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Impact of FDI in Retailing on Farmers and Consumers in India

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ABSTRACT

Retailing is the interface between the producer and the individual consumer buying for personal consumption. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. The present paper tries to evaluate the overall position of the entry of FDI and its impact of FDI in retailing on farmers and consumers in India and also offer suggestions. The present study find out Indian farmers get only one third of the price consumers pay for food staples, the rest is taken as commissions and markups by middlemen and shopkeepers.

KEYWORDS FDI, Formers, Consumers, Retail

Introduction

Foreign Direct Investment (FDI) is direct investment into production in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages, and / or for special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

As a part of the national accounts of a country, and in regard to the national income equation Y=C+I+G+(X-M), I is investment plus foreign investment, FDI refers to the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements.

This paper tries to evaluate the overall position of the entry of FDI and its impact of FDI in retailing on farmers and consumers in India and also offer suggestions for effective implementation.

Methods

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

Foreign direct investment in India

Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. According to Ernst & Young, FDI in India in 2010 was $44.8 billion and in 2011 experienced an increase of 13 per cent to $50.8 billion. India has seen an eightfold increase in its FDI in March 2012.

2012 FDI reforms in India

On 14 September 2012, Government of India allowed FDI in aviation upto 49 per cent, in the broadcast sector up to 74 per cent, in multi-brand retail upto 51 per cent and in single-brand retail up to 100 per cent. The choice of allowing FDI in multi-brand retail upto 51 per cent has been left to each state.

In its supply chain sector, the Government of India had already approved 100 per cent FDI for developing cold chain. This allows non-Indians to now invest with full ownership in India's burgeoning demand for efficient food supply systems. The need to reduce waste in fresh food and to feed the aspiring demand of India's fast developing population has made the cold supply chain a very exciting investment proposition.

Foreign investment is announced by the government of India as FEMA (Foreign Exchange Management Act). It was introduced by Prime Minister Manmohan Singh when he was finance minister (1991)

Retailing in India

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 per cent of its GDP. The Indian retail market is estimated to be US $ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

In 2010, larger format convenience stores and supermarkets accounted for about 4 per cent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3 per cent of Indian population).

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100 per cent ownership, but imposed the requirement that the single brand retailer source 30 per cent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In June 2012, IKEA announced it has applied for permission to invest $1.9 billion in India and set up 25 retail stores. Fitch believes that the 30 per cent requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

Impact on farmer and consumer groups
Foreign direct investment in retailing that impact on various farmer and consumer groups clearly stated below:

Planning Commission Deputy Chairman Montek Singh Ahluwalia justifying the opening up the Indian retail sector to foreign direct investment (FDI) said that it will help increasing the income of farmers. Speaking to Karan Thapar on Devil's Advocate, Ahluwalia said that benefits to the farmers are going to come from modernising the entire retail spectrum.

Farmers in India get only 10 per cent -12 per cent of the price the consumer pays for the agri-products. Coming of organized retailing will benefit farmers in big way. Big retailers sell their product at very competitive prices. So, they source it directly from the farmers. Middle man does not have any place in this format of retailing. This will not only benefit farmers but also help in checking the food inflation. Also India has very inadequate facilities to store the food grains and vegetables. Storage is a major problem area and 20 per cent-25 per cent of the agri products get wasted due to improper storage.

Shriram Gadhve of All India Vegetable Growers Association (AIVGA) 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. Gadhve claimed, "A better cold storage would help since this could help prevent the existing loss of 34 per cent of fruits and vegetables due to inefficient systems in place." AIVGA operates in nine states including Maharashtra, Andhra Pradesh, West Bengal, Bihar, Chattisgarh, Punjab and Haryana with 2,200 farmer outfits as its members.

Bharat Krishak Samaj, a farmer association with more than 75,000 members says it supports retail reform. Ajay Vir Jakhar, the chairman of Bharat Krishak Samaj, claimed a monopoly exists between the private guilds of middlemen, commission agents at the sabzi mandis and the small shopkeepers in the unorganized retail market. Given the perishable nature of food like fruit and vegetables, without the option of safe and reliable cold storage, the farmer is compelled to sell his crop at whatever price he can get. He cannot wait for a better price and is thus exploited by the current monopoly of middlemen. Jakhar asked that the government make it mandatory for organized retailers to buy 75 per cent of their produce directly from farmers, bypassing the middlemen monopoly and India's sabzi mandi auction system.

Consortium of Indian Farmers Associations (CIFA) announced its support for retail reform. Chengal Reddy, secretary general of CIFA claimed retail reform could do lots for Indian farmers. Reddy commented, "India has 600 million farmers, 1,200 million consumers and 5 million traders.

Suryamurthy, in an article in the telegraph, claims farmer groups across India do not support status quo and seek retail reforms, because with the current retail system the farmer is being exploited. For example, the article claims:

- Indian farmers get only one third of the price consumers pay for food staples, the rest is taken as commissions and markups by middlemen and shopkeepers
- For perishable horticulture produce, average price farmers receive is barely 12 to 15 per cent of the final price consumer pays
- Indian potato farmers sell their crop for Rs. 2 to 3 a kilogram, while the Indian consumer buys the same potato for Rs. 12 to 20 a kilogram.

Suggestions
- Half the jobs created by new retail chains should be reserved for rural youth.
- Entry of foreign players must be gradual with social safeguards so that the effects of labor dislocation can be analyzed and policy fine tuned. Foreign players should initially be allowed only in metros.
- India currently lets around Rs1 trillion of fresh produce go waste and more than half of this can be brought to market if the proper farm-to-fork infrastructure is in place. The department has argued that "FDI in front-end retailing is imperative" to fund cold storage for farm produce.
- Organized retail will offer the small Indian farmer more competing venues to sell his or her products, and increase income 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 farmers inability to bring the produce into retail markets dominated by small shopkeepers. These experts claim India's post-harvest losses to exceed 25 per cent, on average, every year for each farmer. Moreover, the Government of India and foreign retail players should encourage and provide such facilities for the farmers.

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