The evolution of foreign direct investment in multi brand retail: challenges faced by the Indian retail sector

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Abstract:
Foreign direct investment in multi brand retail in India got the approval of the Loksabha, (Parliament of India) on December 5, 2012 and in the Rajyasabha (upper house of the Indian Parliament) on December 7,2012,with the opposition motion seeking against FDI immediate withdrawal of the decision getting rejected. In any industry new entrants bring in new capacity, the desire to gain market share and substantial resources. Barriers to entry deter new competitors from entering the market and creating more competition for established firms. The key barrier to entry is the one faced by global retailers is FDI in Indian retail market. A recent study by CII & BCG(Confederation of Indian Industry and Boston Consulting Group) estimated the size of organized retail was 28billion US dollars in 2010 to be of 6% to 7% of the total retail market in India. The study predicted that the size of total retail sector would grow to 1.25trillion US dollars by 2020 (knowledge @ Wharton) This research paper aims to present the challenges faced by the stake holders in the Indian retail sector to FDI in multi brand retail.

Introduction:
In a show of audacity, the united progressive alliance Government in India has decided to further open up the retail trade sector to foreign investment in multi brand retail. Foreign investors will be permitted to enter the hitherto prohibited multi brand retail segment and hold equity of up to 51percent in the units established. That there is a widespread opposition to this change in policy was known for long. At present only 53 cities with population not less than one billion in the country have been identified for FDI as the fourth-largest economy in the world in Purchasing Power Parity terms, India is a preferred destination for FDI attracted.

India is the third most desirable destination for Foreign Direct Investment (FDI) – UNCTAD World Investment (sic) Report, tweeted by the Prime Minister of India's office. China and India saw inflows rise 8% and 31% respectively (Times of India TNN, 17July, 2012)

The retail Industry is the sector of economy which is consisted of individuals, stores, commercial complexes, agencies, companies, and organizations. etc., involved in the business of selling or merchandizing diverse finished products or goods to the end user consumers directly and indirectly. Goods and products of the retail industry or sector are the finished final objects/products of all sectors of commerce and economy of a country. (Global jurix)
Global jurix, a full- fledged legal organization prominent worldwide, provided all-encompassing services and advice for most lucrative and secured FDI in Indian retail sector.

Objectives of the study:

1. To study the concept of FDI in retail.
2. To study the impact of FDI in retail to the small retailers in India.
3. To study the challenges to the global players in FDI retail in India.
4. To study the favour and against the FDI in multi brand retail in India.

The big benefits will come tomorrow, not today

"Johns Hopkins University professor Ravi Aron, who is a senior fellow at Wharton's William and Phyllis Mack center for Technological innovation, argues that opening up FDI will not only lead to a greater variety of products for sale and increased consumer choice. But also penetrate deep into the hinterland of Indian economic activity and do much to improve the country's "shunned sectors" infrastructure and logistics. The direct FDI impact in the short term from retail chains will be modest. If you look at the numbers—as per (financial information services firm) CEIC Data—FDI in 2008 was in the ballpark of US$35 billion and declined in 2009 and 2010. FDI in 2011 came in at around US$27 billion". (Knowledge @wharton)

Large retail chains when they venture abroad do so in three phases. In phase one, they often set up a test case/pilot project. This can be done through a partnership with local chains (with risk and revenue sharing). Or a few flagship stores that serve as brand broadcasters. The chains employ this initial – phase entry strategy to learn lessons about the local markets. They assess demand, test merchandizing strategies and set up operational capabilities. In this phase, they bring in some investment to cover their setup costs and for establishing their sourcing (supply) footprint. This usually takes 18 –to-24 months.

In the second phase, firms expand their demand footprint: they open more stores and increase both the scale of operations (volume of products sourced) and scope of products that they feature. There is considerable investment in this phase in the form of real estate acquisition, putting in operational infrastructure, establishing sourcing relationships, establishing supply chains and massive logistics capabilities. This is volume – independent investment -- that is, investment meant to gear up for volumes of business to come, but not calibrated to the current volume of business.

In the third phase, the investment keeps pace with the rate of expansion. As volumes grow and urban and semi – urban retail locations get saturated. Companies look for new locations and bring in investment that is calibrated to growth in volumes. It is in the second phase and the third phase – which come after the initial 18-to-24 months that large investment manifest themselves.

The size of the retail in India

The retail trade in India is highly fragmented in nature and it is often remarked that retail in India is nascent and mostly unorganised. While this may be the case viewed from a 'mature' developed world perspective, the reality is that not only agricultural produce but also manufactured goods such as toiletries, tobacco products and even basic electrical/ electronic devices are available in the remotest corner of India.

What one sees of the retail sector in India is just the tip of the iceberg. As retail is not regarded as an industry in India, it is difficult to get a correct picture of the size of this sector. This is the traditional form of retail in India.

A large number of research houses, Consultants and industry federations have speculated on the size that Indian retail is likely to touch 1.25 trillion US dollars in the years to come. A common refrain has been that organised retail in India is expected to grow at 25-30 per cent percent perannum in the near 5 to 6 years. While total retail sector would grow at the rate of 5% per annum (Technopak)

Source: Emerging Landscape in retail real estate and way forward, presentation by Harminder Sahni, Technopak, at India shopping Centre forum 2008, http://www.indiaretailing.com/harminder-sahni-ISCF.pdf accessed December 08,2012

India is fast emerging as a key destination for FDI. According to the FDI confidence index prepared by A.T. Kearney, India ranks second in FDI attractive ranking. The first being china. Foreign direct Investment (FDI) In India a point of debate now. India today is a dynamic combination of demanding consumers, rising levels of consumption and a growing population base. It has emerged as the fourth largest economy in the world in terms of purchasing power parity (PPP) and is expected to rank third after the U.S. and China (Kearney). According to the Global Retail Development Index (GRDI) developed by A.T.Kearney, for the third year, India has emerged as the nation which has topped the index. (Kearney)

Retail Development in India.

Organised retail in India is little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. Retail and real estate are the two booming sectors of India in the present times. And if industry experts are to be believed, the prospects of both sectors are mutually depends on each other , Retail one of India's largest sector, has presently emerged as one of the most dynamic and fast paced business of our times with several players entering the market. Accounting for over 10 per cent of the country's GDP and around eight per cent of the employment retailing in India is gradually inching its way toward becoming be next boom industry.

Another credible factor in the prospects of the retail sector in India is the increase in the young working population. In India, hefty salary, nuclear families in urban areas, along with increasing working- women population and emerging opportunities in the services sector. The retail sector in India is witnessing rejuvenation as traditional markets make way for new feasts such as department stores, hypermarkets, supermarkets and specialty stores.

India is being as a potential goldmine for retail investors from all over the world and latest research has rated India as the destination for retailers for an attractive emerging retail market. India's vast middle class and its almost untapped retail industry are key factors for global retail giants wanting to enter newer markets. Even though India has well over 5 million retail outlets, the country lacks anything that can resemble a retailing industry in the modern sense of the term. This presents international retailing specialists with great opportunity. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles.

What is FDI?

"Foreign Direct Investment (FDI) in India has been a point debate, for some time now, to start with, let us first understands what is meant by the term Foreign Direct Investment. The most common definition of FDI has been originally provided by the International Monetary Fund and was subsequently endorsed by the Organisation for Economic & Cooperative Development (OECD 1996). Foreign direct investment reflects the objective of obtaining a lasting interest by areas the entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-tem relationship between the direct investor and the enterprise and significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated".
(IMF- OECD)

FDI: some implications for international retailing

Foreign Direct Investment (FDI) describes many different types of international investment. FDI may occur as the result of a company's desire to protect market share by investing in production in a particular non-domestic market. It may be initiated as result of a need to acquire sources of scarce inputs that, if left in independent hands, may lead to difficulties of input sourcing for that particular producer. Conversely, FDI may be prompted by a desire to learn from innovative markets. As Knickerbocker (1973) has recognized, FDI may occur in response to FDI carried out by rivals in the same home market. Knickerbocker's research was based on US multinational enterprises, covered the period 1948-67, and concerned data on 23 countries within which approximately 83% of all foreign manufacturing subsidiaries of US firms (excluding those in Canada). Such oligopolistic rivalry may be identified in retailing, where retailers based in one market operating in a similar product area have acquired international operations in a manner that suggests that this type of rivalry may not be far beneath the surface and form a strong basic motivation behind expansion. The bursts of international retail activity that have been characteristic of the retail internationalization process since the 1970s suggest that Knickerbocker's thesis may have some validity in the retail context. FDI may be stimulated by a desire to spread risk. Certainly there are examples of this in the retail environment (Kwork 1985) on the motives behind international investment in the US in the 1980s shows that retailers have expanded into other markets in order to avoid the problems, both economic and regulatory, that they had experienced or were concerned might occur in their domestic markets. It is also important to recognize that, over time, a company will develop within the international context of its operation. Therefore, overtime the nature of the benefits and the direction in the flow of benefits will change as the company's internal relations evolve. The fundamental theoretical parameters of international economics business theory, theories of FDI and the internationalization of the firm are important for our understanding of the actions of international retail operations. Retailing while distinct in many respects, is better understood in terms both its singularity but also its commonality. That is not to say that this broader theory can or should be directly applied to the internationalization of retailing.

Whitehead (1992) and Dawson (1994) showed that the growth of international retail operations and an increasing academic interest in this area could profitably lead to an accommodation of retail experience within general theories of international business. However, Dawson (1994) does highlight the differences between the retail sector and the manufacturing sector and therefore cautions against the wholesale importation of theory developed for a sector other than retailing into the international retailing agenda.

Back to FDI in Retail in India

Government of India's Commerce and Industry minister, Mr. Sharma has said opening up FDI in multi brand retail will bring in much needed investment, technologies and efficiencies to unlock the true potential of the agricultural value chain. "The policy mandates a minimum investment of $100million with at least half going towards back-end infrastructure including cold chains, refrigerated transportation, and logistics. We have also stipulated a mandatory 30 per cent sourcing from small industry, which will encourage local value addition and manufacturing. It will also unfold immense employment opportunities for rural youth and make them stakeholders in the entire agri-business chain from farm-to-fork. We have taken a conscious decision of leaving the implementation decision to the States and the FDI policy cleared by the Cabinet, will be an overarching enabling policy framework and the State government will be free to take appropriate decision on its implementation".(The Hindu 23 June 2012).

The Prime Minister of India said FDI in retail, aviation and other sectors was necessary to bridge the widening fiscal deficit and contain the current account deficit at 2.9 per cent of the Gross Domestic Product. "This must be financed mainly through Foreign Direct investment and Foreign investment flows so that reliance on external, debt is limited. FDI would come only if fiscal deficit was under control and the growth momentum regained". (Asoka dasgupta)

The retail question

"Tough Stipulations on FDI could have a negative impact" (Times of India 25 Nov, 2011) One argument made by opposition parties of UPA (United Progressive Alliance) allies like the Trinamool Congress, is that FDI in multi- brand retail would hurt small retailers. That is effectively, disproved by global experience which shows that small retailers have successfully competed with large organised sector players. Most importantly, foreign retailers who set up in India would source goods from here to supply abroad as well. Politicians however, continue to champion the status quo – where farmers get little while rapacious middlemen skim off a large share of profits empowered by the out – of – date Agriculture Produce Market Committee Act. Government efforts to overcome the opposition through tough stipulations on FDI including restrictions on location, rules for using the major part of the investment in back–end infrastructure and quotas for procurement from small-scale industry which dates back to the days of the licence raj – are also equally and sustainability of business. FDI ventures would be successful only if retailers are allowed to introduce practices benchmarked to the best in the world. Restrictive clauses which tie their hands are best avoided.

Small retail will grow at 13 percent despite FDI.

"Small retail in the country will not only co- exist with big retail but it will also grow at minimum rate of 13 percent in the coming decades", Anand Sharma, Union Minister Commerce and Industry. (The Hindu, Nov27, 2011)He emphasised that the Centre's role was to provide an "enabling policy framework" whereas the implementation of the policy was left to States. "Some of the States may not opt for it." He conceded, adding that 53 cities, having a population of one million and more as per the 2011 census, qualified for FDI in multi – brand retail. Emphasising that the policy had an" "Indian signature," he said it was different from those of industrialised countries and other developing countries. The conditions that had been imposed by the Union Government of India were not found in the policies of those countries.

Up to 51percent investment by a foreign player in multi-product retail (super markets) is now allowed. But whether this move will prop up the sector's prospects materially in the near term is open to doubt (Business Line, September 16, 2012). But the new rules require that at least half the investment coming from the foreign entity should go towards building back-end infrastructure and supply chains in the first three years. If foreign investors do come Forth to do this, it will benefit domestic retailers, who lack incentive to invest heavily in setting up an exclusive supply chain. The supply chain and cost issues could help-these retailers expand their footprint and margins (currently around 3-5 per cent at the net level).

Players have heavily moderated expansion, in the light of slowing consumption and lack of funds. Only the latter problem can be addressed through foreign investment. The Indian Retail Company Pantaloon retail especially has been driven to sell off stake in key clothing format, among a host of other moves, under a heavy debt burden. Other retailers to scale back include Shoppers Stop. Expansion would be crucial for retailers to achieve scale, which trims costs. This is the premise on which big retail operates globally. Obstacles however, lie in the provisions in permitting foreign investment. There are geographic restrictions in the form of having to obtain permission from each state to set up shop, and in the population of the city or town. This puts a damper on the effectiveness of economies of scale. It also brings up the questions of whether existing retail store chains can invite foreign capital as the chains geographic footprint would violate the provisions.

Global Retail's Big 10 and Indian Shopping Future

"If you look beyond Wal-Mart &Tesco, you find big retailers that have the money and nerve to do business in India. But what are the challenges for these giant companies, globally and in India. With foreign direct investment (FDI) in retail, India's $450- billion retailing industry is about to undergo a big change. What you buy and how you buy will change too". (Malinigoyal, the Economic Times September 23-29, 2012)

Pushing for this change will be an entire brigade of big retailers. The big daddy of retail –Wal-Mart – has already announced that it will be here in 12- 18 months. Others like Metro and Tesco are figuring out their India strategy. They all will do their best to stir up the Indian shopping experience.

In the next five – ten years expect many more global retailers to get into the fray in India. Who will they be? What are the like? And how will they fit into Indians' shopping basket? These are questions with no easy answers. But global pecking order should hold a few clues. More importantly, how the world of global pecking order is should hold a few clues. More importantly, how is the world of global retailing (born in the 20th century) getting redefined in the 21st century? What are the opportunities and challenges that the big retailers see and how is that reshaping the landscape in the retail market?

Answers for these questions will help us get a perspective on global retailing. But it will also offer clues into how Indian retailing will shape going forward. Based on 2010 retail sales figures, a Deloitte 2012 global report puts the top 10 retailers as follows: Wal-Mart, Carrefour, Tesco, Metro, Kroger, Schwarz, Costco, the Home Depot, Walgreen and Aldi – in the descending order. (The Economic Times 23-29 September 2012)

Most global retailers, focused so far on slowing and greying mature economies are shifting attention to the fast growing emerging markets

India is considered one of the most difficult markets in the world where food habits change every 200 km may not be any different. The operating cost of an organised retail store is about 15% higher than a kirana store (Small retailer). India has among the highest rents per sq ft of space while the sales per sq ft are among the lowest. Global retailers, as much as Indian, are struggling to make profits. Some like Bharti Group may let its partner Walmart lead the way. The Future Group too might get a global partner on board to continue the journey. But experts expect local players like the Tatas (it has a tie – up with Tesco), Birla and Reliance to show the way provided they get their act right and play their cards well.

Globalising to chase growth.

With slowing growth in their home bases the global retailers are exploring newer markets in the developing world. Take for example Carrefour, which has a vast network of stores across the world but bulk of it sales still come from Western Europe. It is now looking at Latin America and Asia seriously. The same is true for the German Schwarz Group which operates "kaufland" and deep discounter "Lidl" stores. The Europe – only player was focused on central and west European market. However, growth in these places the tapered and it is now looking beyond to Eastern Europe, Asia, The Americas and South Africa for Growth.

This journey will not be easy as many like Carrefour, Wal-Mart and Metro Group have realised it firsthand. Most of them have had to exit had to exit a few countries or rework their strategies in these markets. The big retailers will need to go global – use their global experience and tap into local knowledge and management to operate in emerging markets. India angle: After lots of trial and tribulations, difficult markets like China have taught global retailers such as Wal-Mart to be flexible and appreciate the importance of local knowledge. Humbled, today it marries well its global learning and best practices with local understanding to handle emerging markets, India, late to the global retailing party, should benefit from this.

The 30% Local Rule is a 100%Trouble for Retail FDI in India

"Here's the bad news about the good news on retail FDI reform government of India asking for mandatory local sourcing can upset plans of all global majors, whether supermarket chains or single – brand business".(Binoy)

The government has finally let in foreign retailers but major players are still worried about their prospects. In conversations with the India representatives of global retail powerhouses, it is easy to detect a sense of indifference, if not despair. But shouldn't these people be over the moon? The Indian Government has after all granted their wish and a long – pending one at that. Companies such as Wal-Mart Stores Inc, the world's biggest retailer, have long been lobbying to enter India.

"It is obvious why retailers are not ecstatic. The government's welcome mat to multinational supermarkets is riddled with riders. Under the new rules, foreign multi brand retailers must invest at least $100 million and half that amount must be ploughed into back – end infrastructure in rural areas. That's not all. State governments will decide if they want foreign players and stores will be permitted only in cities of at least 1 million people. Retailers must also source 30% of the value of goods purchased from small- and mid – sized domestic suppliers".(Binoy)

Still, many analysts believe the government cannot be faulted for laying down tough conditions in light of the fierce political opposition that greeted the reforms. Fear of running into resistance had forced the government to pull out several similar initiatives in the past.

In Favour Of FDI

"The experience of other countries should inform the policy debate in India. Retailing in mature markets without similar FDI constraints, such as the UK, employs proportionally more people (10.5% in the UK versus 8% in India), as well as provides greater education, training and personal development opportunities. In countries like Brazil, Thailand and Malaysia, relaxation of FDI has resulted in reduction of unemployment and increased revenue generation for the economies as a whole. While this may involve some neighbourhood stores going out of business, due to the inefficiencies in their business model, their inability to remain relevant to consumers, and /or their inability to adapt to changes in the business environment , the same is true for all players – large or small foreign or indigenous".(Malobikar)
In India, the retail sector is currently the second largest employer after agriculture and thereby has the potential to be part of a socio – economic transformation in this country. There retail industry is people – centric and driven by the relationship between the staff in the stores and customers. In retailing, a good attitude is more important than experience and skills, and so can provide employment for a wide range of people. Modernization of retail within India could improve employment opportunities for millions of Indians from the lower socio- economic groups who have not had the opportunity for higher education. It could also provide opportunities for part – time employment over and above full –time employment. Retailing in mature markets, without similar FDI constraints employs proportionally more people, as well as provides greater education, training and personal development opportunities.

One of the main arguments in favour of the decision to allow FDI in multi – brand retail is the acute and urgent need for India to develop efficient supply chains. The urgency is advocated on account of the need to minimize losses arising out of inadequate storage facilities, ineffective equipment and the lack of an effective backend network. By reducing wastage that is huge, increasing the supply of food grains, which is a key component of inflation, by reducing the farm-to-fork price differential, FDI in retail is touted as the panacea for all ills. It is expected that FDI will also help build the necessary distribution infrastructure and bring in better technology.

The share of organized retail to total retail trade in India is hardly 5% against 66% in Japan, 30%in Indonesia and 20% in China. It is high time for India to allow FDI in all possible categories to bring more competition in the market and reduce the gap between farm prices and retail prices.(Rajesh Shukla)

On the issue of prices, it is quite possible that benefits that will accrue from removing the middlemen will be shared by farmers, consumers and the retailers. Farmers will benefit in the form of higher prices for their produce, while consumers will benefit in the form of lower prices. But this and other anticipated benefits may not materialize without changes in other laws, especially the Agricultural Produce marketing committee Act. But assuming that it plays out on expected lines, what will be the impact on inflation? By reducing wastage, increasing supply and lowering prices, many argue inflation will be brought under control. Building an entire retail backend ecosystem takes time, effort and capital.

The fear that Wal-Mart's entry will effectively be the death knell of the Kirana shops (small retailer) and local vendors is exaggerated. Given the overtly populist nature of Indian democracy, political leaders have used this opportunity to emerge as saviours.

"Experts believe the move will benefit the $1.6 – trillion economy, help create logistics, farm infrastructure and jobs that India desperately needs. The farmer will probably be the biggest gainer. Lack of storage facilities causes heavy losses to farmers. They incur post – harvest losses of over Rs. 1 trillion a year; 57% of this is because of avoidable wastage. Nearly 35-40% of fruits and vegetables and 10%of food grains go waste. Poor farm infrastructure translates into high prices. The government says an Indian farmer gets only a third of the total price a consumer pays as against two – thirds in modern retail. A 2007 World Bank study shows the average price an Indian farmer gets for horticulture produce is barely 12 to 15% of what is paid at the retail outlet".(Surojit Gupta)

Chain reaction:

India is the second largest producer of fruits and vegetables but has only 5,386 standalone cold storages. These are mainly used for storing potatoes. According to commerce and industry minister Anand Sharma, "FDI in multi–brand retail will bring in investments, technology and efficiency to unlock the true potential of the agricultural value chain". (The Times of India, 3 December 2011)

A Confederation of Indian Industry (CII) and Boston Consulting Group (BCG) study shows that Indian farmers earn only 30% of the consumer price. In some developed countries, this varies between 50 and 70% losses in the fruits and vegetable supply chains rise because of multiple intermediaries, handling points, poor technology and supply chain mismanagement. For every rupee a consumer spends on tomatoes, only 54 % go to farmers and for value addition. The rest is divided between profit margins of intermediaries and leakages along the supply chain; the study shows (CII/BCG)

Bharti – Wal-Mart has already started a direct – farm programme to develop a strong supply chain, linking farmers to consumers. The company says this programme began with 65 farmers in Malerkotla near Ludhiana. It has expanded to include 3,000 farmers –mainly small and marginal –across Uttarpradesh, the National Capital Region in New Delhi, Haryana, Karnataka and Maharashtra States.

"The government estimates that the opening up of the sector will create 10 million jobs in three years. Experts agree. "No other industry today has as much potential for massive employment. We are a four – year – old company and we employ 11,000 people. We have plans to recruit 4,000 more." According to Thomas Varghese, chairman CII National Committee on Retail. (The Times of India, 3 December 2011)

But others such as C P Chandrasekhar, Professor of Economics at Jawaharlal Nehru University, say the entry of large global retail chains will lead to some job displacements in the existing framework. Organized retail provides better overall remuneration, as per the CII – BCG study says. It provides medical and life insurance, provident fund, sick and leave facilities. In a major city suburb, an organized retail employee earns a decent salary. Experts say in the long run consumers will get better products at cheaper prices. The CII – BCG study say by 2020, organized retail would help consumers save 5-10% in specific categories. This would lead to an aggregate $25-$30 billion, equal to 0.5% of GDP. (CII/BCG)

Policy makers say allowing foreign retailers will help control inflation. Food inflation has emerged as a major headache and experts say there is no short – term solution to this. They suggest raising productivity and improving the supply chain as cures. But some commentators differ with this view.

Against FDI:

A day after the FDI in retail was approved in the Parliament, grocery shop owners, and vegetable vendors, public and retails shop owners association are in a palpable state of jittery. The heated debate over FDI in retail over the past several months have not removed the fear of losing business to huge conglomerates for the traders. (Devanathan, TNN)

A day after US President Barack Obama's call for lifting of foreign investment curbs by India, the Indian Government on July 16,2012 shot back asking Washington not to meddle with the country's internal affairs and suggested that the world's largest economy should lead the fight against protectionism. The statement came amid protests from the Opposition, which asked the government not succumb to US pressure. (The Times of India, July 17, 2012)

"It may end up as foreign direct Interference. There is no truth in the assertion that the decision to put on hold FDI would hurt India's economy. It is unabashed self – interest that motivates western mega corporations to look for gullible markets in developing countries. This was ruthlessly brought out by John Perkins in his book Confessions of an Economic Hit Man. Coining the term corporatocracy for the nexus between corporations, banks and governments. Perkins writes that the ultimate goal of this triumvirate is to integrate all national economies in the world into a single global "free market system" through the modern international financial system controlled by the World Bank, the IMF and the WTO".(Faizurrahman)

Similar views were expressed by Joseph Stiglitz in his book Globalization and Its Discontents. "The problem is not with globalization, but with how it has been managed. Part of the problem lies with… the IMF, World Bank, and WTO, which help set the rules of the game. They have done so in ways that, all too often, have served the interests of the more advanced industrialized countries – rather than those of the developing world".(Open page, The Hindu, 11 December, 2011)

We have every reason to believe Perkins and Stiglitz as post – world War II history is evidence to the fact that few nations have been able to escape the "structural adjustments" and "conditionality" of the World Bank, the IMF and WTO for it is they who determine the rules of economic globalization and decide which nation is to be rewarded for toeing the line and which punished for transgression. Is this what the supporters of FDI seek to perpetuate? (Faizurrahman)

"FDI in retail: say a big NO! There is so much of talk going around in all circles regarding FDI. Politicians, for obvious reasons, speak a language of their own, driven by ulterior motives. Most of the times, they are not even knowledgeable to understand the long term consequences of the populist measures and policies they adopt. It would be in the fitness of things if the whole thing is explained in simple and elementary terms.FDI is a debt inflow or liability foreign exchange because the profits or returns it generates will have to be repatriated".(Anupam)

According to Professor Anupam Bhargava former Assistant General Manager of State Bank of India, "FDI is a debt inflow or liability foreign exchange. Why? Simple, because the profits or returns it generates will have to be repatriated in foreign exchange. We are already in the doldrums with mounting pressure on our capital account of balance of payments , owing to increasing deficits in our balance of trade account year by year".(The Hindu, December 2, 2012)

"Reading the Future in Mexico's Malls" (Arun Kumar)

"India may soon go the way of the Central American country where small stores have vanished from the city, agriculture has declined and unemployment is huge .A friend who has been posted in the Indian Embassy in the mid-1980s had mentioned that there were fruit stores everywhere and one could make a meal of fruits in the evening but such shops were nowhere to be seen. I wondered if this was the future that awaited the Indian metropolises.

The farmers are upset with the U.S. and NAFTA (North American Free Trade Agreement). They complained that the free market had enabled subsidised food to come from the U.S. and destroyed their agriculture which now contributes only four per cent of GDP. Thus, the two big employers, agriculture and retail trade, have suffered in the last two decades, which is why unemployment is high (5.2 per cent), and underemployment is at 25 per cent.

Our crisis is likely to be worse than Mexico's since we do not border the largest economy in the world where our youth could illegally migrate. Nor are we likely to get investment in per capita terms matching Mexico. We do not have petroleum or tourism in income to prop us either. So, does Mexico mirror a part of our future, if we continue with our current policies?" (Arun Kumar)

Misplaced obsession:

The opposition to foreign direct investment in the retail sector stems from a number of well – grounded fears. FDI in retail would introduce competition from large players with deep pockets and international sourcing capabilities that would be able to exploit economies in procurement, storage, and distribution to out – compete smaller traders and subordinate myriad small suppliers. The immediate and direct effect would be a significant loss of employment in the small and unorganized retail trade displaced by the big retail firms. The government's claims to the contrary are questionable. They exaggerate the direct and indirect employment that large retail would create and ignore the number of jobs they would displace. Conditions on foreign investors, such as the requirement of a minimum investment of $100million and entry permission only for cities with populations exceeding one million are not material. They do not change the source of the competition –giants like Wal-Mart, Tesco, and Carrefour nor the locations in which such competition is most likely to be faced. And the requirement that 30 per cent of manufactured or processed products sold should be sourced from small and medium enterprises would be impossible to implement, especially because it applies to such producers from anywhere in the world.

Conclusion

The controversy over foreign direct investment in the retail sector has thrown Parliament into disarray. The Chief Ministers of Uttar Pradesh, West Bengal, Tamil Nadu and Bihar have vowed not to allow FDI in their respective states. But is their opposition based more on emotive grounds than the evidence that emerges from other countries?

In reality, foreign multi brand retailers cannot completely replace kiranas (or mom-and-pop stores), but create more jobs and, crucially, are linked with revenue generation and overall economic development. As leaders, the chief ministers of all states should consider the profound impact that the retail sector has on a country's socio-economic development, and in this they should benefit from insights based on academic research.

The FDI move gives an opportunity for state governments to creatively frame their own rules and set their own limits and caveats. If the chief ministers of some states do not want FDI entry into their states, then that too is possible. Let them protect their citizens from the benefits and costs that may accrue to other states. To oppose this reform at the national level appears unreasonable based on experiences elsewhere. Despite an open market, no one retailer dominates European retailing, as each state and city has its own priorities and sets its laws accordingly. India too can be the same. It is time to rise above loose and unfounded assertions. India's future economic and social development is at stake.

While it is possible that in the short term, the negative implications of such a move may outweigh the positives, the long-term projections do indicate that the positives outweigh the negatives. The advantages that will accrue to farmers, producers and consumers of such a move need to be taken into account by the political parties. There may always be a fear of the unknown. Among other benefits, FDI in multi – brand retail is most likely to help in combating inflation by reducing intermediaries. We need to move away from ideologically-motivated debates towards more informed, rational debates.

The issue of modernising retail to ensure that benefits reach every section of society was debated in the Cabinet when it approved foreign direct investment in multi brand retail. To facilitate such far-reaching changes, the government plans to set up a committee of central ministers of agriculture, commerce, corporate affairs, environment, finance, food, labour, railways, urban development and infrastructure ministries.

Another panel of secretaries, representatives from IIMs (Indian Institute of Management), industry bodies, consumer activists and trade associations will also study the retailing sector: The move is expected to bring on board small traders and shopkeepers, who are apprehensive about loss of business if large international companies' setup shop in India.

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