Foreign Direct Investment, Multibrand Retail and Policy Debates in India

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Abstract

FDI as a policy is an important aspect for analysis. There were major changes that the FDI policy of our country underwent after liberalization. FDI in multibrand retail as a policy initiative has also been clouded in controversies. In addition there are also certain debates about this policy on its stakeholders such as the farming sector and the unorganized retailers of our country.

Hence one can say that through the FDI in multibrand retail policy one can gain an interesting insight on how the reform process in general and the FDI policy in particular has evolved.

Key Words: Foreign Direct Investment, Liberalization, Mutlibrand Retail, Policy Makin

1. Introduction

As the eminent economist Sukhamoy Chakravarty stated ‘issues that bear upon India’s developmental prospects are inevitably very complex. Moreover, they cannot be devised by technocratically inclined civil servants.’ If one looks at the study of the policy process of the country we find that it has largely skipped the attention of various scholars in the academia today. During the planning era one did analyze the economic policies but the discipline remained focused primarily on designing choices and less so in the way the choices were arrived at. Hence there was little understanding on how the state institutions actually functioned and what are the values which underlined the public policy perspectives. What was lost in this approach was the attribute that policy is an arena of
bargaining and compromises; in short it is about politics. Taking forward from this notion one can say that the FDI multibrand retail policy in India is also marked by political dynamics and contestations (Mathur, 2013, Introduction).

The India story, since the 1991 liberalization has been well scripted and discussed in various quarters. Similarly, what happened from 1991 onwards has been vociferously dissected and, depending on which side of the debate one stands, there are intense views on the management of the economy. In this backdrop, there was also a refreshingly different approach adopted in the 12th Five-Year Plan the Plan which clearly mentions FDI should be a key policy imperative to help achieve the desired growth. One clearly senses urgency on the government’s part to attract FDI in sectors like telecom, defense and retail. However the FDI policy hasn’t offered comfort to foreign investors due to lack of transparency and consistency. (Kapadia, 2013)

Before I proceed to the issue of FDI in multibrand retail I will briefly look at how various political regimes approached and molded the FDI policy of our country.

2. FDI policy in India

It is generally believed that foreign capital has played an important role in the development of most of the countries of world. Nearly every developed state has had the assistance of foreign finance to supplement its own paucity savings during the early stages of its development. Though it is true that every country in its early phases of development needs foreign capital resources, however the sectors in which they are used, the purposes for which they are used, are important factors for consideration. (Nayak, 1991, p.2) During the pre-liberalization era in India it was also insisted that FDI should be accompanied by technology transfer agreements. However in striking contrast in the liberalization policy it is was not necessary that FDI is accompanied by foreign technology agreements. Today FDI is given in the automatic approval up to 51% per cent
foreign equity in the listed priority industries, which cover most manufacturing activities including software development and those related to hotels and tourism (Nayak, 1991, p. 36).

2.1 FDI Policy in India Pre-1991

If one looks at the beginnings of foreign direct investments in India it cannot be traced with any degree of precision. Even in the colonial period, there were a few cases of companies resident in India owning or controlling other companies abroad. The Indian government policy had since evolved over time in tune with the requirements of the process of development in different phases.

If one looks at the Nehruvian regime centralized planning was the dominant development strategy of the government. The planning commission also played an important role in framing and formulating policies, and little criticisms were made of its decisions. Regarding the FDI policy, Nehru's lofty disdain for it was not born out of a lack of faith in its potential to transfer technology and know-how, but of his resolve to shield the economy from the grip of foreign interests; science and technology formed the centerpiece of the prime minister’s development strategy for India. Hence driven by Nehru's desire for a planned economy within a socialist climate (since 1951), rigorous regulations were implemented in order to achieve self-reliance, eradicate poverty, promote the development of indigenous technology, and protect the local private sector and small firms. Even so, foreign enterprise participation in the economy was not shunned; its spheres of activity and the form it took were highly regulated. Foreign capital was barred from specified industries and technical collaboration agreements or technology licensing agreements between Indian owned and foreign firms were preferred to FDI.

During the 1970s and the 1980s, India's policies towards foreign capital started reflecting a concern for selectivity. The government continued with the policies of not preventing the TNCs from entering and expanding in areas where indigenous enterprises were capable of delivering the goods. From 1973 onwards the further activities of foreign
companies (along with those of local large industrial houses) were restricted to a select group of core or high priority industries. The Foreign Exchange Regulation Act, (FERA) of 1973 required all foreign companies operating in India to register under Indian corporate legislation with up to 40 per cent foreign equity. In response to the regulation which required foreign firms to dilute their equity holdings to less than 40 percent many major multinationals such as IBM and Coca Cola chose to close down their operations in India (Athreye and Kapur, 1999, p.8)

During Indira Gandhi’s governance, due to the foreign exchange crisis of 1980’s India had to seek a loan from the International Monetary Fund. Some of these loan conditions however called for certain local reforms. Hence certain de facto changes were later announced, an example of it is the extension of the number of DE licensed categories in the industrial area and the encouragement of joint ventures such as Maruti Suzuki for instance, in 1984 (Belhoste and Gasset, 2008, p. 7/37).

However it was after Indira Gandhi’s assassination that there was a major softening of the regulatory regime which was primarily spearheaded by Rajiv Gandhi. More export and import licenses were liberalized, credit facilities were encouraged and tax policy streamlined. In an attempt to modernize manufacturing industry, restrictions on technology transfers and royalty payments were relaxed and, where attempts to acquire technology through licensing had failed, foreign equity participation was permitted again (Belhoste and Gasset, 2008, p. 7/37).

**2.2 FDI policy post 1991**

It was the year 1991 which constituted a significant plank of the relaxation of controls over FDI. During the Gulf War foreign exchange remittances fell. The real possibility that India might default on its external obligations led to a downgrading of India’s credit rating. To counter this crisis in 1991, P.V. Narasimha Rao Government approached the World Bank for external assistance. The Bank stipulated the globalization agenda recorded in the “Anderson Memoranda” to be followed by India. The then Finance Minister, Dr Manmohan Singh, adopted it and christened it as “New Economic Policy”. 
The reforms were adopted to avert impending international default in 1991 (Uttam and Kumar, 2013, p.3).

A series of changes took place in the country as a result of this. Industrial licensing was abolished in all but a handful of industries. Foreign direct investment was invited in a wide range of industries, including consumer goods. The limit on foreign equity participation was also raised to 51% for most industries, and even 100% in some cases (Atherye and Kapur, 1999, p.8). FDI was allowed in several sectors, but not in the retail sector.

Today the Government approvals regarding foreign investments are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB). In the following categories:-

Categories:

1) Cases in which FDI is allowed without government approval i.e. Automatic Route\(^1\).

2) Cases in which FDI is allowed with government approval

3) Cases in which FDI is not allowed

\textbf{2.2 (a) Sector wise FDI distribution in India}

However if one looks at FDI in other sectors the government after 1991 had allowed the TNCs to manufacture and supply larger electronic exchanges of 10,000 lines and above (Chaudhuri, 1995, p.1001). In November 1991, the government allowed the increase in foreign equity to 51% in existing companies. (Chaudhuri, 1995, p.1001).

The value added services, e.g., cellular mobile telephone, radio paging, etc., was opened up in 1992 to private firms including those with foreign equity (Chaudhuri, 1995, p.1001).

\footnotesize\text{\\footnotesize\small\textit{\textit{1} Most of the sectors fall under the automatic route for FDI. In these sectors, investment could be made without approval of the central government. The business areas included in this FDI category are manufacturing, infrastructure development, hotels and tourism, hardware and software and venture capital funds.}}
The international oil companies which were ousted two decades back were being induced to participate in the entire hydrocarbon sector comprising exploration, production of crude oil, refining and marketing.

Similarly the foreign investors were welcomed to participate in all types of power plants - thermal, hydel, gas based, solar, wind, etc. (Chaudhuri, 1995, p.1001). Between 1993-94 an electronic hardware technology park scheme was set up to allow 100% equity participation and duty free imports of capital goods and tax holiday. The ceiling on foreign equity participation in Indian companies engaged in mining activities was also hiked to 50% (Bhati, 2006, p.26).

During 1997-98 foreign direct investment was allowed into sixteen non-banking financial services through the foreign investment promotion board (Bhati, 2006, p.26). Also from the year 2000/2001, a long list of “high-priority” industries was replaced by the short list of limited FDI industries and regulation allowing up to 100% FDI in a number of industries was introduced (Bhati, 2006, P.64).

The ceiling for FDI under the automatic route in oil refining was also being liberalized to 100% from 49%. 100% FDI was also allowed in telecommunications sector for internet service providers not providing gateways, infrastructure providers, providing dark fiber, electronic mail and voice mail (Bhati, 2006, p.32). FDI up to 100% was permitted in airports worth FDI above 74% requiring for prior approval of the government. The defense industry sector is also opened up to 100% for Indian private sector participation with FDI permitted up to 26% subject to licensing. FDI up to 100% was permitted with prior approval of the government in courier services. FDI up to 100% was placed on automatic route in drugs and pharmaceuticals (Bhati, 2006, p.26). 100% FDI was also allowed in infrastructure services such as highways, roads, ports, inland waterways and transport, urban infrastructure and courier services (Bhati, 2006, p.100-102).

Thus all these new policies substantially liberalized the economy since 1991 with a view to bring rapid and substantial economic growth and move towards the globalization of the economy. In view of further liberalization, apart from relaxed restrictions on foreign
investment, industrial licensing and foreign exchange, the capital market was also opened to foreign investment and controls on banking sector were eased.

I will briefly look at certain sector specific guidelines for FDI in India.

These are as follows:

- Advertising and films- 100% FDI with automatic approval is allowed, but certain conditions apply in the film industry.

- Agriculture- no FDI is permitted in farming nor would foreigners own any farmland. FDI upto 100% is permitted in tea plantations, but proposals require prior government approval.

- Airport infrastructure- FDI is allowed upto 74%. The airport authority of India will hold 26% equity, while the remaining 25% is reserved for Indian private investors.

- Alcoholic beverages-No FDI limit is applicable but prior government approval is required.

- Atomic energy-FDI is limited to 74% for mining and mineral separation. FDI beyond 74% is approved on a case to case basis.

- Automobiles-FDI of 100% is allowed with automatic approval.

- Banking-the GOI increased the FDI limit for private banks to 74% in March 2004, but the reserve bank of India has not issued implementation guidelines. For state owned banks the FDI limit remains at 20%. The 74% cap includes all foreign portfolio investments. The foreign institutional investment remains at 49%. Foreign banks in India have the option to operate as branches of their parent banks or as subsidiaries.

- Broadcasting-FDI is limited to 20% in FM terrestrial broadcasting. For direct to home broadcasting and up linking hubs, foreign investment from all sources is
limited to 49% again with prior governmental approval. In satellite broadcasting FDI is limited to 49% with prior governmental approvals.

- Cable network- FDI is limited to 49%.
- Cigars/cigarettes of tobacco-there are no FDI limit but prior government approval is required.
- Civil aviation- in November 2004, the GOI India increased the FDI limit to 49% from 40% and permitted automatic route investment. No foreign airline however may make either direct or indirect investment in an Indian domestic airline. India also has not opened its state run international airlines to outside investment.
- Coal-lignite-FDI is allowed up to 100% in coal processing power plants/projects but limited to 74% for exploration and mining for captive consumption. Proposals for up to 50% of FDI in private sector companies are approved automatically. FDI is limited to 49% in state owned units.
- Construction-construction and maintenance of roads, highways, vehicular ridges, tunnels, ports and harbors is allowed at 100% FDI, with up to a ceiling of 345$ million dollars. FDI is limited to 74% with automatic approval with construction and maintenance of waterways, rail beds, hydroelectric projects, power plants and industrial plants. FDI is not allowed in housing or office construction.
- Defense and strategic industries- FDI is limited to 26%, subject to license from the defense ministry.
- Drugs/pharmaceuticals-FDI is allowed up to 100% for drug manufacturing.
- Food processing-FDI is limited to 51% with automatic approval for most products.
- Health and education services-FDI is limited to 51% with automatic approval. Higher equity proposals need FIFB approval.
• Hotel, tourism and resources- FDI at 100% is allowed with automatic approval.

• Housing/real estate- no FDI is permitted in the real estate housing sector. FDI up to 100% on prior government approval is permitted for projects such as the manufacturing of building materials and the development of integrated townships including housing, commercial premises, resorts and hotels.

• Information technology- FDI at 100% is allowed with automatic approval in software and electronics except in aerospace and defense sectors.

• Insurance-FDI is limited to 26% in insurance and insurance brokering.

• Lottery, gambling and betting-no form of FDI is allowed.

• Manufacturing-FDI at 100 is allowed with automatic approval in the manufacture of textiles, non-metallic mineral products, metal products, ship building, machinery and equipment. FDI is limited to processed category reserved for small scale industries.

• Mining- FDI is limited to 74%, with automatic approval, for diamond and precious mining. FDI at 100%, with automatic approval, is allowed for exploration and mining metallurgy, and processing of gold, silver and other minerals.

• Petroleum-FDI limits vary according to the sub sector. Foreign investment promotion board approval is required for all activities for all activities other than private sector oil refining.

• Pollution control-FDI up to 100% is allowed with automatic approval for equipment manufacture and for consulting and management services.

• Ports and harbors-FDI up to 100% with automatic approval is allowed in construction and manufacturing of ports and harbors.
• Postal services/courier services-FDI is permitted in courier services, subject to prior government approval. FDI in letter delivery is not allowed.

• Power-FDI up to 100% is permitted with automatic approval in projects relating to electricity generation, transmission and not distribution, other atomic reactors and plants.

• Print media-in 2002, the government opened up the sector to foreign investment with a 26%equity cap for news publications, and 74% for non –news publications.

• Professional services- FDI are limited to 51% in most consulting and professional services with automatic approval.

• Roads, highways and rapid transport systems- FDI up to 100% is allowed with automatic approval for construction and maintenance.

• Satellites-FDI is limited to 49% for the establishment and operation of satellites.

• Shipping-FDI is limited to 74% with automatic approval for water transport services (Bhati, 2006, p.92-93)

However many sectors have opposed greater foreign equity stakes. The foreign ministry for example recently proposed to hike the FDI in the defense sector. However the defense ministry wants the foreign investment cap in the sector to remain at 26%. The department of pharmaceuticals has also firmed up its decision to oppose 49% FDI in brownfiled pharma projects through the automatic route. The civil aviation ministry, ALSO does not want to raise the foreign direct investment cap in scheduled airlines to 74% from the current 49%.
3. FDI in Multibrand Retail Policy

The FDI in multibrand retail policy was an executive decision taken by the central government which according to our constitution does not entail any voting in the house. But this policy was voted upon in parliament and eventually passed. However the policy compounded the problems of the government by its coalition partners. The UPA’s principal ally Trinamool congress withdrew support from the government. Other allies also managed to ruffle the feathers of the government including the DMK, SP and the BSP. The icing on the problems of the government was the principal opposition party namely the BJP who screamed after the passage that it will reverse this policy decision after they came to power. In the end the UPA II government won the Parliament vote in favor of FDI in retail in the Lok Sabha and the Rajya Sabha.

Before I proceed let me begin with the definition of some basic words associated with this area. FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site (Harish Babu, 2012, p.2). The word “Retail” is derived from a French word “Retailer” which connotes “to cut a piece off” to “to break bulk”. The person/s who is/are involved in such activities is/are called retailer/s. “Retailing” also means a distribution channel function where one organization/enterprise buys products from supplying firms or manufactures products themselves and then sells these directly to the consumers (Uttam and Kumar, 2013, p.3). Organized retailing on the other hand refers to trading activities undertaken by licensed retailers i.e. those who are registered for sales tax, income tax etc. These include the corporate-backed hypermarkets and retail chains and also the privately owned large retail businesses. It also refers to businesses employing more than 10 persons. Unorganized retailing on the other hand refers to the traditional formats of low-cost retailing such as the local kirana shops, paan/beedi shops, convenience stores, handcart and pavement vendors etc. (Harish Babu, 2012, p.2).
If one looks at the Indian retail industry it plays an important role for the economic growth of our country. The retail sector is important in Indian economic perspective as it contributes around 15% of GDP and employs more or less 7% of the labor force. It is the largest private sector in India and employs a large amount of population after agriculture. The important point to remember is that the Indian retail sector is basically of unorganized nature (Uttam and Roy, 2013, p.3).

When the Manmohan Singh government finally announced the much-awaited policy on foreign investment in multi-brand retail, in September 2012, it introduced a caveat stating that it was up to the states to implement the policy. In India previously, foreign retailers were allowed only in the wholesale, or cash and-carry, business, which Wal-Mart took advantage of to enter India however in this policy foreign retailers were set to enter the front-end retail format too.

Regarding this policy the government also introduced several regulations. A foreign company initial investment must be at least $100 million. Investors will have to source 30 percent of their products from "micro and small" industries (this was later changed to 20%). A fixed percentage of FDI in the sector is also obligatory to be spent on building back-end infrastructure, logistics or agro-processing units so as to ensure that the foreign investors make a valid contribution to the development of infrastructure. The government also ensured that at least 50 percent of the jobs in the retail outlet are reserved for rural youth and a certain amount of farm produce is required to be procured from poor farmers. The respective state governments would put in place frameworks to monitor compliance with these conditions. The Industry Ministry also proposed to allow foreign direct investment (FDI) in multi-brand retail trading or in simple terms large-format retail stores like Wal-Mart in a calibrated manner and these could be limited to larger cities with a population of more than 10 lakh.

However this plethora of regulations did generate some amount of confusion over the retail FDI policy. Wal-Mart Asia head Scott Price cited stiff entry barriers, including a 30%
mandatory sourcing from local small enterprises, as stumbling blocks for foreign retailers to enter India. (Seth, 2013). Sourcing norms were hence later reduced from 30% to 20%.

However the policy on FDI in multibrand retail has been clouded in controversies since the day one. One of the major flashpoints of this policy is however the sheer politics surrounding it. As far as this policy was concerned the political parties caused tremendous obstruction. The FDI in multibrand retail policy was an executive decision taken by the central government which according to our constitution does not entail any voting in the house. However stating that this policy was not in the interest of the nation the opposition parties insisted to the government for a parliamentary vote and not merely a debate. Controversy also erupted in the houses when after the Opposition motion against allowing foreign supermarkets was defeated in the Lok Sabha and the BJP claimed the ‘real verdict’ was reflected in views expressed during the debate with 14 parties opposing the decision. Many opposition leaders also indicated that the victory of the government was not due to the strength of the numbers of the ruling party but due to sheer floor management.

As stated earlier in the FDI in multibrand retail policy allowed in September, the Manmohan Singh government introduced a caveat stating that it was up to the states to implement the policy. Not surprisingly the state governments which are allied to the UPA have voiced their support for this policy and the NDA allied states have opposed it. So far nine states and two union territories such as Andhra Pradesh, Assam, Haryana, Himachal Pradesh, Maharashtra, Uttarakhand, Jammu & Kashmir, Manipur, Daman & Diu and Dadra & Nagar Haveli have already shown support to FDI. Many states including Uttar Pradesh, Gujarat, Tamil Nadu and West Bengal and more recently New Delhi and Rajasthan have said no to FDI in multi-brand retail.

A major uproar also started in parliament started when Wal-Mart India also found itself in the midst of an internal probe to check possible violations of the anti-bribery law. In December, Wal-Mart’s disclosure that it had spent money on lobbying activities that
were partly related to India made it the target of Opposition attacks in Parliament, forcing the government to start an inquiry.

The judiciary also stepping in and stated “Is FDI in retail a "political gimmick"?", this was basically the question the Supreme Court asked the Government and seeked its response on how it intended to safeguard the interest of small traders after the government announced the opening up the retail sector to foreign direct investments (FDI). Favoring regulatory framework to protect small traders, the bench said that the big companies can bring price of commodity down through unfair trade practices forcing small traders to shut their shops and the companies thereafter can increase the price and monopolize the market.

Hence one can say that it will be interesting to see how the next government will approach this policy decision, and whether this will have an effect in the investor confidence in the country. Though one can say that is quite clear that political considerations have overpowered economic policy decisions as far as this policy is concerned.

3.1 Inputs and Responses of FDI in Multibrand Retail Policy

Regarding the multibrand retail policy one can see that there are various interests, conflicts and stakes of various parties that are at play, which play an important role in understanding the impact that this policy will have in the future. There are primarily three stakeholders of this policy. One is the corporates (both domestic and foreign), second are the farmers and the unorganized retailers and the third are the political parties of our country. Hence one can say that the views of these stakeholders stated above need to be taken into account to draw a comprehensive sketch of this policy.

There are certain advantages and disadvantages that are projected as a result of this policy.
3.1(a) Advantages

The corporate sector has unanimously supported the issue of FDI in multibrand retail. The CII supporting FDI in retail states that foreign investment can help SMEs (small and medium enterprises) supply in large volumes, enhance their quality and become a vendor to international players and increase the quality of products and become cost competitive in global arena. Allaying fears that the global retail chains would severely impact small stores in the country, it said traditional trade will continue to have its own place and should not decline as stated by many others. (PTI 13th August 2012)

There are also various reasons why the issue of FDI in retail is supported by the farming sector. One of them is because it will eliminate the middlemen from the agrarian process. Though it is true that the farmers do suffer as the middlemen provide the farmers with the price which is sometimes even below its cost of production. The entry of the largest corporate houses will ensure that the farmers get better prices for their produce, through the guaranteed purchase of the MNE’S. The MNC’S also will provide the much needed technical assistance to the farmers, and develop the agrarian infrastructure of this country.

Another reason is also because of the technological innovations that it will bring in the agrarian sector. The case of FDI in retail is often made on the basis of the need to develop modern supply chains in India, in terms of the development of storage and warehousing, transportation and logistics and support services, especially in order to meet the requirements of agriculture and food processing industries. Lack of adequate storage facilities causes heavy losses to farmers in terms of quality degradation and wastage of produce in general, and for fruits and vegetables in particular. Hence many advocates of this policy state that FDI in retail will bring much needed cold storage infrastructure in the country which will benefit the agrarian sector in the long run. Hence the entry of FDI in multi-brand retail is likely to have a significant positive impact on the modernization of the agricultural sector.
3.1(b) Disadvantages

However there are certain disadvantages that are projected as a result of this policy. If one looks at the farming community many scholars state that if the multibrand retail policy is operationalized the farming community will mercilessly fall into the hand of the foreign corporate retailers, it will also lead to the introduction of a market mode of agriculture, for which the relevant market intelligence and logistics will benefit the rich farmers, as the small farmers of our country lack resources as well as financial assets as well as inadequate knowledge of the markets.

Also, while dealing with the large MNE’S the farmers will be left without a redressal mechanism if supermarkets pull out of procurement deals in the last minute, thus exploiting the lack of binding contractual agreements between them. Supermarkets also might resort to unethical practices such as delay in paying invoices and passing on unexpected costs back to suppliers for transport, packaging and food wasted at the stores.

Regarding the fears with the corporatization of Indian agriculture if one looks at internationally for example in the country of Guatemala, the supermarkets like Wal-Mart now control 35 per cent of food retailing, and their sudden appearance has also brought unanticipated and daunting challenges to millions of struggling small farmers, these supermarkets also lack binding contractual agreements, and reward the farmers only if they consistently meet new quality standards (Mcmichael, 2007, p.221). Hence the entry of giant MNCs into agricultural procurement might make the problems worse for the farmers.

On the other hand if one looks at the unorganized retailers it is might be unlikely that they will be able to withstand competition from prolific retail stores like Wal-Mart, who not only have better infrastructure but also can offer discounted prices to the consumers which can lure away customers from our traditional kirana stores.

It is also stated that the foreign retail majors will hurt domestic players with the practice of predatory pricing and become monopolies. It will also be a serious blow to the basic
structure of small traders as encouragement of foreign investment in big shopping markets and super stores will ruin their businesses. Generally if one looks at these push cart vendors and kirana stores, they are generally mobile in nature and are endowed with single items. Most of these stores are profitable but cannot offer the discounted prices that the big retail stores will offer. This fact explains their fear of the big retailers, which do possess this bargaining power since their purchase volumes are huge.

4. Conclusion

Regarding the reforms of 1991 the intent was, apart from deregulation of the internal economy, to increasingly integrate the Indian economy with the world that is, to globalize the Indian economy. However, after a decade of experience with the reforms, economic liberalization has come under increasing criticism, indeed virulent attack. The changes in government policy have also had an important bearing on the FDI position of India.

The issue today is whether India should embark on further liberalization and adopt a wide open doors policy which would include further relaxation of limits on foreign equity participation, autonomy to state governments over policies towards FDI, promotion of export processing zones and presumably fiscal incentives of various sorts to foreign firms. However proponents of openness argue for further liberalization of the economy, and for altering the economic regime to attract foreign capital. Large inflows of foreign capital, they claim, are necessary for transforming India’s stagnant economy. Critics of liberalization point to the dangers of excessive openness.

Regarding the reforms of 1991 the intent however was, apart from deregulation of the internal economy, to increasingly integrate the Indian economy with the world. However, even after two decades of experience with the reforms, economic liberalization has come under increasing criticism both from the left and the right there had cries about the alleged surrender of national sovereignty to foreign interests and the international financial institutions.
It is clear that foreign direct investment (FDI) today is now widely perceived as an important resource for expediting the industrial development of developing countries in view of the fact that it flows as a bundle of capital, technology, skills and sometimes even market access. It is also looked at as a mean of technology inflows and a way of establishing interfirm connections in a world of multinational companies operating on the basis of a network of global interconnections. However still the main question is: Is the cost of foreign capital to the host economy too high?

The FDI in multibrand retail policy was also indeed a part of the big bang reforms which were ushered in by the government but stringent policy conditions and lack of political support for reforms have discouraged investors. One can say that it is still too speculative to state whether FDI in multibrand retail can benefit the country or not. However one needs to understand that the retail FDI policy should be formulated and implemented with the interests of various stakeholders in mind, and like any policy this also need to be stable and proper regulations also needs to be in place so that any detrimental effects of this policy could be nullified.

In summation one can say that the 1991 reforms was indeed a watershed in India’s development strategy. It can be said that the reforms of 1991 did help to open various sectors to foreign investment, and helped increase the FDI inflows into the country. However many scholars stated that, from the perspective of Indian industry, the liberalization was introduced too suddenly and too quickly, without local business having been prepared adequately for competition over a period of time. What this illustrated was that while the new policy of 1991 had brought in a dramatic increase in investment activity, however there is still no clear understanding of FDI as a proper mechanism for development or its future role (Singh, 2005, p.6).
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