<u>FDI: a satanic conspiracy or a divine gift ?</u>

“Isolation was a boon 50 yrs. ago but right now it is the biggest curse possible”- Wen Jiabao

India has had a charm in the eyes of foreign hunters of fortune since the ancient times. Even a long time before sir Thomas roe gained business privileges from shah jahan, India had been trading with different countries of Asia and Africa by land routes or sea ones. Post independence India was a bit wary in its approach to opening its frontiers to foreign entrepreneurs obviously due to the disastrous experiences of the past. However, in the modern world lone islands don’t survive. India realized this in the 90s and has never looked back ever since. Whether it be attracting investment in indigenous companies or supplying manpower or brainpower to the companies worldwide India now holds an envious record and that too in a record time. India attracts an array of varied business ventures from businessmen and entrepreneurs worldwide.

So why then, the hullabaloo? Why then all this ruckus over investment in a sector in which perhaps the most sought after articles are exotic in nature? With malls opening up in almost all the regions of India which house the choicest names from all over the world, why still this hue and cry over the local mart?
To examine this we must assess the various aspects of this problem in detail.

The issue:

Prior to 1990, the Indian policy in respect to foreign investment was highly restrictive and permitted only a handful of industries, all of which were working in the high technology arena and had an emphasis on export. However, post 1990 there has been a landslide alteration of the foreign investment landscape in India. This can be gauged from the fact that aggregate foreign investment in India increased from US$ 103 million in 1990-91 to US$ 61.8 billion in 2007-08.
The present policy of the Indian government allows foreign companies to either to collaborate with local partners or establish wholly owned subsidiaries (WOS) which can then be incorporated under the Indian

Companies Act (1956).They can also go in for unincorporated liaison/project/branch offices which necessarily is not a viable long term business strategy. The Indian policy with respect to foreign direct investment in the retail sector is as follows-

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of ‘Single Brand’ products, subject to Press Note 3 (2006 Series)

c) FDI is not permitted in Multi Brand Retailing in India.

Though Wal-Mart joined up with Bharti group and Tesco collaborated with Tata, they were restricted to cash and carry stores that could provide there Indian counterparts with supply.

Evidently, in a market having a large untapped domestic market , rising disposable incomes, developed financial architecture and skilled human resources this was never going to be enough. Consequently, the global players aim at a removal on the cap and an upliftment of the ban along with some other relaxations which would make the farm to fork concept followed by these companies elsewhere in the world a reality in the Indian scenario as well.

The contention:

Various contentions have been raised against the present proposal by not only the opposition parties but also by various social pressure groups and also large sections of the media. The major ones are-

a) The Indian domestic retail scenario is populated by unorganized and developing entities which won’t be able to compete with the multinational giants like Tesco or Wal-Mart and this will lead to unfair competition.
b) All over the world these companies are plagued with issues like poor handling of the suppliers and mistreatment of the employees. In a

nation with strong socialist roots and an elaborate body of labor right enforcing agencies that is something which doesn't look attractive.

c) In a country already suffering from the highhandedness by administrative officers and middle-men it would add another header for exploitation i.e. foreign investors.
d) By effectively eradicating the need for the local retailer it would kill a lot of jobs and an important arena of livelihood for millions.
e) It would lead to further aggravate the imbalanced development tree and further broaden the gap between urban and rural India.
f) A nation which was once overtaken by businessmen who later metamorphosized into rulers, is bound to remain wary of any further business interests by foreign mega corps.
g) It would make the Indian economy more susceptible to the incumbent global crisis and disbalance the already delicate balance of trade.
h) Farmers under contract would have to follow the demands meted out to them by these corporations which would disturb the fragile balance of the already over burdened agricultural sector of the nation.

The rider:

Added to all the aforementioned reasons is the fact that right now the Indian populace is riding on a wave of dissent against the government in which even the positive steps of government are being negated. The rumor that government got this jack out of the box to divert attention from the anti-corruption issue doesn't help matters much.

With the nation scheduled for elections soon, the opposition is using the serious issue as a cheap publicity stunt to denounce the present government as anti-national and a pawn in the hand of western powers. The media and social pressure groups are using it to further flare up the public sentiment and cater to their own vested interests.

The ugly truth:

Beyond the fog however lies the smoke from a retail sector that has for long been allowed to be deformed and stagnated by those who hold the key to the belly of the average Indian. The real contentions and topics of concern that have been slipped under the mat amidst the present hue and cry are –

a) 40% of the farm production is wasted presently in transit from rural to urban centers due to inadequate transport and storage facilities.
b) A lot of suicides are committed by farmers all over the nation due to the fact that they do not get enough to even sustain themselves let alone in proportion to what they yield. They are regularly forced to sell their crops at a price even lower than that approved by the government.
c) The middle man – single retailer nexus in India is so strong and so malignant that a product in which the input is just 6 rupees reaches the average consumer at an exorbitant price of 60.
d) Prices are regularly charged even more than the maximum retail price marked upon the product which has lead to a piling number of litigation in consumer forums all over the nation.
e) Hoarding and black marketeering are the hallmarks of Indian retail sector which was seen and felt a number of times even as a national crisis at times(refer to the onion disasters that threatened national government) .Adulteration is also a common feature.
f) The average Indian consumer is forced to subsist on sub standard products and a narrow range of options due to the fact that they don't have a choice.
g) The most vital sector of the national economy is also the most disorganized inspite of efforts like Reliance Fresh.

The verdict:

Rather than denying to compete in a global scenario with global players Indian retailers must buckle themselves up to face the heat. Of course the government can provide them with subsidies and aids in the same way as they have done with the various other sectors where foreign involvement exists.

In the end it is a win win situation for both the average consumer and the large population which depends upon agriculture for their livelihood. In any case it would improve the pathetic situation of the retail sector in the nation and force them to usher in technological and strategic reforms to survive the competition.

The official position of Jawaharlal Nehru in the constituent assembly, 1949 must also be adhered to wherein foreign capital was recognized as an important supplement to domestic savings for facilitating national economic and technological progress. Foreign investors were allowed full freedom of repatriation with the assurance of compensation in the unforeseen event of nationalization.

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