RALD January 22 2014 **"FDI IN "Transforming Retail trade-it is no Panacea" BY**

Comment [R1]:

s have slammed **the E.T. slams Aap and the BJP for being against foreign ment in retail. He appears to look on opponents of retail FDI as stile to new technologies and management methods.**

**The arguments given by the proponents are three. One, it will enness to foreign investment and will bring in billions in FDI by the chains in the world. Two, it will transform our dormant agriculture by estors investing in warehouses, cold stores, using information o track stocks and their shelf lives, employing trained personnel, and bust supply chains from rural to urban areas. Three, it will introduce ling and improve the consumers' shopping experience.**

Comment [R2]:

**Opponents have three arguments. One, it will destroy livelihoods mall retailers (and commission agents and wholesalers) who will not compete with these behemoth retail chains, with deep pockets and heap loans from their home countries. (The last is Subramaniam son for opposition). Two, organized retail chains will use their buying ploit small farmers, with most of the savings enhancing retailers' o lowering prices for consumers. Three, there will be a flood of cheap other goods that will destroy many Indian manufacturers whose costs ause of government procedures and restrictions.**

**FDI in retail can be guaranteed not to bring in the billions of I that government expects. This is because these investors are . Their purpose is to make profits, not to transform Indian agriculture estments in infrastructure-cold stores, cold transport, warehouses,**

nproving seeds and agricultural practices. Etc. In any case they will nvestments only if they are exclusive to themselves or can be rented. mised all these infrastructure investments when it entered retail. It is from the same commission agents and wholesalers it was going to ail in India will get volume and profits from selling manufactured meat and milk products, not fruits and vegetables. The investments them are huge and not commercially viable. They must be made by

Indian agriculture suffers from small land holdings, many es who take away much of the large margin between farm gate and Poor credit facilities for farmers, and government regulations that ers from selling directly are other constraints. Our agriculture suffers ysical infrastructure of warehouses, cold storages, cold transport, ouses, etc. These call for huge investments. They must be made by or private investors who see them as commercial propositions. s have not made these investments attractive to private capital. ernment price policies for grains and sugar prevent farmers from these heavily supported crops to what the consumer wants. The nple Survey shows consumer demand moving to fruits, vegetables, overnment policies restrict Indian agriculture. FDI is not going to

Robust supply chains require investment in infrastructure. Without presence, it is only marginally effective. ITC's rural stores have done ng urban products to rural consumers. The converae is not yet ell,

Even family owned small retailers can offer modern s to their customers. Some have started doing so. Computers have

**y, for tracking stocks and their shelf lives, making bills quickly, etc. dian retailer has a personal equation with many of his customers. He ore impecunious among them, credit, and to many, free home delivery. in, foreign or domestic, does this anywhere, and not in India.**

**The best scope for profit in retail chains in India si from selling Brands, packaged manufactured products, not fresh products like fruits and vegetables. Yet every proponent of FDI in retail, juxtaposes the 'logic' that it will lead to consumers getting lower prices for fresh fruits and vegetables, consistent quality, farmers getting better prices for them, and profit for retailers. FDI in retail it is said, will transform Indian agriculture, lead to increased agricultural productivity and production, and put India on a sustainable path of high growth.**

**In practice, multi-brand retail is about selling branded packaged products. Fruits and vegetables are also sold in such retail stores, along with other fresh products like breads, cakes, pastries, etc. These latter might be branded; fruits and vegetables would be sorted for quality and pre-packed but not branded except as being from that store. Some stores are recognized for the quality of their fruits and vegetables. Retail chains are large buyers. Manufacturers of packaged goods are delighted to sell to them because of the quantities they buy over a year. These retailers have high bargaining power because of their size of purchases. They are able to negotiate especially low prices, credit, on-time delivery so that the chain has to lock**

**up less money in inventory. These savings rarely reach the consumer through lower prices.**

**The old style retail stores as in India, usually staffed by the family that owns them, do not have such bargaining power. For manufactured products, they do not get especially low prices.**

**These new retail chain stores are convenient. They will take much business away from neighboring small family run retail stores. These will retain some old loyal customers and for small purchases.**

**In the vast geography of india and with limited persona transport, many customers will not go far to a modern retailer. From over 5 million shops and establishments, most will not die. Confined to a few states and mostly to large urban agglomerations, retail chains will have limited penetration. Small retailers will modernize, form cooperative chains to derive purchasing clout, and compete effectively with the new stores. There may not be any large-scale sudden disruption.**

**Much needs to be done to improve the return to the farmer. Institutional mechanisms, laws and investments, better regulated open markets, open auctions, preventing the estimated 30% that perishes, better roads, storage, cold stores, and lorry transport on a regular basis, will bring more buyers and sellers to the markets. If there is less perishing of products, fewer intermediaries, the farmer can pay for these services of information, cold and normal storage, etc.**

**Retail chains like Reliance, Spencers, the departed Subhiksha, etc have not created these facilities. Policies must encourage and stimulate private investment in agricultural supply chains and information systems. It does not need FDI or retailers to come and do it. It can be done by any investors.**

**Government suggested a Regulator for multi-brand retail. Instead government should encourage cooperatives of retailers to bargain prices with manufacturers and let the CCI regulate for competition.**

**Proponents of FDi in retail exaggerate greatly its possible beneficial effects for the Indian economy. Opponents who cry of doom are also over reacting. There is no harm in approving FDI in retail. It will not transform Indian agriculture, investment or benefit many consumers.**

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