FDI in Retail - II
Inviting more Trouble?

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The debate on whether to allow FDI in Retail seems to have entered the final lap. While the anti-FDI lobby seems to have a distinct advantage in terms of numbers with the left parties and the BJP taking official positions against it, in addition to the many Congress MP's who have spoken against it, the pro-FDI ranks draws much heavyweight support from among the treasury benches and the influential English media. The Prime Minister himself has indicated his leanings and has had a well-publicized meeting with the Wal-Mart CEO, Mr. Joe Menzer. In addition to Dr. Manmohan Singh, many of his ministerial colleagues like Finance Minister P. Chidambaram, Commerce Minister Kamal Nath and Civil Supplies Minister Subodh Kant Sahay have time and again publicly stated their support for FDI in Retail. Nevertheless the numbers seem against the government and it has therefore committed itself to formulating a policy that will take into account all concerns, both for and against. One can only speculate on the quality of such a policy that seeks to address two so divergent and opposed viewpoints? It brings to mind Lee Iacocca's celebrated comment that "a camel is what you get when a committee sets out to design a horse!"

More Bad than Good

The Centre for Policy Alternatives with its study "FDI in India's Retail Sector: More Bad than Good"[1] was the first to clearly stake out a position against the entry of FDI into Retail. An abridged version of this study published in the respected journal, *Economic and Political Weekly*[2], of February 12-18, 2005 is available for ready reference in Appendix I. In it we argued that FDI in Retail – given the current economic realities of India and the national failure to reorder the composition of the GNP – might do more harm than good. It was implicit in this study that large format retailing and the entry of FDI will bring many good things with it, but we must also be cognizant of the harm it will also do.

We argued that while large format retailing was inevitable one day we must not hasten it. The task right now is of transforming the composition of the GNP and creating jobs so that the rush into self-employed retailing slows down. This has not even begun and we are preparing to embark on a policy that will displace tens of thousands of retailers, if not millions. Instead of

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[1] To see this report, please visit: www.cpasind.com/reports.html.

[2] "FDI in India's Retail Sector: More Bad than Good", Mohan Guruswamy et al, *Economic and Political Weekly*, Volume XL No 7, Feb 12-18,2005, pages 619 to 623.

replying to this the protagonists of FDI in Retail keep repeating that new jobs will be created. It's true that some new jobs will be created, but this will be at the cost of thousands more that will be lost.

It is also not tenable to compare India and China because the latter has made a very significant achievement in transforming the composition of its GNP and has created a huge manufacturing sector in certain regions. They also have strict regulations and systems in place to stop internal migration. This situation then allows them to have Wal-Marts in certain regions. Besides we must not forget that the Chinese per capita GNP is almost twice that of India's[3].

Becoming a Post-Industrial Society without Industrialization!

Instead of deriving the appropriate lessons from this, our opinion makers seem to be deluding themselves with the absurd notion that we can become services driven and hence in effect become a post-industrial society without having industrialized. Our work force is 422 millions large and the organized sector only employs 27 million[4]. Therefore, it is clear that the self-employed retail sector is a safety valve that allows people the opportunity to fend for themselves when the government fails to create jobs.

The CPAS study also argued that the two facts, i.e. that the unorganized retail sector of small and medium retailers employs over 40 million; and that we have 11 retail outlets for every 1000 people[5], suggests a considerable element of 'forced employment' in this sector. The reality of jobless growth only adds to the 'forced employment'. Mind you only 4% of India's 11 million retail outlets have floor areas in excess of 500 sq.ft[6]. This should dispel any image of any preponderance of large-scale retailing we may have derived to the size of the old established downtown retail outlets and in the new suburban malls. Retail in India is mostly the millions of tiny shops with pucca and semi-pucca premises, and millions more on handcarts and pavements. Hence the CPAS study argued that entry of large format mass retailers like Wal-Mart is fraught with many risks.

It must also be borne in mind that mass retailers like Wal-Mart do not cater to the high end consumers like branded retailers like Marks & Spencer or even fast food retailers like McDonalds or Dominos do. Wal-Mart mostly retails what the *bazaar* with its numerous shops already provides. Every Wal-Mart must be seen as an entire *bazaar* or market. So while it can be

[3] See CPAS study, "Will India Catch-up with China?" on www.cpasind.com/reports.html.
[4] Institute of Applied Manpower Research, Employment in Organised Sector in India in 2003.
[5] Figure's from Anil Sasi "Indian Retail Most Fragmented", *The Hindu Business Line*, Aug 18, 2000.
[6] Singhal, Arvind (1999), "A Strong Pillar of Indian Economy", KSA Technopak.

argued that a high-end store might even expand the market by creating a new demand, the likes of a Wal-Mart will only prey on the existing market. Naturally Wal-Mart's legions do not want to discuss this. They just keep touting FDI in Retail as a magic wand that will solve all our problems. This is an absurd notion.

The Google War.

The debate that has raged since has been fast and furious. Google has 417,000 listings under "FDI in Retail India". It also seems that on Google, the supporters of FDI in Retail seems to be winning. A cursory glance of the first ten pages makes this trend apparent. The CPAS has generally taken positions in favor of FDI in most sectors when it results in job creation and value addition. But this was overlooked and we began to be thrashed as being Luddites and worse still in the pay of Indian corporations contemplating forays into large format retailing. This is par for the course as our public discourse these days has been generally reduced to name-calling and catcalling, instead of taking educated positions after studying the issues involved. The CPAS study argued that to open the Indian Retail sector to FDI without undertaking far more comprehensive reforms to expand the industrial sector and value-addition in manufacturing, would only result in inflicting more pain on the national economy. Nobody is prepared to give answers to this. Not the Prime Minister or his colleagues in government who are more intent on sending abroad a message about their "reformist" zeal rather than on sending the right message to the nation.

Will imports from India by Wal-Mart go up?

The proponents of FDI in Retail argue as to how FDI in Retail will transform the supply chain benefiting farmers and small producers. They also argue that once the likes of Wal-Mart are established in India, exports will grow. They cite the volume of Wal-Mart sourcing from China, which is now in excess of US $20 billion annually. The suggestion therefore being that Wal-Mart will do likewise in India. These two arguments were analyzed in our article in *The Hindu Businessline* of Sept 29, 2005 (See Appendix II). But the sheer weight of the articles in support of these arguments in our media, primed no doubt by huge PR expenditures[7] requires that the hollowness of these be exposed fully to enable policy makers to come up with a policy more in touch with reality and less to do with immediate self interest of big corporations and their hucksters.

[7] The Times of India, Delhi, Jan 30, 2006, Pg 14

The Wal-Mart way: It is not for nothing that the world's largest company; $345 billion Wal-Mart is feared and admired in equal measure. It got international PR agency Burson-Masteller to acquire Prema Sagar promoted Genesis Public Relation. After two weeks of intense negotiations, BM acquired complete control of Genesis PR by paying a huge price. In the process, Wal-Mart has killed two birds with one stone. It has not only got an international PR consultant but also the expertise of Genesis to lobby at the Centre for foreign direct investment into retail chains in India.

The Times of India, Delhi, Jan 30, 2006, Pg 14

We had argued that Wal-Mart is committed to buying the best goods at the cheapest prices to give its customers the best value for money. That is why it sources so heavily in China. If Wal-Mart were a country it would have been China's sixth largest export market and eighth largest trading partner[8]. Here we argued that even if Wal-Mart were not operating its retail business in China it would still continue to source heavily from there. One had nothing to do with the other.

Yet supporters of FDI in Retail insist that Wal-Mart's imports from India will increase dramatically once it opens retail operations in India. Beyond repeating this they offer no logic or evidence to support this. Wal-Mart has a sourcing operation based in Bangalore and its Indian exports are less than 5% of what it procures from China. The reasons should be obvious. It's about getting value for money. That should be the government's priority not placating a giant corporation's appetite for even greater profits.

Modernizing what Supply Chain?

The National Sample Survey relating to household expenditures as evidenced by Table 6 are revealing. Fruits and vegetables only account for 9.88% of urban household expenditure[9]. It is widely agreed that the supply chain that links the Indian producer to the domestic consumer is primitive, outmoded and wasteful. Many studies exist that detail the extent of wastage. We will readily concede that large format retailing with its capacity for bulk procurement and capital investment, even if it accounts for a fraction of the retail trade in the sector, might be able to make some headway in modernizing the supply chain. But this does not make FDI imperative.

[8] Subramanian K, "Wal-Mart and China – Wholesale lessons for India's Policy Makers", *The Hindu Business Line*, July 01, 2005.

[9] *NSS Report 505, Household Consumer Expenditure in India 2004, Key Results* National Sample Survey Organization, Government of India.

But before we get into the 'for and against' argument vis-à-vis FDI, we must also ponder over the fact that a modern and nationwide supply chain has been created, indigenously, for milk and milk products which account for 8.11% of household expenditure. Similarly we have an effective supply chain for food items such as cereals, pulses, and sugar and edible oils, which together account for 24.16% of household expenditure. All other non-food goods purchased by our households such as tobacco products and alcohol, processed foods and snacks, toiletries, detergents, garments etc which together account for 52.57% of all urban household expenditure are made available for consumption by modern and efficient supply chains. Thus what the average household does not get from a modern supply chain is a very small part of its purchase (see Table 1).

Table 1: Monthly Expenditure per Person (weighted average of urban and rural areas)

Item	Expenditure (Rs.)	Share of total expenditure (%)
Cereals, pulses, sugar, oil, spices	181.29	24.16
Fish, meat, vegetables and fruits	74.16	9.88
Milk and milk products	60.87	8.11
Non-food items	394.57	52.57

Source: NSS Report 505, Household Consumer Expenditure in India 2004, Key Results NSSO. New Delhi

So the argument that the pro-FDI lobby extends vis-à-vis of FDI in Retail modernizing the entire supply chain is a bit exaggerated. The supply chain as it is now is mostly modernized and efficient, and what is yet to be modernized covers only a very small part of urban household consumption. The argument then that we need the merchants of the western world like Wal-Mart to modernize just 9.88% of the supply chain[10] is a bit bogus and self-serving.

Decrying ICRIER

The Government of India’s Department of Consumer affairs in collaboration with the Indian Council for Research on International Relations (ICRIER) has published *FDI in Retail Sector INDIA* in June 2005. The study strongly advocates that “foreign direct investment should be allowed in retailing

[10] *NSS Report 505, Household Consumer Expenditure in India 2004, Key Results* National Sample Survey Organization, Government of India.

since it would speed up the growth of organized formats," without offering any valid reasons as to why the growth of "organized formats" is so important. It further states, "In the initial stage FDI upto 49% should be allowed which can be raised to 100% in 3 to 5 years depending on the growth of the sector. FDI cap below 49% (i.e. 26%) would not bring in the desired foreign investment." It admits "Foreign Retailers have pointed out that setting up of manufacturing base in India is difficult since the infrastructure is poor, labor laws are unfriendly, etc."[11] If this ridiculous argument is carried to its logical limit, India will then have to import just about all manufactured goods.

The above quotations reveal the intent and bias of the authors. They seem to be pleading for unrestricted imports of all sorts of goods for consumption by the well off consumers through a well-developed, single point-sourcing channel. The hypermarts and superstores of the foreign retail giants fed by manufacturing nodes in ASEAN and China could then swamp the retail space in India edging out not only the traditional distributors and retailers but also putting out of business the SSI and medium scale manufacturers in India. Instead of improving our infrastructure and amending our 'unfriendly' labour laws and thereby making our manufacturing sector attractive for FDI, the report pleads for bypassing it entirely since it is 'difficult' and for facilitating cheaper imports from 'efficient' sources.

Are ICRIER and the Department of Consumer Affairs advocating the cause of the manufacturers, labor and retailers of other countries at the expense of Indians? The CMP states that it intends "to unleash the creative energies of our entrepreneurs, businessmen, scientists, engineers and all other professionals and productive forces of society". By not giving our entrepreneurs and manufacturers a level playing field and by hobbling them to the vacuous ideas of the past achieve the unleashing of the creative energies of the people? It's more important for the Government to establish its reformist credentials at home than abroad. Let us not forget that China has been able to establish its reformist credentials to western investors and financiers while remaining a totalitarian and rigid dictatorship, even if it continues to claim it is by the proletariat.

> 70% of merchandise in Wal-Mart contains components made in China.
>
> Planet Retail, December 2, 2005

[11] FDI in Retail Sector, INDIA; ICRIER and Dept of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution, Govt. of India (page 19).

The ICRIER study approvingly quotes from a national survey to make its points. It needs to be pointed out that this "national survey" by which it seeks to establish the preferences of a nation of over a billion people, is a survey based on a mere 62 consumers across 8 cities. It would be laughable if it were not for the sheer bravado of the brazen effort[12]. We will not comment on the morality of a government commissioning a study with public funds to support the misplaced enthusiasm of a few ministers and highly placed authorities. But if this is the quality of research the best in the establishment can come up with we must wonder how good our best and brightest indeed are?

> Inverness currently has three TESCO stores and a fourth is planned in the Holm area. However, residents in the Holm area have objected to the planned fourth supermarket, saying they feared increased traffic, noise, flooding and crime. Local MP Danny Alexander said the retailer's "extremely dominant position" was a cause for concern.
>
> BBC News

Recent trends in World Retail

Three trends have converged over the last couple of decades to give a decisive edge to giant multinational global retailers. The new telecommunications linking low cost manufacturers in industrializing countries such as China, and the giant retailers in the rich countries; and the lowering of the tariffs; and reduction of transportation and holding costs which enable goods to come "just in time." There are around 30 giant retailers with sales ranging from $18 billion to $285 billion. Seven of these retailers are wholly confined to their home countries and six retailers have less than 10% sales outside their home countries, leaving 17 large format omnibus multinational retailers for the international stage.[13]

[12] FDI in Retail Sector, INDIA; ICRIER and Dept of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution, Govt. of India (page 18 and 129).
[13] *FDI in Retail Sector, INDIA*; ICRIER and Dept of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution, Govt. of India (page 19)

Table 2: Top 10 Global Retailers with their Sales in Grocery and Percentage Share of Domestic and Foreign sales in Total Retail Sales, 2003						
Rank	**Company**	**Country of Origin**	**Net Sales 2003 (USD mn)**	**Grocery Sales (%)**	**Domestic Sales (%)**	**Foreign Sales (%)**
1	Wal-Mart	USA	256329	43.7	79.1	20.9
2	Carrefour	France	79609	77.4	50.7	49.3
3	Ahold	Neth.	63325	84.0	15.8	84.2
4	Metro Group	Germany	60532	50.5	52.9	47.1
5	Kroger	USA	53791	70.2	100.0	0.0
6	Tesco	UK	50326	74.6	80.1	19.9
7	Target	USA	48163	17.8	100.0	0.0
8	Rewe	Germany	44251	75.6	71.4	28.6
9	Costco	USA	41693	61.0	81.5	18.5
10	Aldi	Germany	41011	83.6	63	37.0
Source: M+M Planet Retail (www.planetretail.net)						

From the above table, it is quite evident that grocery sales account for the major part of their sales. In the case of Wal-Mart, it is 43.7%, whereas the other two big players: Carrefour (77.4%) and Ahold (84.0%) are not more than giant grocery merchants.

Of the top six retailers, five have over 20% of their sales in foreign countries. These are Wal-Mart (USA -$285 bn), Carrefour (France -$84 bn), Ahold (Germany-$60 bn), Metro (Germany-$60 bn), and Tesco (UK-$51 bn)[14]. Since their domestic markets are saturated - these giant retail chains are making every effort to extend their retail network abroad. India with a current total domestic retail market of over Rs.100, 000 crores, and with organized (large format) retail of only Rs.3500 crores that is expected to grow at 25% to 30%, is the most sought after destination for these retail giants. Articles on the advantages of encouraging FDI in retail extol the number of jobs to be created, and their establishing a cold chain to increase Indian exports appear regularly in our media.

> Wal-Mart's extreme pricing pressure on suppliers forces those companies to relocate factories and jobs overseas.
>
> *Los Angeles Times*, 23 November 2003

[14] *FDI in Retail Sector, INDIA*; ICRIER and Dept of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution, Govt. of India.

Key areas to consider

The four key areas that need to be analyzed in detail before permitting FDI in retail are:

1) Displacement of traditional retailers by large and efficient modern retailers leading to massive redundancies among the small family owned and mostly self employed retail trade.
2) Opening of a giant pipeline of cheaply sourced goods from China, Thailand, ASEAN, etc., leading to manufacturing job losses on a massive scale in India.
3) Using the tremendous clout of a monopsonistic buyer to drive down procurement prices over time in manufactured and agricultural products.
4) Replacement of established national brands by the brands of the behemoth retail giants.

Given our pressing need to absorb growing numbers from the hinterland into our labor pool, should we exacerbate our problems by facilitating foreign procurement coupled with efficient local distribution, thereby suffocating our own manufacturing industry?

This at a time when we still have not got around to facilitating lower cost and more efficient manufacturing in India through enabling legislation and regulation. The contribution of industry to GDP in 1992-96 and 1997-2003 was 30.9% and 23.7% for India, while for China over roughly the same period it was 62.2% and 58.5%[15]. We need to address issues at home before we unthinkingly or unintentionally invite problems from abroad. The Government would be better advised to address this issue first, rather than devoting itself to the cause of foreign retailers.

Global Sourcing

Supporters of FDI in Retail claim that foreign retail giants give better value. Better value simply means quality goods at lowest prices. Wal-Mart procured $18 billion worth of goods from China, while it procures less than $1 billion goods from India. This is simply because China is a cheaper/better producer of manufactured goods. India's multi layered distribution system and fragmented marketplace ironically acts as a safeguard against China's far superior competitiveness. Now consider just one big chain with a gigantic well-developed "single point" of sourcing entering into the retail industry in India. It will amount to laying a giant pipeline for the products of

[15] Bhanoji Rao "Industry, Ugly Duckling" (Dec 1, 2004) *The Economic Times*.

China's state sponsored consumer goods industry directly to whet the sundry appetites of the new yet relatively small consuming elite of India.

> "Something must be done by all of us in the retailing and manufacturing areas to reverse this serious threat of overseas imports to our free enterprise system… Our company is firmly committed to the philosophy by buying everything possible from suppliers who manufacture their products in the United States."
>
> Sam Walton, Wal-Mart Founder, 1985

The fortuitous circumstances of our societal ethos towards education and absent-minded neglect by socialist regulators of the IT services sector, do not exist in Indian manufacturing industry. The "Banarasi silk" industry is reeling under the shock of cheap silk imports from China and thousands of silk weavers have metamorphosed into construction laborers[16]. Skills built up over generations have been irretrievably lost forever.

> More than one million jobs have been outsourced to China since the early 1990's, leaving families and communities devastated.
>
> *PBS Frontline.* 2004

Monopsony[17]

Classical economics was wary of the monopolistic producer who would charge 'too much' from the poor working classes while producing the much-needed 'bread'. The single producer was the dread from which economists sought 'perfect competition', meaning many producers catering to many consumers resulting in fair competition in a perfect market. Neither Joan Robinson nor Alfred Marshall could have conceived of a global operator with a huge hoard of cash and instant information becoming a 'sole' consumer. To the economists 'monopsony' was a theoretical concept – to be defined as a construct before belaboring the dangers of a monopoly.

The integration of the supply chain and the financial resources of global retailers have made monopsonistic cartelization a chilling reality. A decade ago coffee producers earned US $ 10 billion from a global market of over $30 billion. Now they receive less than $6 bn out of a global market of $60 bn[18]. Thus, vast numbers of coffee farmers are at the tender mercies of

[16] Sept 13th 2005, *Times of India*.
[17] *The MIT Dictionary of Modern Economics* defines Monopsony as "the sole buyer of a factor of production". (1989, The MIT Press, Cambridge, Massachusetts).
[18] Oxfam Briefing Paper No. 44, "Walk the Talk," May 2003.

distant purchasing giants answerable only to their shareholders who transfer a large and growing proportion of added value away from producer countries to the post industrialized economies of the consuming countries. Neither scale, nor efficiency, nor a growing market has raised the incomes of the coffee producers. Retail giants are in fact giant buyer cartels that will wring suppliers dry to be able to give their customers "value for money."

This experience should open the eyes of those who argue that our farmers will gain preferential entry into international markets by the likes of Wal-Mart. In case the coffee experience is not convincing lets consider other such experiences. The cocoa farmers of Ghana now receive only 3.9% of the price of a typical milk chocolate bar but the retail margin hovers around 34.1%. A banana farmer in South America gets 5% of the retail price of the banana while 34% accrues to distribution and retail. For value added clothing items such as jeans, no less than 54% of the final price goes to the retailers, while the manufacturing labor gets around 12%[19]. Apart from the disadvantageous terms of trade for producers in developing countries, the situation is worsening steadily for primary products everywhere vis-à-vis the concentrated bargaining powers of the multinational retail giants.

dist theft

The factual position in the West highlights the growing market of the large format retailing giants. Planet Retail's analysis shows that the 10 largest businesses accounted for 40% of modern grocery distribution sales in the US in 2004, 15% of which is accounted for by Wal-Mart alone. In 2004, the top 5 retailers accounted for 29% of total modern grocery distribution sales in the US, 56% in the UK, 67% in Germany and 65% in Canada[20]. The concentration of sales within a handful of retailers further enables them to squeeze the suppliers and the consumers alike and earn super normal profits – enabling them to open more stores, improve market share and increase market presence and power over consumers and suppliers alike

Inviting Trouble for the Farmers

The contract farming imposed on farmers by MNC's require strict adherence to quality and schedule. How will our small tomato or onion farmers cope with the vagaries of the weather, and the infrastructural constraints to fulfill their legal contracts? A FAO paper based on the proceedings of a FAO/AFMA/FAMA workshop states, "Farmers experience many problems in supplying supermarkets in Asia and in some cases this has already been reflected in fairly rapid declines in the numbers involved, as companies tend to delist suppliers who do not come up to expectations in terms of volume,

[19] *The New Internationalist*, http://www.newint.org.
[20] http://www.planetretail.net.

quality and delivery."[21] Moreover, farmers also face problems related to depressed prices due to cutthroat competition among the food retailers, delayed payments and lack of credit and insurance. The emergence of such problems in India, especially in the context of the deep crisis that has engulfed the agrarian economy, is entirely avoidable.

The MNC's will deal with only the large-growers, fix prices in advance and the system of transparent auctions in *Mandis* will be bypassed. Since no two supermarket chains will operate in the same domain, farmers will have no choice but to comply with the lower prices offered by the retailer. The supermarket will earn premiums from customers for improved quality; the rejects will be dumped on the local farmers lowering their earnings. Our farm sector is in a deep crisis as it is, and we should not invite any more trouble.

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> "Foreign ownership of all the major supermarket or superstore chains means that rapid new development will continue to occur as these well financed companies seek greater market share and indeed this is happening at breakneck pace. *There will be continuing replacement of more and more of the traditional markets by grand new supermarkets or superstores.* The supermarkets or superstores obviously *have a much greater propensity to carry imported products than the traditional markets*. As the superstores grow in importance and by virtue of business links, they will be seeking to import products directly from foreign food manufacturers in order to keep costs down and remain competitive."
>
> "The Food Retailing Sector in Thailand", Canadian Embassy in Thailand

The US- EU experience shows that retail giants destroyed the livelihood of small shopkeepers who became employees of such giants for paltry salaries. A retail super-market encompasses the entire chain and shrinks the intermediaries – lowering the costs and removing the jobs. In a country with no social security net – the replacement of lakhs of retailers by a handful of giant intermediaries will shrink jobs by the millions who cannot find any other employment in the retail industry. What options will these unskilled, marginal and disadvantaged millions be left with then?

[21] Shepherd, Andrew W., "The implications of supermarket development for horticultural farmers and traditional Marketing systems in Asia", paper presented at FAO/AFMA/FAMA Regional Workshop on *The Growth of Supermarkets as Retailers of Fresh Produce*, Kuala Lumpur, October 4-7, 2004, available at http://www.fao.org/ag/ags/subjects/en/agmarket/docs/asia_sups.pdf

Gigantism at its Worst

As the single largest retailer in the world Wal-Mart buys so many Chinese products that if it were a country it would be China's sixth largest export market and eighth largest trading partner. Wal-Mart has an established network of 10, 000 suppliers in China. In 2002 Wal-Mart relocated its procurement office from Hong Kong to Shenzen, which has the fifth largest port in the world, which was reportedly constructed to suit the interests of Wal-Mart.[22] With a turnover of $285 bn in 2004, Wal-Mart is larger than all but eight national economies.

> "The power of Wal-Mart is such that, it reversed a hundred year history in which the manufacturer was powerful and the retailer was sort of the vassal…. Now the retailer, the mass global retailer is the centre of power and the manufacturer becomes vassal, who has to do the bidding of the retailer."
>
> Prof Nelson Lichtenstein, University of California

Meetings between the suppliers and Wal-Mart take place in the negotiations centre. Wal-Mart gives the suppliers the specifications of the product, the schedule, and more importantly the price. Those who cannot match the terms are not invited back to the centre. Observers surmise that with this sort of monopsony the wage levels take a downward spiral and working conditions deteriorate. The fear of slowing down the growth rate forces the Chinese to agree to prices, which are regressive and anti-poor as they have a pressing need to absorb the displaced labor from the hinterland to avoid social disruption.

> Putting local stores out of Business Industry analyst, Retail Forward, predicted that for every new Super center that Wal-Mart opens, two local supermarkets will close.
>
> *Business Week*, "Is Wal-Mart Too Powerful?" 6, October 2003

Even so the established American brand as Levi-Strauss had to bow to the asymmetrical power of the newly empowered retail giants' monopsonistic hegemony. Levi-Strauss had 66 clothing plants in the US two decades ago and by the middle of this decade will have no functioning plants in the US. It will supply to Wal-Mart only what it imports[23]. This is how the "Always low prices every day" slogan of the company is realized – by driving down the prices of its suppliers and by paying only $8.50 per hour to its store workers. This comes to less than $14,000 annually which is over $5, 000 lower than

[22] Subramanian K, "Wal-Mart and China – Wholesale lessons for India's Policy Makers", *The Business Line*, July 01, 2005.
[23] *Ibid*.

the $19,157 poverty line for a family in the US. The CEO of Wal-Mart however earned over $175 million in salary last year (not including his stock option of $10 million). A class action suit on behalf of present or former 1.6 million worker employees is now under litigation, while it is facing 8000 other lawsuits. It recently settled for $50 mn a lawsuit by 69,000 workers in Colorado who had not been paid at all[24].

> **Less accountability**: "Wal-Mart will leave massive paths of destruction in its wake."
>
> Al Meyers, Senior Vice President, Business Development, Retail Forward, 20 May 2005

Experience in Southeast Asia

In 1998, there were riots in Indonesia, which were directed at the giant foreign retailers that had squeezed out the traditional indigenous retail industry[25].

The impact on the traditional retail trade in Malaysia was so sudden and so adverse that that the Government had to step in with restrictions (non-tariff barriers). With the aim of "fair and orderly development of the industry" the government introduced a committee on "Wholesale and retail trade" and its approval is mandatory for foreign investors. Only one hypermarket is permitted per 350,000 people and no new hypermarket is permitted within 35 km of existing town centers or housing estates[26].

In Thailand the financial crisis of 1995-97 enabled the cash rich foreign chains to buy out the local chains after which new zoning regulations were announced. Now, large retail stores have to be located at least 15 km from the commercial centers of provincial towns[27].

> A study of Wal-Mart's expansion in Iowa found that 84 percent of all sales at the new Wal-Mart stores came at the expense of existing businesses within the same county.
>
> National Trust For Historic Preservation, "What Happened When Wal-Mart Came to Town?" 1996.

[24] Vinay Lal "Wal-Mart Story", Economic and Political Weekly June 18, 2005 pages 2477 to 2478
[25] "Economic Trends and Outlook: 1998" United States Embassy, Jakarta, Indonesia.
[26] *Global Retail and Consumer Study from Beijing to Budapest*, Price Waterhouse Coopers.
[27] "Regoverning Markets: East and Southeast Asia Study", www.regoverningmarkets.org.

Foreign Exchange Neutrality

To ensure that no giant pipeline of cheap manufactured goods suddenly disgorges its products to the detriment of the Indian manufacturer thus causing extreme social disruption, our policy should be to ensure that there is no foreign exchange outgo from the first year. The total value of imports to be retailed and the total value of exports to be retailed should match (not taking capital inflows) every year. We cannot approve of a situation where there are vast imports from the network of thousands of manufacturing sweatshops in China for five years while the Indian suppliers are being developed for later supplies and set off. If FDI in Retail is to be permitted, it should be made foreign exchange neutral for each year, at least for the first ten years.

> If you don't discount you'll lose business fast. Money talks louder than nationalistic appeals to the public not to purchase from the lower-priced "foreign store" down the road. A large band of wholly Thai-owned stores ranging from small family firms to medium-sized players protested against the presence of the international retailers.
>
> *Bangkok Post*, 2001.

Models to emulate

As in the Thai model where no large markets are permitted within 15 km of the city center – all our metros should have a locational limitation. Similarly, there should be ample parking space with a minimum requirement for 1000 cars and 200 sq ft for each car.

It will be better to follow the Chinese model of caution and hurrying slowly. China just allowed FDI in retail in 1992 and the cap was at 26%. After 10 years the cap was raised to 49% when local chains had sufficiently entrenched themselves. 100% FDI in retail was permitted only in 2004, after the infant retailing industry had acquired some muscle[28].

Even in as liberal an economy as Japan, large-scale retail location law of 2000 stringently regulates factors such as garbage removal, parking, noise and traffic. Recently Carrefour decided to exit Japan by selling off its eight struggling outlets after four years to the Japanese Aeon Co as the extremely cumbersome Japanese regulations blatantly favor its own homegrown retail firms[29]. Malaysia's Bumiputra clause insists that 30% of equity is held by indigenous Malayans[30]. Philippines insist that 30% of inventory by value be grown within the country[31].

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[28] Alok Ray "More Benefits than Costs" The Hindu Business Line, 9 Nov 2005
[29] The Hindu Business Line 11 March 2005, report in; Attributed to Reuters
[30] Malaysia Today MT-news, "Bumiputra equity plan upsets retailers".
[31] Section 5 of RA 8762, www.china-asean.net.

The US or European experience shows that retail giants destroyed the livelihood of small shopkeepers, who became employees of such giants for paltry salaries. A retail supermarket encompasses the entire chain and shrinks the intermediaries – lowering costs and removing jobs. In a country with no social security net – the replacement of thousands of retailers by a single large intermediary will shrink jobs by the millions in distribution industry. What option will these millions have then except to take to the streets?

> "People have said to me: 'When Wal-Mart arrives, they hit the town with the force of 100 new businesses opening at once.' The demise of smaller, independent businesses in Iowa suggests that the 'retail hurricane' theory is true."
>
> Al Norman, www.sprawlbusters.com.

Appendix 1

FDI in India's Retail Sector:
More Bad than Good?

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by
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Thomas J. Korah

The entry of Foreign Direct Investment (FDI) in the Retail Sector seems to have become the next frontier for conquest by the pro MNC forces of liberalization. All the three major trade and industry associations have been actively canvassing for this. Speaking at the Images Fashion Forum 2005 in Mumbai on January 19, 2005 the Minister for Commerce, Kamal Nath, has been quoted as saying "you won't be disappointed for long."[1] This is despite the warning in the same conference by Paul Etgart a former director of the giant UK retailer TESCO that "Indian retail business should not be fooled by partnership offers by global retail giants because they want 100 percent control and eventual ownership." He also told the audience to "urge your government to retain your strict FDI regulations, (for) global retail giants are very smart and clever to tackle local cultural and political obstacles. India must beware."[2] But quite obviously Kamal Nath was either not in the audience or was not listening.

The retail industry in India is of late often being hailed as one of the sunrise sectors in the economy. AT Kearney, the well-known international management consultancy, recently identified India as the 'second most attractive retail destination' globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of

[1] Kamal Nath hints at FDI in retail Sector, Dhal Samanta, Anjali, The Hindu, 20th, January, 2005
[2] Develop retail sector, India told, The Hindu, 21st January, 2005

many foreign eyes. With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy[3]. (See Table 1)

The Indian Scenario:
Retail and wholesale trade is the single largest component of the services sector in terms of contribution to GDP. Its massive share of 14% is double the figure of the next largest broad economic activity in the sector. (See Table 1)

Table 1: Components of Service Sector in India

Components	**Share % in GDP (2002-03)**	**Growth during 2002-03**
Construction	5.3	7.3
Trade	14.0	4.5
Hotels & Restaurants	1.1	4.0
Railways	1.1	5.7
Other Transport	4.3	6.0
Storage	0.1	-7.8

Source: Presentation to FICCI by MBN Rao (Chairman, Indian Bank): "Strategy for Financing Service Sector" (Sept. 15, 2004)

The retail industry comprises of organised and unorganised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, 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. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner operated general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

Unorganized retailing is by far the prevalent form of trade in India – constituting 98% of all retailing trade, while the organised trade accounts for the remaining 2%. Estimates vary widely about the true size of the retail business in India. AT Kearney estimated it to be Rs. 4,00,000 crores and poised to double in 2005.[4] One thing all consultants are agreed upon is that the total size of the corporate owned retail business was Rs. 15,000 crores in 1999 and poised to grow to Rs.35, 000 crores by 2005 and keep growing at a

[3] Singhal, Arvind, Indian Retail: The road ahead, Retail biz, www.etretailbiz.com
[4] Ganguly, Saby, Retailing Industry in India, www.indiaonestop.com

rate of 40% per annum.[5] In a recent presentation, FICCI has estimated the total retail business to be Rs. 11,00,000 crores or 44% of GDP.[6]

Table 2: Growth of Retail Outlets in India ('000)						
Outlets	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Food Retailers	2769.0	2943.9	3123.4	3300.2	3480.0	3682.9
Non-Food Retailers	5773.6	6040.0	6332.2	6666.3	7055.5	7482.1
Total Retailers[7]	8542.6	8983.6	9455.6	9966.5	10534.4	11165.0
Source: P.G.Chengappa, Lalith Achoth, Arpita Mukherjee, B.M.Ramachandra Reddy and P.C.Ravi, Evolution of Food Retail Chains: The Indian Context, 5-6th Nov. 2003, www.ficci.com						

Food retail trade is a very large segment of the total economic activity of our country, accounting for 63% of total retail sales in the economy, and due to its vast employment potential, it deserves very special focused attention. Efficiency enhancements and increase in the food retail sales activity would have a cascading effect on employment and economic activity in the rural areas for the marginalized workers. Thus even without FDI driving it, the corporate owned sector is expanding at a furious rate. The question that then arises is that since there is obviously no dearth of indigenous capital, what is the need for FDI? It is not that retailing in India is in the need of any technology special to foreign chains.

Employment in Retailing:

A simple glance at the employment numbers is enough to paint a good picture of the relative sizes of these two forms of trade in India – organised trade employs roughly 5 lakh people (See Table 3), whereas the unorganized retail trade employs nearly 3.95 crores[8]! According to a GoI study the number of workers in retail trade in 1998 was almost 175 lakhs.(See Table 4)[9]

[5] Singhal, Arvind, Technopak Projections, 1999, Changing Retail Landscape, www.ksa-technopak.com.
[6] Chengappa, P.G, Achoth, Lalith, Mukherjee, Arpita, Ramachandra Reddy B.M. & Ravi, P.C, Evolution of Food Retail Chains: The Indian Context, 5-6th Nov. 2003, www.ficci.com
[7] These figures refer to the total number of retail outlets in India – both organised as well as unorganised.
[8] Iyengar, Jayanthi, China, India Confront the Wal-Marts, Online Asia Times, www.atimes.com, January, 31,2004.
[9] Economic Census 1998, MOSPI, GoI

Table: 3 Employment in Organised wholesale and retail trade in India			
(Rs. Lakhs)			
Year	**Wholesale & Retail Trade (Public Sector)**	**Wholesale & Retail Trade (Private Sector)**	**Total Employment in Wholesale & Retail Trade**
1992-93	1.48	3.00	4.48
1993-94	1.61	3.01	4.62
1994-95	1.62	3.08	4.70
1995-96	1.62	3.17	4.79
1996-97	1.64	3.17	4.81
1997-98	1.64	3.21	4.85
1998-99	1.63	3.23	4.86
1999-2000	1.63	3.30	4.93
2000-01	1.63	3.39	5.02
2001-02	1.56	3.35	4.91
Source: Monthly Abstract Statistics, Volume 57, No. 7, July 2004, Central Statistical Organisation			

Table: 4 State-wise Number of Workers Engaged in Retail Trade by Type of Enterprises in India (1998)								
	Rural				Urban			
States/UT's	**OAE**	**NDE**	**DE**	**ALL**	**OAE**	**NDE**	**DE**	**ALL**
Andhra Pradesh	638358	47320	94699	780377	446500	217763	267496	931759
Bihar	454703	19512	91591	565806	306323	61316	171381	539020
Gujarat	222208	17573	46004	285785	365753	73445	196940	636138
Haryana	91073	2951	12441	106465	124590	14999	67512	207101
Karnataka	329875	36915	83415	450205	276345	130703	243345	650393
Kerala	302444	35376	165253	503073	71970	44521	125383	241874
Madhya Pradesh	418997	26141	58572	503710	437151	55169	166730	659050
Maharashtra	493296	30361	109955	633612	635164	210386	519775	1365325
Orissa	420735	15367	59629	495731	136117	24826	70856	231799
Punjab	119219	7207	24517	150943	185621	33274	101943	320838
Rajasthan	224212	16027	39612	279851	256356	33960	113651	403967
Tamil Nadu	388859	83460	218380	690699	297470	248451	531755	1077676
Uttar Pradesh	705928	29957	81505	817390	753617	86449	401999	1242065
West Bengal	803718	29541	213391	1046350	416387	171080	556196	1143663
Delhi	12503	3872	8693	25068	174315	109134	227370	510819
India	6035466	433507	1414479	7883452	5140913	1578064	3934925	10653902
Source: Economic Census 1998, MOSPI, GOI								

OAE: Own Account Enterprises, DE: Directory Establishments. NDE: Non-Directory Establishments.

Given the recent numbers indicated by other studies, this is only indicative of the magnitude of expansion the retail trade is experiencing, both due to economic expansion as well as the 'jobless growth' that we have seen in the past decade. It must be noted that even within the organised sector, the number of individually-owned retail outlets far outnumber the corporate-backed institutions. Though these numbers translate to approximately 8% of the workforce in the country, which is half the percentage of the USA or even Brazil, there are far more retailers in India than other countries in absolute numbers. Because of its demographic profile and the preponderance of youth, India's workforce is proportionately much larger. That more than 4% of India's population is in the retail trade says a lot about how vital this business is to the present socio-economic equilibrium in India.

Table 5: Share of retailing in employment across different countries

Country	Employment (%)
India	8
USA	16
Poland	12
Brazil	15
China	7

Source: Presentation to FICCI by Alan Rosling (Chairman, Jardine Matheson Group): "International Experience on Policy Issues."

Organised retail is still in the stages of finding its feet in India even now. Though organised trade makes up over 70-80% of total trade in developed economies, India's figure is low even in comparison with other Asian developing economies like China, Thailand, South Korea and Philippines, all of whom have figures hovering around the 20-25% mark. These figures quite accurately reveal the relative underdevelopment of the retail industry in India. Here we use the term development in its narrowest sense, implying lean employment and high automation.

Table 6: Retail Trade in India & South East Asia		
Countries	Organised	Unorganised
India	2	98
China	20	80
South Korea	15	85
Indonesia	25	75
Philippines	35	65
Thailand	40	60
Malaysia	50	50
Source: CRISIL[10]		

Retail as a 'Forced Employment' Sector:

It is important to understand how retailing works in our economy, and what role it plays in the lives of its citizens, from a social as well as an economic perspective. India still predominantly houses the traditional formats of retailing, that is, the local kirana shop, paan/beedi shop, hardware stores, weekly haats, convenience stores, and bazaars, which together form the bulk. Most importantly, Indian retail is highly fragmented, with about 11 million outlets operating in the country and only 4% of them being larger than 500 square feet in size. Compare this with the figure of just 0.9 million in the US, with a volume more than 13 times of the Indian retail market size[11]

According to the global consultancy firms AC Neilsen and KSA Technopak, India has the highest shop density in the world. In 2001 they estimated there were 11 outlets for every 1,000 people.[12] Further, a report prepared by McKinsey & Company and the Confederation of Indian Industry (CII) predicted that global retail giants such as Tesco, Kingfisher, Carrefour and Ahold were waiting in the wings to enter the retail arena. This report also states that the Indian retail market holds the potential of becoming a $300 billion per year market by 2010, provided the sector is opened up significantly.[13] It does not talk about creating additional jobs however, as being an industry association it would be more concerned with profits rather than jobs. Yet jobs should be the prime concern of the policy maker.

[10] Figures quoted from Anil Sasi's article "Indian Retail Most Fragmented"(Aug. 18, 2004) The Hindu Business Line.

[11] Singhal, Arvind (Chairman, KSA Technopak) "Indian Retail: The Road Ahead" www.eretailbiz.com.

[12] Singhal, Arvind, " A Strong Pillar of Indian Economy," www.ksa-technopak.com

[13] Iyengar, Jayanthi China, India Confront the Wal-Marts, Online Asia Times, www.atimes.com, January 31, 2004.

One of the principal reasons behind the explosion of retail outlets and its fragmented nature in the country is the fact that retailing is probably the primary form of disguised unemployment/underemployment in the country. Given the already over-crowded agriculture sector, and the stagnating manufacturing sector, and the hard nature and relatively low wages of jobs in both, many million Indians are virtually forced into the services sector. Here, given the lack of opportunities, it is becomes almost a natural decision for an individual to set up a small shop or store, depending on his or her means and capital. And thus, a retailer is born, seemingly out of circumstance rather than choice. This phenomenon quite aptly explains the millions of small shops and vendors. The explosion of retail outlets in the more busy streets of Indian villages and towns is a visible testimony of this.

As on January 1st of this year, there were 413.88 lakh job seekers registered at the Employment Exchange.[14] They register at the exchange, to enjoy the benefits and security that a job in the organised sector provides – lifetime employment, pension, and union membership etc. But over the period 1992-93 to 2001-02, only a total of 30,000 jobs have been added in the organised sector in the whole country.[15]

A vast majority is aware of what these figures signify – that they are most unlikely to get such jobs. Therefore, they find jobs in the informal sector, mostly in retail. Retailing is by far the easiest business to enter, with low capital and infrastructure needs, and as such, performs a vital function in the economy as a social security net for the unemployed. India, being a free and democratic country, provides its people with this cushion of being able to make a living for oneself through self-employment, as opposed to an economy like China, where employment and entrepreneurship are regulated. Yet, even this does not annul the fact that a multitude of these so-called 'self-employed' retailers are simply trying to scrape together a living, in the face of limited opportunities for employment. In this light, one could brand this sector as one of "forced employment", where the retailer is pushed into it, purely because of the paucity of opportunities in other sectors.

The Waiting Foreign Juggernaut:

The largest retailer in the world 'Wal-Mart' had a turnover of $ 256 bn. In 2004 and has averaged an annual growth of 12-13%. Its net profit in 2004 was $ 9 bn. It also had 4806 stores and employed 1.4 mn persons. Of these 1355 were outside the USA. The average size of a Wal-mart is 85,000 sq.ft

[14] As per figures given in www.tn.gov.in
[15] Monthly abstract of Statistics, Volume 57, No.7, July 2004, Central Statistical Organisation, GoI

and the average turnover of a store was about $ 51 mn. The turnover per employee averaged around $ 175,000. In 2004 Wal-Mart had a 9% return on assets and 21% return on equity.[16]

By contrast the average Indian retailer's turnover comes to around Rs. 333,000 (calculated using AT Kearney projection for 1999.) Only 4% of the 11-12 million retail outlets were larger than 500 sq.ft. in size.[17] On the other hand the total turnover of the organized and unorganized retail trade in India, as per the FICCI study, as on 2003 was Rs. 11,00,000 crores or $245 bn and employing 39.5 mn persons. This implies an average turnover of Rs.916,000, which seems to be much too optimistic given that the vast majority of Indian retailers, particularly those selling fruits and vegetables do not even have a small shop with a roof on it. Even if this is so, it only implies that the number of big retailers is small but nevertheless they pull the average up.

Whatever be the size of the average Indian retailer in the unorganised sector, it is quite evident that even Indian retailers in the organised sector will be unable to meet the onslaught from a firm such as Wal-Mart – if and when it comes. With its incredibly deep pockets Wal-Mart will be able to sustain losses in its Indian operations for many years till its immediate competition is wiped out. This is a common predatory strategy used by large players to drive out small and dispersed competition. This would entail job losses in the millions.

Consider this scenario. If Wal-Mart were to open an average Wal-Mart store in each of our 35 cities with a population of more than one million, and they reached the average Wal-Mart performance per store – we are looking at a turnover of over Rs. 8030 crores with only 10,195 employees. Extrapolating this with the average trend in India, it would mean displacing about 4,32,000 persons currently engaged in the small retail sector. If large FDI driven retailers were to take 20% of the retail trade, this would mean a turnover of Rs.147, 000 crores on today's basis. This would mean an employment of about 180,000 persons displacing nearly eight million persons employed in the unorganized retail sector. Even if we are off by a million or two the job losses will be huge as the FDI Retailer's sales volume must mostly come from the existing pie. The expansion in retail volume will always be a function of GNP and per capita incomes; on this there can be little argument. There is an essential difference between FDI in greenfield sectors such as BPO and Manufacturing and in Retailing. In the former it will create jobs,

[16] Annual Report, 2004, Wal-Mart Corp., www.walmart.com
[17] Singhal, Arvind (Chairman, KSA Technopak) "Indian Retail: The Road Ahead" www.eretailbiz.com.

but in the latter it will eliminate jobs. Thus, while FDI in most sectors might even have beneficial outcomes in terms of job creation, in the retail sector it will have a catastrophic effect on the employment generated by the small retail sector in India.

With possible implications of this magnitude, a great deal of prudence should go into policymaking. Rather we seem to be moving towards a policy steamrolled obviously by vested interests acting in concert with the CII & FICCI. We need to take a deep hard look at FDI in the retail sector. In this context we must be concerned about the statement the Finance Minister, Mr. P. Chidambaram, made while making the mid year review for 2004-05. "On retail, the review notes that creating an effective supply chain from the producer to the consumer is critical for development of many sectors, particularly processed and semi-processed agro-products. In this context, it says, the role that could be played by organised retail chains, including international ones merits careful attention."[18]

The Question of Foreign Direct Investment (FDI) in Retail:
Supporters of FDI in retail trade talk of how ultimately the consumer is benefited by both price reductions and improved selection, brought about by the technology and know-how of foreign players in the market. This in turn can lead to greater output and domestic consumption. This could even be true. But nevertheless it cannot mitigate the important factor against FDI driven "modern retailing" in that it is labour displacing as it can only expand by destroying the traditional retail sector. Clearly till such time we are in a position to create jobs on a large scale in manufacturing, it would make eminent sense that any policy that results in the elimination of jobs in the unorganised retail sector should be kept on hold.

Though many of the high decibel arguments in favour of FDI in the retail sector are not without some merit, it is not fully applicable to the retailing sector in India, or at least, not yet. This is because the primary task of government in India is still to provide livelihoods and not create so called efficiencies of scale by creating redundancies. As per present regulations, no FDI is permitted in retail trade in India. Allowing 49% or 26% FDI (which have been the proposed figures till date) will have immediate and dire consequences. Entry of foreign players now will most definitely disrupt the current balance of the economy, rendering millions of small retailers jobless by closing the small slit of opportunity available to them.

[18] Review hints at FDI in retail, pp 1-15, Times of India, 14 Dec.2004

Using the Wal-Mart analogy used earlier imagine if Wal-Mart, the world's biggest retailer sets up operations in India at prime locations in the 35 large cities each with more than 1 million people.[19] The supermarket will typically sell everything, from vegetables to the latest electronic gadgets, at extremely low prices that will most likely undercut those in nearby local stores selling similar goods. Given the new WTO regime Wal-Mart would also be more likely to source its raw materials from abroad, and procure goods like vegetables and fruits directly from farmers at pre-ordained quantities and specifications. This means a foreign company will buy big from India and abroad, and be able to sell low – severely undercutting the small retailers. This is how it will have to carve out market share and this is the only way a large retailer can do so in India. Once a monopoly situation is created this strategy will logically turn into buying low and selling high.

Such re-orientation of sourcing of materials will completely disintegrate the already established supply chain consisting of traditional wholesalers and distributors, many of who are quite small in terms of turnover and are usually unorganized sector retailers providing an additional function. In time, the neighbouring traditional outlets are also likely to fold and perish, given the 'predatory' pricing power that a foreign player is able to exert. As Nick Robbins wrote in the context of the East India Company, "By controlling both ends of the chain, the company could buy cheap and sell dear".[20] The producers and traders at the lowest level of operations will never find place in this sector, which would now have demand mostly only for fluent English-speaking helpers. Having been uprooted from their traditional form of business, these persons are unlikely to be suitable for other areas of work either.

It is easy to visualise from the discussion above, how the entry of just one big retailer is capable of destroying a whole local economy and send it hurtling down a spiral. One must also not forget how countries like China, Malaysia and Thailand, who opened their retail sector to FDI in the recent past, have been forced to enact new laws to check the prolific expansion of the new foreign malls and hypermarkets.[21]But preventing an Indian retailer from growing bigger is something current public policy cannot do, whereas the State does have the prerogative in whether FDI in the retail sector should be stalled or not.

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[19] Census 2001, Registrar of Census, GoI

[20] Robbins, Nick, "The World's First Multinational." The New Statesman, (Dec. 13, 2004)

[21] Vijay, Tarun, "Debate: Should FDI Be Allowed In Retail Branding?", The Financial Express, (Dec. 6, 2004)

It is true that it is in the consumer's best interest to obtain his goods and services at the lowest possible price. But this is a privilege for the individual consumer and it cannot, in any circumstance, override the responsibility of any society to provide economic security for its population. Clearly collective well-being must take precedence over individual benefits.

Disturbing the Hornet's Nest:

If you assume 40 mn adults in the retail sector (KSA Technopak estimates the actual figure at 35 mn), it would translate into around 160 million dependents using a 1:4 dependency ratio. Opening the retailing sector to FDI means dislocating millions from their occupation, and pushing a lot of families under the poverty line. Plus, one must not forget that the western concept of efficiency is maximizing output while minimizing the number of workers involved – which will only increase social tensions in a poor and as yet developing country like India, where tens of millions are still seeking gainful employment.

This dislocated and unemployed horde has to be accommodated somewhere else. But if you look at the growth rates of labour in manufacturing and industry, you wonder where this new accommodation can be found? Agriculture already employs nearly 60% of our total workforce, and is in dire need of shedding excess baggage. That leaves us with manufacturing as the only other alternative. With only 17% of our total workforce already employed in industry, which contributes altogether only 21.7% of our GDP, this sector can hardly absorb more without a major expansion. (See Table 5)

Table 7: Sectoral GDP, Employment & Growth Rates (%)

Sectors	Share % in GDP (2004)	Employment	Cumulative average Growth Rate during 1994-2004
Agriculture	22.1	60.5	2.70
Industry	21.7	16.8	6.53
Service	56.2	22.7	7.90

Source: FICCI (2004) & NSS 55th Round Employment Survey (1999-2000)

So far the Indian economy has been heavily geared towards the service sector that contributes 56% of our GDP. The service sector's contribution to the increase in GDP over the last 5 years has been 63.9%. Having a high contribution from services is an attribute that is characteristic of developed economies. What is anomalous in the Indian case is the fact that in other fast developing economies, say China, manufacturing accounts for a significant share of GDP, whereas in India, manufacturing contributes a mere 23.1% of the GDP. (See Tables 5, 6 and 7)

Table 8: Indian Economy: Sectoral Sources of Growth (Percentage Contributions to Increase in GDP)		
	1992-93 to 1996-97	**1997-98 to 2003-04**
Agriculture & allied sectors	20.3	13
Manufacturing, construction & quarrying	30.9	23.1
Services	48.8	63.9
Source: Bhanoji Rao – "Industry, Ugly Duckling", (Dec. 1, 2004) The Economic Times		

Table 9: China: Sectoral Sources of Growth (Percentage Contributions to Increase in GDP)		
	1990-96	**1997-2002**
Agriculture	9.3	6.4
Industry	62.2	58.5
Services	28.5	35.1
Source: Bhanoji Rao – "Industry, Ugly Duckling", (Dec.1, 2004) The Economic Times		

It is evident that the manufacturing sector has been the engine for economic growth in China, which has been growing at 10.1% since 1991.[22] In India, the credit for its 5.9% growth over the corresponding period goes mostly to the service sector. Ironically it would seem that the Indian economy is getting a post-industrial profile without having ever been industrialised!

Retailing is not an activity that can boost GDP by itself. It is only an intermediate value-adding process. If there aren't any goods being manufactured, then there will not be many goods to be retailed! This underlines the importance of manufacturing in a developing economy. One could argue that the alarmingly low contribution of industry is attributable to the structural adjustments going on in the sector, getting rid of the flab and getting ready to compete, but that still cannot undermine the seriousness of the issue at hand, in that only 6.22 million out of a productive cohort of 600 million is employed in organised manufacturing.

Only until the tardy growth of the manufacturing sector is addressed properly and its productivity chart starts to look prettier, could one begin

[22] Calculated from World Development Indicators, 2003.

thinking of dislocating some of the retailing workforce into this space. Until that day, disturbing the hornet's nest would be one very painful experience for the economy.

Recommendations:

1. The retail sector in India is severely constrained **by limited availability of bank finance**. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organised and unorganised sectors to expand and improve efficiencies. Policies that encourage unorganised sector retailers to migrate to the organised sector by investing in space and equipment should be encouraged.
2. A **National Commission** must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI – as and when it comes.
3. The proposed National Commission should evolve a clear set of **conditionalities on foreign retailers** on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionalities must be aimed at encouraging the purchase of goods in the domestic market. Conditionalities must also state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc. Giant shopping centres must not add to our existing urban snarl.
4. Entry of foreign players must be **gradual and with social safeguards** so that the effects of the labour dislocation can be analysed & policy fine-tuned. Initially allow them to set up supermarkets of a specified size only in the metros to make the costs of entry high and according to specific norms and regulations, so that the retailer cannot immediately indulge in 'predatory' pricing.
5. In order to address the dislocation issue, it becomes imperative to develop and **improve the manufacturing sector** in India. There has been a substantial fall in employment by the manufacturing sector, to the extent of 4.06 lakhs over the period 1998 to 2001, while its contribution to the GDP has grown at an average rate of only 3.7%.[23] If this sector is given due attention, and allowed to take wings, then it could be a source of great compensation to the displaced workforce from the retail industry.
6. The government must actively encourage setting up of **co-operative stores** to procure and stock their consumer goods and commodities from small producers. This will address the dual problem of limited promotion and marketing ability, as well as market penetration for the retailer. The

[23] Calculated from Monthly abstract of Statistics, Volume 57, No.7, July 2004, **Central Statistical Organisation**, GoI, GDP figures from **India Observer Statistical Handbook** (2004).

government can also facilitate the setting up of warehousing units and cold chains, thereby lowering the capital costs for the small retailers.

7. According to IndiaInfoline.com, **agro products and food processing sector in India is responsible for $69.4 billion out of the total $180 billion retail sector** (these are 2001 figures). This is more than just a sizeable portion of the pie and what makes it even more significant is the fact that in this segment, returns are likely to be much higher for any retailer. Prices for perishable goods like vegetables, fruits, etc. are not fixed (as opposed to, say, branded textiles) and therefore, this is where economies of scale are likely to kick in and benefit the consumer in the form of lower prices. But due attention must be given to the producer too. Often the producer loses out, for example, when the goods are procured at Rs.2 and ultimately sold to the consumer at about Rs.15 as in the case of tomatoes now. The Government themselves can tap into the opportunities of this segment, rather than letting it be lost to foreign players. And by doing so, they can more directly ensure the welfare of producers and the interest of the consumers.
8. Set up an **Agricultural Perishable Produce Commission (APPC),** to ensure that procurement prices for perishable commodities are fair to farmers and that they are not distorted with relation to market prices.

Given the WTO regime India is a party to, the entry of FDI in the retail sector is inevitable. But with the instruments of public policy in its hands, the Government can create conditions that slow down their entry. Japan has done this quite effectively. In this fashion, the Government can try to ensure that the domestic and foreign players are approximately on an equal footing and that the domestic traders are not at an especial disadvantage. The small retailers must be given ample opportunity to be able to provide more personalized service, so that their higher costs are not duly nullified by the presence of big supermarkets and hypermarkets.

Appendix 2

FDI in retail — A question of jobs, not ownership

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By
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After farming, retailing is India's major occupation. It employs 40 million people. A sizeable majority of owner/employees are in the business because of lack of other opportunities. The decade of liberalisation has so far been one of jobless growth. It is no wonder that retail has become the refuge of these millions. Lopsided economic development is transforming India from an agrarian economy directly to a service oriented post-industrial society.

In the Indian perspective, any policy that creates jobs is good policy. Any industry, Indian- or foreign-owned, that generates employment is welcome. The question over foreign direct investment (FDI) in retail is not as much about ownership as about jobs.

The Indian retail industry is highly fragmented. According to AC Nielsen and KSA Technopak, India has the highest shop density in the world. In 2001, it was estimated that there were 11 outlets for every 1000 people. Since the agriculture sector is over-crowded and the manufacturing sector stagnant, millions of young Indians are virtually forced into the service sector. The presence of more than one retailer for every hundred persons is indicative of how many people are being forced into this form of self-employment, despite limitations of capital and space.

Trade/retailing is the single largest component of the services sector in terms of contribution to the gross domestic product. It accounts for 14 per cent of the service sector, i.e., twice that of the next largest economic activity in the sector — banking and insurance. The total number of retail outlets (both food and non-food) was 8.5 million in 1996 and 12 million in 2003, a 41 per cent rise.

The CSO's employment numbers give a comprehensive picture of the importance of this form of livelihood in India. Organised retail trade employs roughly 0.5 million people and unorganised 39.5 million. The fact that about 4 per cent of the population is employed in the unorganised retail trade speaks volumes about how vital this business is to the socio-economic equilibrium in India.

In 2004, Wal-Mart had a turnover of $256 billion and it recorded a net profit of $9 billion. Its 4,806 stores employs 1.4 million persons. The average size of a Wal-Mart outlet is 85,000 square feet and the average turnover about $53 million. The turnover per employee is $1,82,000.

By contrast, the Indian retailer had a turnover of Rs 1,86,075 ($4,100 approximately) and only 4 per cent of the 12 million retail outlets occupied space larger than 500 square feet. The total turnover of the unorganised retail sector, which employs 39.5 million persons, was Rs 735,000 crore. India has 35 towns each with a population of over one million. If Wal-Mart were to open, on an average, one store in each of these 35 cities and if each achieved the average Wal-Mart performance per store, the turnover would amount to over Rs 8,033 crore and number of employees to only 10,195.

Extrapolated to the rest of the country, it would mean displacing around 4,32,000 persons. In other words, every new Wal-Mart employee will render 40 retailers surplus. If FDI retailers with deep pockets were to take over 20 per cent of the retail trade, this would mean a turnover of Rs 1,47,000 crore. This represents an employment of about 43,000 persons, displacing nearly eight million persons in the unorganised retail sector.

The most important argument against modern retailing and supply chain integration is that it displaces labour in a labour-surplus society. Till such time that we are in a position to create jobs on a large scale in manufacturing and construction, it would make eminent sense to keep on hold any policy that results in the elimination of jobs in the unorganised retail sector.

The primary task of the government is still providing livelihoods and not create so-called efficiencies of scale by creating redundancies. If we assume 40 million adults in the retail sector, it would translate into around 160 million dependents. Opening the retailing to FDI means dislocating millions from their occupation and pushing vast number of families under the poverty line. The Western concept of efficiency is maximising output while minimising the number of workers involved. This will only increase social tensions in a developing country like India, where tens of millions are still seeking gainful employment. Companies such as Wal-Mart boast about how they give the consumer better value. Not surprisingly, Wal-Mart procured $20 billion worth of goods from China and just $1 billion worth of goods from India. This is simply because China is a better producer of manufactured goods and not because Wal-Mart has stores there.

Consider a chain such as Wal-Mart with a single point of procurement entering India. Since it already procures huge quantities from China, this make for a massive entry point of China's largely state-owned consumer goods industry into the insatiable market made up of the new consuming elite.

It is true that it is in the consumers' best interest to obtain quality goods and services at the lowest possible price. However, this vocal assertion by the chattering class cannot override the responsibility of any government to provide economic security for its vulnerable population. Countries such as China, Malaysia and Thailand, which have opened their retail sector to FDI in the recent past, have been forced to enact new laws to check the horrific expansion of the new foreign malls and hypermarkets.

In a recent Oxfam study, a decade ago coffee producers earned $10 billion from a global market worth $30 billion. Now they receive less than $6 billion in a global market over $60 billion. Large numbers of producers now interact with monopolistic marketing structures and these chains transfer a large and growing proportion of added value away from producers to companies in industrialised countries.

Neither scale nor efficiency has raised the incomes of the coffee producers. The lessons are clear, bulk procurement plays havoc with producer's margins. Enabling legislation and positive regulation is required to expand our industrial sector whose contribution to employment generation and GDP is much lower than that of the services sector.

The percentage contribution of industry to GDP growth in 1992-96 and in 1997-03 was 30.9 per cent and 23.7 per cent respectively, while for China over roughly the same period it was 62.2 per cent and 58.5 per cent.

We need to address issues at home before we inviting problems from abroad. Vocal proponents of FDI need to ponder a bit more about India's true circumstances.

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