

FDI IN MULTI-BRAND RETAIL – IMPLICATIONS FOR MSMEs



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The Government is seriously contemplating to open up Foreign Direct Investment (FDI) up to the tune of 51% in the multi-brand retail segment. Through FDI in retail the Government hopes to bring in adequate infrastructure creation, efficient management of supply chain, controlled food inflation, better quality product offerings to customers, and simultaneously create numerous job opportunities directly or indirectly. Thus, the proposition is seen by the Government, and many others, as ‘win-win’ for all stakeholders, expecting that it would bring in an investment of INR 400 billion and open up huge opportunities for farmers, industry and consumers. Despite this optimism the Micro, Small and Medium Enterprises (MSMEs) appear to be quite perplexed to clearly figure out what the opening up of retail sector would hold for them. They remain unsure whether it will be a boon or a bane. This concern of theirs assumes importance as MSME segment is often considered a growth engine of our economy, playing a crucial role in the process of economic development, employment generation, fostering entrepreneurial skills and promoting equitable distribution of national income. In other words, MSMEs are seen as significant contributors towards the national objectives of growth with equity and inclusion. Therefore, a serious note is to be taken of and detailed examinations be carried out to unfold the implications of this opening up of FDI in retail for the MSMEs. The present article constitutes a small attempt in that direction, as it raises a few issues and identifies certain governance needs to achieve the goal of making a true ‘win-win’ happen.

Everyone would agree that a basket of opportunities will accompany the inflow of FDI in retail, scale and distribution network being the most significant of those. Currently, the small players do not enjoy scale and distribution network to cover the market. With the entry of organized retail SMEs would be able to go in for bulk production with guaranteed absorption of their product. Also, SMEs supplying competitive products and services with greater potential for forward and backward linkages would have the opportunity to contribute substantially to exports. These are no small prospects, because obtaining access to profitable markets is crucial to fostering SME growth and productivity. Opening up of multi-brand retail segment is expected to bring this much needed opportunity. Why, then, is the concern? It arises from certain lurking fears, the central question being, “whether our otherwise weak SMEs will be able to gainfully exploit the opportunities ushered in through the opening of multi-brand retail segment?”

Admittedly, to take advantage of the various opportunities the SMEs will primarily need knowledge and access to new technology, adequate financial aid, high levels of R&D, and adaptability to the changing trends in their respective industries. It is never easy for Indian SMEs to master these, given their current state. Pessimism sets in when one looks at the report of

United Nations Conference on Trade and Development (UNCTAD) of 2004 which, on page 5, observes, “Trade Liberalization..... makes it significantly difficult for small and medium enterprises to survive and maintain in the local and, if applicable, in the global market”. This observation in the UNCTAD report may serve as a good warning for us, sending a reminder that there can be a danger in bringing-in a post – industrial profile without having been industrialized. Prime Minister’s task force has noted (January 2010) that MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced, and levels of technology employed. More than 94% of MSMEs are unregistered, with a large number established in the informal or unorganized sector. To get this diverse group ready for the situation is certainly not going to be easy. Differentiated efforts would be required ensuring comprehensive coverage, with a clear understanding that *one size will not fit all*. The task is huge and will concern several institutions and departments of the government. There is, therefore, a need for SME perspective in the functioning of such institutions and departments so that every action of theirs is borne out of their full knowledge of some of the bottlenecks impeding the growth of the MSME sector, according to the size, type, location, technology usage etc. While on this point, it may be noted that, currently MSMEs face problems even in supply to government departments and agencies, as majority of the government tenders prescribe high eligibility criteria such as annual turnover, high experience etc. These are not going to go away with the entry of multinationals. In all probability, the criteria will become stiffer, creating higher entry barriers.

It must be clarified at this stage that the above observations are not meant to throw cold water on ‘FDI in multi-brand retail’ or to discard the proposition as such. The purpose, here, is to focus attention on to the kind of preparation, support, and hand – holdings that would be required to facilitate our SMEs, so that they can realize the envisaged gains by being able to effectively leverage the potentials contained in the proposition. Studies have established that opening up not just brings in competition, but creates one of a rather fierce kind. To cope with the new realities Indian SMEs will have to develop the necessary competitive muscles. Additionally, competition will gradually create higher and higher entry barriers, setting increasingly stringent standards with regard to quality, price, timely delivery and flexibility. These will make things difficult for our SMEs to establish effective value chain connections at various levels. They will be confronted with the challenge to continuously incorporate the latest technology into their production process as well as in their marketing and management functions to cut costs, gain efficiency and consistency. SMEs seeking to establish partnerships in regional and global value chains will have to understand the governance of specific value chain process and structures. Needless to say, without adequate support services from public sector agencies and business associations SMEs would be hard put to find their way to get ahead.

A point to note is, without adequate safeguards and supports put in place, FDI in multi-brand retail may lead to widespread displacements and poor treatment to Indian workers. It is well known that big box retailers tend to exploit their suppliers for higher margins to cover their high operational cost. Walmart, the largest retailer in the world, has a record of violating laws protecting workers’ rights in the United States and elsewhere. Hence, making FDI in multi-brand retail work to the benefit of SMEs necessitates a certain level of commitment, transparency,

honesty and sincerity in implementation. What has been witnessed so far is, while public procurement policy was announced with much fanfare, its actual implementation remains shrouded in doubts. Some think that the government, instead of setting its own house in order, has offered another lollypop to the sector by asking FDI players to procure 30% of the purchases from the MSME sector. Clearly, lollypops alone will not be enough to take the sector ahead. Urgent attention and well judged actions will be required on the following key areas to equip the sector adequately.

1. Enabling policy and regulatory environment, including effective institutional framework and pro-business fiscal policy.
2. Supporting infrastructure for business.
3. Entrepreneurship, including management skills and human resources.
4. Access to finance.
5. Technology capability – building and adaptation.

The crying need therefore is to match the level of governance with the level of the challenge – a call that government must respond to. On its own admission, aired through its Chief Economic Adviser, the government confesses the gap that occurred between the level of governance and the level of economy in the past. If such things could happen in the past, they can happen again. One only hopes that the proposal to open up the retail sector will prompt all concerned to pull up their socks and avoid getting into any such situation yet again.

Bigger the challenge bigger are the rewards of meeting the challenge. Surely, a country of India's ability and talent can meet the challenge. Tapping the opportunities is the need of the hour for which we ought to do everything under our command. As we all know, actions speak louder than words. Therefore, concerted action should begin NOW. If that happens soon enough it will not only comfort MSMEs but may also ease, at least partially, the current logjam in Parliament.
