of farmers in India, a number of policy changes have also been suggested.

II. Indian Agriculture Sector And Fdi – A Brief Overview

Agriculture is achiefarea of the Indian economy and 19% of the gross domestic product consists of the same. Agriculture forms the mainstay of rural India which occupies 70% of the Indian population; hence any policy judgement regarding agriculture has an effect on a large majority of the massive population.

The chief governing bodies that describe the upcoming role of cultivation in India are The Ministry of Agriculture, the Ministry of Rural Infrastructure, and the Planning Commission of India. It aims at increasing agricultural sector of India. Prior to the new FDI policy only in Tea segment 100% FDI was permitted. This involves consent of the government of India. Also, it required unavoidable divestment of 26% equity in favour of the Indian partner or Indian public within a maximum period of five years. This also requiresconsent from the concerned state government in case of modification in use of land for such activities. And this holds true for any fresh investments in the above-mentioned sector.

FDI in Indian agriculture segment and the latest expansions are:

- Up to 100% FDI is permissible under the automatic path in activities such as increase of seeds, animal husbandry, pisiculture, farming of vegetables and mushrooms understructuredsettings and services associated to agro and associated sectors.
- Up to 100% FDI with government's consent is allowed in plantation of tea provided conditions of disinvestment of 26% equity of the corporation is in hands of the Indian partner or Indian public within 5 years. Further, permission from state government is must, in case of any future land use.
- Beyond the points mentioned above, FDI is not permitted in any other agricultural segment / activity.
- In India up to 100% FDI is allowed in the fertilizers industry by the government of India.

It has been further argued that India should open up its retail sector for further development of the agriculture sector. It is understood that foreign retailers would introduce best practices and investments in the supply and distribution channel as well help develop connections to the universal markets for Indian dairy and agricultural yields.

The supporters of foreign direct investment in retail assume that permitting 100% FDI in retail would lead to dairy and agricultural uprising in the country.

III. Indian Retail Sector – An Outline And Existingsituation

Retail is distinct as all events in trading goods or services straight to the concludinguser for their own, non-business usagethrough local stores, market, personal selling, and mail-order or over the internet where the consumeraims to use the merchandise. The Indian trading sector is very diverse from that of the advanced countries. The Indian retail sector is ruled by the small and medium enterprises. The retail trading sector in India is extremelyuneven with a huge number of mediators. US-based Wal-Mart and French Carrefour theRetail titans, are very eager to move in the sector.

FDI Policy in India

FDI is the capital inflows from overseas toboost the manufacturing capability of the economy. FDI in India is ruled by the FDI policy declared by the provision of the Foreign exchange management act (FEMA) 1999 and the government of India.

Segmentation of retail industry of India

The retail industry of India isdistributed into two mainparts – organized retailing and unorganized retailing. Organised retailstatesexchangeevents with licensed retailers. Organised retail comprises of corporatesupported retail chains and also privately owned large retail business. Unorganised retail is generallymentioned to conventional forms of low cost retailing. Local kirana shops, paan shops, pavement vendors etc. form a part of unorganised retail. In India organised retail forms a sheer 4% of the total retail sales in the country, which is much lower as linked to developed countries. Modern retail systems such as supermarkets, convenience stores have just opened to spread in India. The retailing business remains to be controlled by local shops run by the family and small kirana stores. Therefore the critical part of this supply network is the wholesalers and distributors who transfer the products from industrial suppliers and agricultural producers to the autonomous family run shops and open markets

Kinds of retail trade in India

(a) Single Brand- Single brand implies that foreign companies would be allowed to sell goods sold internationally under a single brand, for example Apple, Samsung, Adidas. Single brand retail implies that a retail store with foreign investment can sell only one brand. For example if Audi were to obtain permission to retail its flagship brand in India, those retail outlets could only send products under the Audi brand and not BMW brand for which special permission is required.

(b) Multi Brand- FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the kirana" store.

Table 1: A Distinction between provisions in India related to Single-brand and Multi-brand Retail

Parameters	Multi- brand	Single-brand
Ownership/Investmen t Requirement	Minimum investment of US$ 100 million by the foreign investor	The foreign investor should be an owner of the brand
Investment towards backend infrastructure	At least 50% of the investment by the foreign company to be in back-end infrastructure*	No Condition
Location of Stores	Stores to be restricted to cities with a population of one million or more (53 cities as per 2011 Census); given constraints around real estate, retailers are allowed to set up stores within 10 km of such cities	No Condition
Sourcing	At least 30% of manufactured items procured should be through domestic small and medium enterprises (SMEs)	In respect of proposals involving FDI beyond 51%, 30% sourcing would mandatorily have to be done from domestic SMEs and cottage industries artisans and craftsmen
Sales	No Condition	Products to be sold should be of a "single brand" (only those brands which are branded during manufacturing) only; sold under the same brand name internationally
Approval of State Governments required	While the proposals on FDI will be sanctioned by the Centre, approvals from each State Government would be required	While the proposals on FDI will be sanctioned by the Centre, approvals from each State Government would be Required

[Note:* Capital expenditure on all activities is included in back end infrastructure. It includes investment made in manufacturing, distributing, improvement of design, storage, logistics, warehouse etc. Spending's on land cost and rentals will not be added for the purpose of back – end infrastructure)

Justification for permitting FDI in retail segment

It is believed that approving foreign investment in food centred retailing is probable to guaranteesufficient flow of capital into the nation which would in turn result in the welfare of all sections of the society. It has also been argued that such a state would bring about developments in farmers revenue and agricultural growth. Along with this it is believed that by permitting FDI in retail trade, India will suggestively grow with respect to quality and customer's presumption.

Foreign direct investment in retail – POSSIBLE BENEFITS TO FARMERS

Two contrasting views have been presented by various sections. One view is that this is precisely what farmers requires as they will get a better price for the products, the middlemen system will be eliminated and rural affluence will be progressive. The other view is that the MNC's will bring goods at very low prices from abroad undercutting the farmers throwing them out of business. Another fear that has been raised is that MNC's will regulate the supply chain and in monopolistic situation, offer very low rates to farmers, as a result of which farmers will end up selling their products at a loss.In this chapter the researcher will attempt to highlight the possible benefits that could arise for farmers with the introduction of FDI in retail.

The possible benefits to farmers can be discussed under the following points:

i) Infrastructure: In spite of being the second largest producer of fruits and vegetables, India has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws.It is believed that organized retail will offer the small Indian farmer more competing venues to sell his or her products, and increase the net profit from less spoilage and waste. A Food and Agricultural Organization report claims that currently, in India, the small farmer faces significant losses post-harvest at the farm and because of poor roads, inadequate storage technologies, inefficient supply chains and farmer's inability to bring the produce into retail markets dominated by small shopkeepers. These experts claim India's post-harvest losses to exceed 25%, on average, every year for each farmer.

ii) Elimination of middlemen and long chain supply: The foreign retailers will purchase raw materials from the farmers and various other goods from the original producer directly. The farmers would be getting good prices for their harvest. The original producers will get a higher price since the profit will flow to them directly, leaving behind the middle men. This can happen as the giant retailers have capital and high buying power. Direct purchase from farms will hugely benefit small farmers who are not getting good returns by selling in the local mandi. Mr P.Chengal Reddy, Secretary General of Consortium of Indian Farmers Associations (CIFA) is of the opinion that “Contrary to the general perception that this would be detrimental to the interest of farmers, it will help them in establishing producer groups and supplying them to retailers directly. More importantly it will eliminate middlemen atvarious levels in the chain.

Between the farmer and the consumer a long chain exists, this long chain comprises of processor, agent, consolidators and traders. This long chain results in more cost leading to more price as well as diminished profits for the farmers. Mainly because of lack of short supply chain in distribution of agriculture product wastages, of food grains, fruits, vegetables, spices and pulses occur. Organised retailing is a tool to overcome the problem of wastage of farm produce, and they will also purchase directly from the farmers as a result of which farmers will get better prices. It is believed that organized retail will offer the small Indian farmer more competing venues to sell his or her products, and increase the net profit from less spoilage and waste. A Food and Agricultural Organization report claims that currently, in India, the small farmer faces significant losses post-harvest at the farm and because of poor roads, inadequate storage technologies, inefficient supply chains and farmer's inability to bring the produce into retail markets

iii) Improved technology and logistics: Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and precooling chambers which can help bring down wastage of goods.25

iv) Increase in quality and productivity: New investment would result in other positive externalities such as better seeds and stricter standards that would increase quality and productivity while lowering costs.

A number of large farm lobbies have backed the governments’ decision to allow the entry of foreign supermarkets in the country. They are of the opinion that it would shorten the supply chain and get farmers a larger share of the final selling price. Therefore, it is evident that the introduction of FDI in retail has found support from several sections including a number of farmer organizations. The belief of these people is that the new policy will help eradicate the middlemen system and would provide more profits for the farmers. Another argument is that better infrastructure and technology would lead to less wastage and as a result would help benefit both the farmers and the consumers.

IV. Fdi In Retail – Possible Negative Implications For Farmers

The deplorable condition of farmers over the years can be attributed to the government’sunconcern and neglect toward the agricultural society and advancement of consumer society. The government’s new policy of inviting foreign retailers has been questioned by many and doubts have been expressed about its projected success. It has been argued that the objective of these retail chains is to exploit the native market and make maximum revenue. Several international cases have been cited in this regard, in an attempt to prove how exploitative these foreign retailers are.

It has been feared that with the arrival of super retail stores, the conditions between agriculturalists and companies will change. Although the entry of huge retail chains will probably lead to the elimination of middlemen, these chains will establish a different kind of monopoly. Once the middlemen are removed the farmers will be left with no other choice but to sell their products to large retail companies. Since farmers will be left with no other choice they will be forced to receive the payments by these corporations. As soon asrivalry is detached from market, market forces become dummies by the monopolist. In order to grow these retail titans in the early years of proceduresenticeconsumers by offering things at lesser price. This is predatory pricing which in long runs removes economically weaker participant from market. Due to such uneven monopolistic market, most of the stakeholders, whether its producers, suppliers or consumers suffers while the retail chain is able to maintain its profit, in fact the income of business keeps on increasing.

Another serious issue raised is regarding the small farmers in India. The Indian agrarian sector is conquered by small farms (83% of total farms). Bigcorporations are not likely to stomach the operation costs involved in dealing with the millions of small dealers. Furthermore, small agriculturalists are less likely to have access to technical know-how in order to meet the quality standards required by these companies. Without such corporateassociations, many small agriculturalists may not graspgreater returns, or worse, be put out of business by the economically competitive larger farms. Small agriculturalists can continue their living and producegreaterrevenueby creatingmanufacturercorporations.

V. Conclusion:

The majority are in a view that foreign direct investment towards retail will have an opposingconsequence on agriculturalists. Several cases of misuse of farmers by MNC's in different nations have been cited to prove this point. It has been argued that big retail chains like Wal-Mart will practice their command to monopolise the market and keep farm prices low. The chiefinstrumentimplemented by structured retail for obtainingstock of farmhouse products is straightobtaining of yield from agriculturalists with or without agreement farming. Previousunderstandingdisplays that this has assistedagriculturalists in getting advanced income for their products

However, the researcher is of the opinion that both aids and fears are being overstated and the real framework for evaluatinginfluence on agriculturalists is overlooked. The agriculturalists today are suffering the most because of marketing imperfections and inefficiencies. The farmers find it difficult to get the right price for their products and are often forced to sell their products at a loss. Marketing legislation, regulatory framework are not adequate for today's market setting. Promotion of agricultural products being a state subject is governed by Agricultural Produce Marketing Committee (APMC) Acts of respective states. These Acts are very obstructivein nature. The Act requires "all agricultural produce brought into or processed within a market area shall pass through the principal yard or sub-yard and shall not be bought or sold at any other place in the market area or no such person shall carry on business and trade in agriculture produce into market area except one who holds the licence issued by the market committee".

These requirements do not letnon-stoppromotion from manufacturer to consumer and requires the yield to go through a series of mediators. There are additionallimitationslevied by the Essential Commodities Act involving size of business and pan-India movement of produce.

In conclusion, I would like to say that there needs to be a change in the regulatory framework to begin with if farmers are to enjoy the benefits of FDI in retail. Even after an era of model (APMC) Act developed by the central government for bringing deviations in the Act, no state has fetchednoteworthy change in APMC Act to allow alternatereplicas of publicising due to toughdisagreement from exchangegroups and mediators in each state. Therefore the states need to amend the APMC Acts and remove trade barriers first in order to ensure that the retail chains can buy directly from the farmers without the interference of middlemen. Otherwise the entire purpose of allowing FDI in retail for the benefit of farmers as has been projected by the government will be defeated. It is essentials to be understood that reducing the Act would break the monopoly of wholesale markets and help bring enhancedrate to the farmers.

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