ROLE OF MULTINATIONALS AND FOREIGN DIRECT INVESTMENT

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ABSTRACT

The retail Industry has been gradually open up to foreign direct investment (FDI). Until two years ago, FDI in retail was not allowed at all. In early 2006, foreign investors were allowed to own up to 51% shares in single brand outlet only. Now there is talk of letting FDI into all retailing. The plan has aroused serious controversy in political in business cycles and a number of reviews are underway. The protest marches in various cities are indeed also fuelled by the impending entry of FDI. The only exception to the restriction of FDI in the industry has been the food wholesale sub-sector where 100% FDI is allowed. Even in the case of FDI in wholesale trade protests have occurred from time to time. Still, the ability of the wholesale sector to deal in farm produce has been restricted in states where the Agriculture Produce Marketing Committee (APMC) Act has not been amended. FDI in India has been a point of discussion for some time now. To start with let us fist understand what is meant by the term FDI. The most common definition of the FDI has been originally provided by International Monetary Fund and was subsequently endorsed by the organization for Economic & Cooperative Development.

INTRODUCTION

"FDI is a method of allowing external finance into an economy. FDI also facilitates international trade and transfer of knowledge, skill and technology. FDI in India constituted a percentage of gross fixed capitation formation in 1993, which went up 4% in 1997. [2]

Multinationals are called those international big corporate houses which have good network of their business across the boundary of their nations, Wal-Mart can be suit to be a best example of it. Wal-Mart has proposed to pact with Bharti in India to establish a chain of retail stores in India in coming year.

Commerce minister Kamalnath has announced that it is his intention to further open the retail sector to FDI The results of these steps are for all to see, chiefly the back door entry of retail giant Wal-Mart in Indian retail space through a deal with Bharti Enterprises. The tenth plan approach paper postulates a GDP growth rate of 8% during 2002-07.[3]

This implies an increase in FDI for the present level of US $ 3.9 billion in 2001-02 to at least around US $ 8 billion a year during 2002-07. [4]

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 attractiveness ranking, the First being China.

Table 6.1: Key FDI Destinations.

Country	*Rank 2005*	*Rank 2005*
China	1	1
India	2	3
USA	3	2
UK	4	4
Poland	5	12
Russia	6	11
Brazil	7	17
Australia	8	7
Germany	9	5
Hong kong	10	8

Source: A.T. Kearney, The Times of India Dec 9, 2005

FDI inflows during October stood at 1.7 billion dollar compared with 0.4 billion dollar in Oct. 2005 marking 312% rise. Developing countries emerging economies and countries in transaction increasingly see FDI as a source of Economic Development, modernization and Employment generation and have liberalized their FDI regimes to attract investment.

In India, FDI in Retail is not allowed. an international retailer can enter the Indian retail market through any of the following methods:

- Hi-Tech item/items requiring specialized offer sales service
- Social sector items
- Medical and diagnostic items
- Items resourced from the Indian small sector (manufactured with technology provided by the foreign collaborator)
- 2-year test marketing (simultaneous commencement of investment in manufacturing facility required)

Foreign owned Indian companies cannot own and run retail shops to sell other categories of goods to consumers in India 100% FDI is through permitted an specific approval basis in case of trading companies in India, for carrying out:

- Export Trading
- Bulk imports with sales either through custom bonded warehouses/high sales
- Cash and carry wholesale trading :or
- Sales substantially to group companies

FDI upto 100% is allowed for e-commerce activities subject to the conditions that such companies would divest 26% of their equity in favor of the Indian public in 5years, if these companies are listed in other parts of the world. Further these companies can engage only in business (B2B) e-commerce and not in retail trading inter alia, implying that existing restrictions on FDI in domestic trading would be applicable to e-commerce well. [5]

NOD LIKELY FOR PARTIAL FDI IN RETAIL

Government looks set to make an attempt at partially opening up FDI in retail in select segments such as electronics, stationary, sports goods and building equipment's.Prime Minister Manmohan Singh is learnt to have asked a commerce ministry to prepare a not for the cabinet. The PM's directive came when commerce Minister Kamal Nath raised the issue at a recent meeting. Matters have since moved swiftly, with the commerce ministry starting consultations with the department of consumers' affairs. When approached, commerce minister Kamal Nath confirmed that government was taking relook at allowing FDI in sectors in which the neighborhood mom-and-pop stores do not have a major presence- the principal justification for the resistance to allowing FDI in retail. Though the minister refused to be drawn into the specifics, sources confirmed that the matter may be brought before the cabinet as early as next month.

The choice of sectors is strategic as these are unlikely, government reckons, to attract the same degree of opposition as what is witnessed in areas dominated by neighborhood shops. Those arrayed against the opening up of the retail sector for FDI have cited the plight of the small shopkeeper to justify their stand. They have persisted with the resistance even as the world's biggest retail giant, Wall Mart, has tied up with Bharti group for back-end operation. At present, FDI up to 51% is allowed only in single –brand retail with prior government approval. In wholesale cash-and-carry, up to 100% FDI is allowed. Government, however, does not see allowing FDI in retail to be necessarily in conflict with the small shopkeeper's growth. In fact, it has argued that encouraging foreign investment in the back end of retail activities like logistics, cold chain and technology will help the traditional retailers. While the fate of his stab at pricing open the retail sector for FDI is not known, Nath is quite upbeat about the volumes. FDI inflows during October stood at $1.7 billion compared with $0.4 billion in October 2005, marking a 312% rise. The ministry is quite confident that FDI inflows by way of equity in the current fiscal will cross &11 billion, or double the $5.5 billion **last year.**

WILL LARGE RETAIL KILL THE KIRANA?

There is obvious competition at the front-end, but cash-and-carry will benefit the kirana as well, apart from the impact on supply chain and agriculture. Commerce Minister Kamal Nath has announced that it is his intention to further open the retail sector to FDI. This is on top of allowing FDI in single brand and 100per cent FDI through the automatic route in the cash-and-carry segment. The results of these steps are for all to see, chiefly the back-door entry of retail giant Wal Mart in the Indian retail space through a deal with Bharti Enterprises. The Bharti Wal Mart deal was truly a grave violation of the spirit of the existing regulation which denied FDI per se in the retail sector. The Left has all along opposed FDI in the retail sector. And the media has not wasted any time in firing its favorite target-the convenient punching bag – The Left. It sees spoilsport in this great celebration of "market" and "consumers".

Therefore, setting the record straight would be in order. The Left, and for that matter, the CPI (M) in particular, has not been opposed to FDI, as such. But in a country where unemployment continues to remain the biggest challenge, the entry of FDI and the response to it have to be tempered with certain critical considerations. FDI must be able to supplement our search for domestic investment, augments productive capacities generate additional employment and provide for value-addition in technology. Without these, it is only going to further burden the national economy and can at best accentuate the "jobless growth", which we are already witnessing.

It is necessary to subject the possible impact of the entry of FDI to precise scrutiny from the standpoint of these criteria. Even the most ardent advocates of FDI entry are not claiming that productive capacities will expand. Neither is they offering any study to substantiate the claim that employment will grow. [6]

WORLD TRADE ORGANIZATION

The World Trade Organization (W.T.O.) which subsumed the General Agreement on Tariff and Trade or the GATT, began operating on January 1, 1995. At the time of the second ministerial meeting of the W.T.O. In Geneva, in May 1995, there were 132 members of the W.T.O. and 30 more, including China and Russia, were engaged in membership accession negotiations. Even without China and Russia, W.T.O. has become, within a short span of four years, a global institution that commands for greater measure of acceptance and respect in the world as a wholes including in many poor countries, than the G.A.T.T. did. The present strength of WTO membership is 147. This includes China and Nepal whose accession was approved by the W.T.O. Ministerial Conferences held on Doha &Cancun in November 2001 and September 2003 respectively. There are presently 30 countries in the accession to the W.T.O.

MANAGEMENT OF W.T.O.

At the time of second ministerial meeting of the WTO in Geneva, in May 1998, there were 132 members of the WTO and 30 more, including China and Russia, were engaged in membership occasion negotiation. Even without China and Russia, the WTO has become within a short span of three years, a global institution that commands a far greater measure of acceptance and respects in the world as a whole, including in many poor countries, than GATT did. The structure of the WTO is dominated by the highest authority the Ministerial Conference (MC) composed of representatives off the WTO members. The (MC) must meet at least every two years. The first ministerial meeting of WTO was held at Singapore during December 13.9.1996. With this meeting the transition from GATT to the WTO was virtually completed and the new world trading order under the WTO got firmly established. Contrary to the temporary nature of GATT, WTO is a permanent organization which has been established on the basis of international treaty approved by participating countries. It achieved the International status of like I.M.F. and I.B.R.D. but it is not an agency of the U.N.O.

The routine work of WTO is principally handled by the General Council which is also compassed of all WTO members and which reports to the Ministerial Conference. The General Council concurs in the two particular forms as the “Dispute Settlement Body” (DSB) and the “Trade Policy Review Body” (TPRB). The DSB usually meet twice a month or hear complaints of violation of WTO rules and agreements. It sets up experts panels to study disputes and decides if the rules are being broken. The DSB’s final decision can not be blocked. The TPRB is a forum of reviewing the trade policy of all WTO states, major trading powers are reviewed every two years, other every four years. There are number of important committees for administration of WTO out of which 2 committees play vital role in WTO. They are (1) Dispute Settlement Body-DSB. (2) Trade Policy Review Body (TPRB) DSB considers the complaints of member countries against violation of rules by any member country. This body appoints a group of experts to investigate into such complaints. This body meets twice a month for such cases.

TPRB review the trade policy of member countries. The trade policy of all big trade powers of the world are reviewed after every 2 years. All the members of WTO are the member of TPRB.

Other important bodies of WTO are:

(i) Council of trade in goods

(ii) Council of trade in services

(iii) Council of trade related aspects of Intellectual Property Rights.

The WTO members see the DSB producing fair and enforceable rulings. The three others bodies established by the MC and which report to the general Council are the committee on Budget. Besides these bodies there is the council for “Trade in Goods”, which is assisted by 12 committees which each being concerned with separate subject. The council for “Trade in Services” is assisted by 6 separate groups. Finally, there is the council for trade related aspects of Intellectual Property Rights.

FUNCTIONING OF THE W.T.O.

The five decades since the conclusion of the GATT in the 1947 saw an unprecedented rapid expansion of the world trade. From 7 per cent of global GDP in 1950 trade has grown to 23 per cent in 1997. Between 1948 and 1998 while world GDP grew 6 times, world trade grew in times. As the 20th Century comes to close, the world is poised to attain a truly global market for finance, goods direct and portfolio investment, technology and telecommunications. In contrast to application remained provisional throughout its existence. The fact that the WTO is a single institutional which encompassing the GATT, as modified by the Uruguay Round (U.R.), all agreements and arrangements under its auspices and the complete results of the U.R. hardly be over emphasized.

WORLD TRADE ORGANIZATION

As per the consensus at the Uruguay Round, the World Trade Organization (W.T.O.) was established on 1995 as successor to the GATT which was established on 1 January, 1995 as a successor to the GATT was established in 1947. India is a founder member of both GATT (1947) and its successor organization the WTO is a legal and institutional foundation of multilateral trading system, the world trade organization provides the contractual obligations determining the manner in which the member governments shall frame domestic trade legislation and regulation. As the principal international body concerned with solving trade desput between 133 member countries and providing a forum for multilateral trade negotiations. At present the member of the WTO is 132 and it is based in GENEWA, Switzerland. The WTO is headed by director general four deputies from different member states.

OBJECTIVES OF W.T.O.

(1) Increase of world production by ensuring full employment in the participating nations.

(2) To improve the living of standard among participating nation due to improvement of effectiveness of income.

(3) Expansion of international trade.

(4) Development and full utilization of world resources.

(5) Set the rules and regulation for the multilateral agreement.

(6) To protect and escort the environment.

(7) To resolve trade disputes among member countries.

(8) To act as a forum for multilateral trade negotiation.

(9) Reduction to tariff and non-tariff barriers to trade.

(10) To eliminate discrimination in international trade among member countries.

FUNCTIONS OF WORLD TRADE ORGANIZATION

The essential functions of the W.T.O. are:

(1) The WTO is a collective institutional platform on which the trade relations among countries even collective debate, negotiation and adjudication.

(2) Providing facility for implementation, administration and operation of world trade agreement.

(3) To resolve trade deputes among 132 member countries.

(4) It acts as co-ordinating institutions with the International Monitory Fund and World Bank.

(5) To oversee national trade policies.

(6) To protect and escort the environment.

(7) To cooperate with other international institutions involved in global policy making.

(8) Optimum utilization of world resources.[7]

WTO AND RETAILING

Retail industry in whole of the world is in prosperous mood. There are 132 member countries in the WTO and they are linked in one another and doing retail business according to the objectives of the WTO, (indicated above in this chapter). Thus, increasing the world production by insuring full employment in the participating nations. They are improving the living of standard among participating nation. They are also expending international trade thus fully utilizing world resources.

S.A.A.R.C. AND RETAIL INDUSTRY

The SAARC (South Asian Associate For Regional Co-operation), comprising the seven South Asian countries of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka, Formally came into existence in 1985 with the adoption of its Charter at the first Summit in Dhaka (7-8 December, 1985).

Objectives

The Association provides a platform for the peoples of South Asia to work together in a spirit of friendship, trust and understanding. It aims to promote the welfare of the people of South Asia and improve their quality of life through accelerated economic growth, social progress and cultural development in the regain.

The following are the main objective of SAARC:

1. To promote the social-economic welfare and cultural development of the people in the regain.
2. To encourages active collaboration in the economic social, technical and scientific fields among the grouping nations.
3. To strengthen over-all co-operation and harmonious economic and political relations among the countries of the SAARC.
4. To promote and strengthen collective self-reliance among the member countries.
5. To contribute to mutual trust, understanding and appreciation of one another's problems.
6. To facilitate optimum utilization of human and material resources.
7. To stimulate investment flows and accelerate pace of economics development.
8. To develop free regional trade.

Principles

SAARC is based on the following principles:

(i) Co-operation in the SAARC is based on respect for the principles of sovereign equality, territorial integrity, political independence, non- interference is internal affairs of the Member States and mutual benefit.

(ii) Regional co-operation is seen as a complement to the bilateral and multilateral relations of SAARC Member States.

(iii) Decisions are taken on the basis of unanimity, Bilateral and contentious issues are excluded from the deliberations of SAARC.

General provisions

The General Provisions of SAARC are as follows:

- Decisions at all levels in SAARC are taken on the basis of the unanimity.
- Bilateral and contentious issues are excluded from the deliberations of the Association.

Organizations

The organization of SAARC consists of the following:

1. **Summits**: Summits are the highest authority in SAARC, are to be held annually. The country hosting the summit holds the chain of the association. During 1985 to 2000, thirteen meetings of the heads of member countries had been held as shown in table:

2. **SAARC Secretariat:** The SAARC Secretariat is based in Kathmandu. It co-ordinates and monitors implementation of activities, prepares for and services meetings, and serves as a channel of communication between the Association and its Member States as well as other regional organizations

Summit	Year	Place
I	Dec. 7-8, 1985	Dhaka (Bangladesh)
II	Nov. 16-17, 1986	Banglore (India)
III	Nov. 2-4, 1987	Kathmandu (Nepal)
IV	Dec. 1988	Islamabad (Pakistan)
V	Nov. 1989	Male (Maldives)
VI	Dec. 1991	Colombo (ShriLanka)
VII	April 10-11, 1993	Dhaka (Bangladesh)
VIII	May 2-4, 1995	New Delhi (India)
IX	May 12-14, 1997	Male (Maldives)
X	July. 29-31, 1998	Colombo (ShriLanka)
XI	Jan. 5-6, 2002	Kathmandu (Nepal)
XII	Jan. 4-6, 2004	Islamabad (Pakistan)
XIII	Nov. 12-13, 2005	Dhaka (Bangladesh)
XIV	Proposed (2007)	India

The Secretariat is headed by the Secretary General, who is appointed by the Council of Ministers from Member Countries in alphabetical order for a three-year term.

The Secretary General is assisted by seven Directors on deputation from Member States.

3. **Council of Ministers:** The Council of Ministers comprising forcing Ministers, meets and least twice a year its functions include formulating policy receiving progress for regional co-operation identifying new areas of co-operation and establishing additional mechanisms that may be necessary.

1. **Standing Committee:** Standing Committee comprising Foreign Secretaries, monitor and co-ordination SAARC programmes of Co-operation approves projects including their financing and mobilizes regional and external resources. It meets as often as necessary and reports to the Council of Ministers.
2. **Programming Committee :** The Programming Committee assists the Standing Committee. It includes senior officials. It scrutinizes the budget of the Secretariat, finalizes the annual schedule of its activities and tales up any other matters assigned by the Standing Committee.
3. **Technical Committees:** Technical committees Comprise the representatives of all member of State They formulate programmes and prepare projects in their respective fields. They are responsible for monitoring Committee through the Programming Committee.

Progress and Achievements of SAARC

a. Technical Committees

b. Social Agenda

c. Food Security Reserve

d. Information and media

e. Environment

f. Interaction between Other International Organizations and SAARC.

g. Suppression of Terrorism

h. Poverty

i. Co-operation in Private Sector

j. Achievement of SAPTA-SAFTA

CRITICISMS OF SAARC

(1) Many commodities on which trade concessions have been given are not traded among SAARC Countries.

(2) Member countries often bargain for removal of tariffs on the basis of the condition of every commodity.

(3) There are many commodities with large intra trade which have not been included in the list of tariff concessions.

(4) Some member countries get benefits from other regional preferential arrangements which lead to duplication of preferences.

(5) Despite the setting up of Technical Committee on Transport, land and water route transport facilities are not available among SAARC countries.

SUGGESTIONS TO INCREASE ECONOMIC CO-OPERATION AND TRADE IN SAARC

Empirical evidences show that there is as ample scope for extending trade and economic relations among the countries constituting SAARC region. The following suggestions are made to increase trade and economics co-operation among SAARC countries:

(1) The progress of SAARC, in general has remained very slow due to lack of adequate consensus among the countries. For the success of SAARC co-operation the countries should undergo preferential trading arrangements, open data bank, start joint R and D programme and develop a common support service programme.

(2) The SAARC countries should assume foreign trade as a priority sector under the rapid globalization of their economies. They must have co-ordination of their technical Know-how and scientific research with mutual help for their industrial growth and development.

(3) Production capacities at the regional level should be enhanced through co-operation among SAARC countries so that intra-regional trade and trade with outside countries increase.

(4) SAARC members should set up joint ventures in each other's country, especially in the least developed countries.

(5) Big Member State of SAARC should help small member countries in developing their power, transport, infrastructure, communication and other resources so that their economic capacities may increase and they may diversity.

CONCLUSION

In this chapter it has been mentioned that government is very keen to employ FDI in retail. In some segments such as electronics, stationary, sports goods and building equipments at present FDI up to 51% is allowed only in single brand retail with prior government approval and in cash and carry segment up to 100% FDI is allowed. It has been discussed in the chapter will large retail kills the kirana? Commerce Minister Kamal Nath has announced that there will be door to be opened for retail sector to FDI. The left has opposed FDI in retail sector. It has been also mentioned in the chapter that it is necessary to subject the possible impact of the entry of FDI to precise scrutiny from the stand point of these criteria. The chapter also discuses WTO and GATT. In the chapter management of WTO has been discussed besides functioning's of the WTO has also being discussed. The objectives of WTO, functions of WTO have been discussed in details. The conference of SAARC, the objectives of SAARC, and functions of SAARC has also been discussed in the chapter. Different motives of SAARC has been discussed to promote World Trade in India and other objectives for this purpose, the retail lastly has been widely come into distance through the promotion of WTO, GAAT & SAARC in the World.

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