FDI in Retail – III

Implications of Wal Mart's Backdoor Entry

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The Centre for Policy Alternatives with its two reports on “FDI in retail” was the first to clearly stake out a position against its entry into India. Our contention is not that Wal- Mart or other similar undertakings shouldn’t ever be allowed to venture into Indian markets, but that this is not the right time for them to be let in. A number of preconditions currently absent in the Indian industrial and agricultural sectors should be met, before we permit foreign investment in retail. If we fail to do so our small manufacturers and the hundreds of vendors and small retail shops will bear the brunt of the blow and millions will be rendered jobless. Organised retail is expected to grow hugely within three years. The IT industry has projected that organised retail will have a 25-30% market share of total retail by 2011*.[1] This means the blow will be delivered within three years and with election year looming this government will have to take a serious call on this. Since jobless growth is the very reason for the employment of large numbers in the unorganised sector in India our plight will be worsened. For our earlier reports please see www.cpasind.com. These reports were well received and prestigious journals like the Economic and Political Weekly have printed them as major policy papers.

In February 2006, the Government of India (GoI) relaxed its regulations on Foreign Direct Investment (FDI) in Indian retail firms provided it was restricted to a single brand. This was ostensibly to enable manufacturers of luxury brands such as LVMH, Gucci and other such goods to set up shop in India. While one can have reservations on the values and sentiment behind this, there can be no objection to it on any worthwhile economic grounds. Metro AG and ShopRite, both of which already operate in India are restricted to bulk sale and meant for the trade and to cash and carry via the wholesale route. Dairy Farm and Marks& Spencer have entered the retail market in India by franchising their brand to Indian partners, with little luck, one might add. But the ‘backdoor entry of Wal-Mart’ using Bharti as its fig leaf (now being considered by Carrefour, Tesco etc with Indian firms front ending for them) is a gross transgression of the intention behind the restrictive but common good oriented policies on the subject.

[1] *With retail accounting for $300 billion of the total $480 billion in private consumption, technology vendors are banking on the organised retail that is expected to go up from existing $12billion to $90-100 billion by 2011. Hindustan Times, Business &World , Thursday, February,22, 2007

All political parties across the spectrum have vigorously protested against the entry of FDI in retail. The CPI-M's note to the Prime Minister reads "Expansion of the Wal-Mart chains has caused massive closure of small stores and pauperization of poor communities even in the US. In the context of massive unemployment existing within the country, such employment displacing FDI is the last thing the Indian economy needs at this moment." The CPI described Wal-Mart as 'notorious' for its 'exploitative labor practices' and that the entry of Wal-Mart type arrangements would marginalize existing shop owners and shrink job opportunities. Their spokesman claimed that "An estimated 40 million Indians work in retail outlets and we don't want their livelihood to be adversely affected." BJP Parliamentary Party spokesman V.K. Malhotra said, "This move will hit the small traders and businesses hard. It's a cruel joke on them. We will also oppose it in Parliament in the coming session. We will also hold protests outside." In addition several MP's belonging to the Congress have also voiced their concerns in Parliament. Even the Congress President Smt. Sonia Gandhi is reported to have written to the Prime Minister in this regard.

The Size of the Retail Sector across the Globe and in India

The table below captures the scale of operations of some of the biggest retail giants across the globe and the percentage share of domestic and foreign markets in their sales. Among the chains Wal-Mart sells around 20.9% of its goods in foreign markets and this share will now go up with its foray into India.

Table1: 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 million)	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	Netherlands	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)

The hue and cry over FDI in retail is not exaggerated considering the large share that trade (14%) has in the GDP. Retail is the front end of trade and its role not only as an employer but as a component of the national economy is telling. The scope of the trade component is indicated in the table below and hence its importance in the national economy.

Table 2: 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
Communications	3.5	22.0
Banking & Insurance	6.9	11.6
Real Estate, Business/Legal Services	6.1	5.9
Defence	5.9	5.3
Other Community & Social Services	7.8	6.2
Total	56.1	7.2

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

As of now 98% of India's retail trade is in the small and the unorganized sector (see Table 3 for 2004 details). In the case of all other South East Asian countries including China the share of the unorganized sector is lower.

Table 3: 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

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

But organized retailing is already growing at 37% (while total domestic retail is growing at only 5.7%), and is expected to cross Rs 1, 00,000 crores by 2008 from its current level of Rs 48,500 crores. From 4.7% of the total retail market now, it is expected to reach 9% by 2010. This current growth at 37% of organized retail, when the total retail market is just growing at 5.7% is clearly at the expense of the small retailer[2].

Organised retail employs some half a million people whereas the unorganised sector employs nearly 40 million people. The huge employment in the unorganised sector is due to the fragmented nature of traditional retailing. This accounts for our 12 million retail outlets (kirana, pan/beedi, haats, grocery, food and tea shops), with only 4% of retail shops being larger than 500 sft. These tiny shops are exploding in number as there are no other employment avenues available[3].

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

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

Source: Economic Census 1998, MOSPI, GOI

The retail industry provides some semblance of a social safety net, in the absence of any unemployment benefits. Thus the ongoing increase in individually owned shops is almost

[2] Page 10, Hindustan Times, 5th February 2007

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

entirely due to the 'jobless growth' and the deindustrialisation, largely due to 'efficiencies' of the last decade. Retailing is the primary form of disguised employment in the country, since agriculture is overcrowded and hardly any new manufacturing jobs are being created. Those who are repeating that a few hundred new jobs will be created by FDI in retail need to realise that thousands more will be lost. The entire organised sector in India employs only 30 million people while our youthful and growing workforce is over 430 million, so every youth absorbed in his self-employment retail venture is one less problem. There were 42 million registered job seekers at the employment exchanges in 2006, but only some 30,000 could find organised employment in the entire decade of 1992-93 to 2001-02[4].

Table 5: Industry-wise Employment in Organized & Unorganized Sectors in India (1987-88, 1993-94 & 1999-2000) (Rs. in Crore)

Industry	1993-94 Total Employment	1993-94 Organised Sector	1993-94 Unorganised Sector	1999-2000 Total Employment	1999-2000 Organised Sector	1999-2000 Unorganised Sector
Agriculture	24.20	0.11	24.10	23.80	0.14	23.60
Mining & Quarrying	0.27	0.11	0.16	0.23	0.10	0.13
Manufacturing	4.25	0.64	3.61	4.80	0.66	4.14
Electricity, Gas & Water Supply	0.14	0.10	0.04	0.13	0.10	0.03
Construction	1.17	0.12	1.05	1.76	0.11	1.65
Trade	**2.78**	**0.05**	**2.73**	**3.73**	**0.05**	**3.68**
Transport, Storage & Communication	1.03	0.31	0.72	1.47	0.32	1.15
Financial Services	0.35	0.16	0.20	0.51	0.17	0.34
Community Social & Personal Services	3.51	1.11	2.41	3.32	1.15	2.17
Total Employment	**37.45**	**2.74**	**34.71**	**39.70**	**2.80**	**36.90**

Organised sector covers all establishments in the public sector, irrespective of their size and non-agricultural establishments in the private sector employing 10 or more persons.
Data on organised sector employment is on the basis of Employment Market Information Programme of DGE&T, Ministry of Labour.
Source : Rajya Sabha Unstarred Question No. 994, dated 28.11.2002.

A look across religious communities shows that the Muslims, having trailed far behind in the employment market, are actually surviving as low-end traders. The statistics from the Sachar Committee Report 2006 shows that around 16.8% of the adult workers of the Muslim community find employment in retail and wholesale trade. (See Annexure) The opening of organized retail chains in areas where the Muslims are concentrated can have dire effects on

[4] Monthly Abstract of Statistics, Volume 57, No.7, July 2004, Central Statistical Organisation, Government of India

their employment scenario and will further impoverish the already poor population leading to greater social inequities.

However, all initiatives of large format players into retailing are not to be derided outright. The entry of big business in retail in the cash and carry format could deliver benefits to small retailers. Metro's cash and carry operation (mainly in Bangalore) has been selling items in bulk to small retailers for onward distribution. Similarly, Reliance Fresh is encouraging kirana shops and vegetable vendors to buy in bulk from it for eventual retailing. If this practice leads to the bypassing of the wholesale mafia in the fruit and vegetable mandis, it will indeed do the existing retail trade a great deal of good.

Table 6: 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 (32.99%)
Non-Food Retailers	5773.6	6040.0	6332.2	6666.3	7055.5	7482.1
Total Retailers	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

But one must not forget that the food retail industry comprises of lots of small vendors. Considering that the share of the food retail outlets in total retail outlets (see Table 6) is around 33%, the repercussion effects of a sudden displacement of food vendors by the giant chains will affect a huge number of people. When dislodged, they will be rendered jobless at a go. Therefore the displacement should at least be on a slow trajectory so that they can have a soft landing in other sectors.

"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 Dangers of Monopsony

> *The MIT Dictionary of Modern Economics* defines a monopsonist as "the sole buyer of a factor of production".
> (The MIT Press, Cambridge, Massachusetts, 1989)

Industrial licensing had brought monopolies to India but monopsony is a new phenomenon for India which has recently come to the forefront in the manufacturing goods sector due to the increased specialization in the global process of production. This has led to the concept of a single supplier to a large producer who obtains the goods at a ransom. The larger the amount of any commodity a large retailer can purchase, the greater the concession on price, delivery, credit it can extract. This is a demonstration of monopsonistic procurement and the awesome monopsonistic purchasing power which comes with it. This is unique to the modern world of digital instant communication (branding, streamlined logistics distribution can drive down prices still further) and hugely affects the agricultural commodities market also, as shown below.

The more of a commodity large retailers purchase in bulk, the lower the prices growers of agricultural commodities obtain! Studies by FAO, Oxfam, etc attest to this. For instance, a decade ago coffee growers earned $10 billion from a global market of over $30 billion but now they receive less than $6 billion out of a global market $60 billion[5]. 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.[6] Therefore the large retailer affects not only the small and medium manufacturers of low, medium and intermediate technology goods but more importantly the small and large farmers also. The negative potential for sudden job displacement is enormous.

The consolidation in the steel, auto, banking sectors is a reality with which we are now all too familiar. The difference between steel, banking and automobiles compared to retail is in the

[5] Oxfam Briefing Paper No. 44, "Walk the Talk," May 2003.
[6] *The New Internationalist*, http://www.newint.org

number of livelihoods that will be adversely affected. The so called ‘efficiency’ of the giant foreign retailers will have its impact on large number of retailers and even larger number of their upstream suppliers.

The Economist of Feb 3, 2007 says “Further foreign investment is expected after a recent decision to allow foreign firms to establish wholesale operations. This has led to a series of joint ventures in which Indian retailers will be supplied **exclusively** by foreign wholesalers. One such agreement, between Bharti Enterprises and Wal-Mart, is said to have won approval from the government last week.”[7]

If Wal-Mart has accepted a ‘secondary’ role within India in which Bharti interfaces with one billion potential consumers and does not display the global behemoth’s name on its marquee, then its interests and profits lie in furthering its monopsonist procurement. India will provide a new market for selling Wal-Mart’s monopsonistically procured goods. Bharti will then only be a thin cover for Wal-Mart’s profit making proclivities and will help them greatly in spreading their operation in India. Bharti will function as a fixed margin operator providing it services and saving Wal-Mart huge investments in retail space. This one sided, marriage of convenience between Wal-Mart and Bharti, will impose severe restrictions on the latter and render it unable to procure from any suppliers other than Wal-Mart even if it could find a cheaper one. It has to be satisfied with what Wal-Mart gives it and the price that it gives it at. The warning bells are dire for our small manufacturers and major suppliers to our small retailers

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

The price efficient goods marketed in the Wal-Mart- Bharti outlets will eventually help it in driving out most of its competitors in the retail sector in addition to the upstream suppliers who will be affected. A leading consumer advocacy group has pointed out to the need for proper regulatory framework for the retail sector which ensures competition of both consumers and suppliers. Additionally, it has pointed to the need “to protect the small and

[7] Economist 3rd February 2007 Page 62

medium producers from the monopsonistic anticompetitive practices of the giant retailers"[8]. This group's projects show that in "both rich and poor countries, wherever big retail or supermarket chains operate, both the consumers and producers get the short end of the stick, in the absence of proper regulation". This advocacy group Consumer Unity Trust Society, Jaipur (CUTS) is by no means a left leaning group.

It is this "proper regulation" that has been given a go-by by Wal-Mart by its adopting Bharti as a front ending fig leaf. Not surprisingly, this has the fulsome approval of Commerce Minister Kamal Nath, who has stated "So long as Wal-Mart does not do retailing, whatever model they follow; investment in logistics, cold chains is perfectly all right. What is permissible is laid down in the regulations"[9]. Obviously Kamal Nath does not understand the impact of a monopsony buyer on producers or does not care? Are the policies of the cabinet meant to protect Indian citizens as a whole or further the corporate interests of friends and patrons?

The China pipeline

The sovereign powers of the Indian state are exercised on its citizens by means of legislation enacted by elected representatives of the people. Regulations and rules are drafted, fine tuned and implemented at various levels of the executive and then put to vote in the legislature where the intention behind the legislation is evaluated by those directly accountable to the voters/citizens. Can such a liberal multi party democracy compete with a totalitarian state which does not allow its labour to form a trade union and even tightly controls the issues of permits to leave the villages and seek employment in the export sweatshops?

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

Those rooting for FDI in retail need to know that the efficiency of the giant retailers arises from their ability to procure from the cheapest global source and its overwhelming power to force prices down because of its enormous volumes of purchase of any single item. Some

[8] http://www.cuts-international.org/cutsinmediaDec06.htm#retail "Retail policy must ensure competition" December 5, 2006, Thesynergyonline News Service

[9] **Entry will be examined, says** Kamal Nath, The Hindu Wednesday, Nov 29, 2006

economies, notably China, have mastered the complexities of the procurement-logistics supply chain and do provide huge standardised volumes of quality household products at a low price within strict time schedules. Chinese labour cannot unionise and participate in collective bargaining, and cannot take recourse to strikes. The average industrial wage in China compares poorly with that in India, a country whose per capita income is only a third of it. It is recognised that Chinese exports are aggressively subsidised by the state and hence China is not recognised as a market economy by the developed world. Wal-Mart procures $18 billion worth of goods from China giving it a ready pipeline through which cheaper goods can flow into the Indian economic hinterland[10].

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

Jobs in Indian manufacturing Industry

Apart from jobs in the retail shops, there is a further question of jobs at the manufacturing stage in the units supplying goods to the retailers. The supply chain to procure goods for these small Indian retailers begins in India with Indian agricultural produce and groceries and locally produced items. The retailers in metros, towns and villages sell goods made by Indian producers within India and these are made by Indian labour with Indian raw materials. Additionally the market for fruits, vegetables, home products, groceries, cereals, pulses etc is fragmented and many layered thus preventing any dominant players from dictating terms and prices to retailers via their hold on consumers through branding. Lack of any dominant retail giants also gives leeway to the suppliers to negotiate with several purchasers of their goods.

A good example to demonstrate the low wages in the Chinese labour market is contained in a report from The International Herald Tribune, which investigated the percentage split in profit in the shoe industry between the Chinese factories and those who market and sell the finished products in the US and Europe. The factory owners after the laborious process of manufacturing makes a profit margin of 65 cents per pair of shoes which are sold ex-factory for $15.30. “A major U.S. retailer, after factoring in shipping, store rent and salaries, sells the boots for $49.99. Assuming a pretax profit margin of about 7 percent, an average among large

[10] Wal-Mart Nation, Time Magazine June 19, 2005
http://www.time.com/time/magazine/article/0,9171,1074120,00.html

U.S. retailers, it earns $3.46 on the same pair of boots.[11]" However the story doesn't end with the unfair profit margins. The Chinese labourers, who make the shoes, box them and even affix the price tag, are the ones who get the worst deal. The International Herald Tribune says "Yet for all the sweat that goes into making shoes in Tianjin, the factory payroll is equivalent to $1.30 a pair, 2.6 percent of the U.S. retail price." Should the salary of every worker in the Chinese shoe factory be doubled, the retail price in the US would merely go up from $49.99 to $51 or so.[12] By keeping wages low without the protection of trade unions, China is in effect subsidising exports. To offset this Chinese authorities have begun some trade union activity recently. Even Wal-Mart was forced to accept unions in China. Just as the Chinese government is doing the best for its citizens, so also is it the Indian government's duty to look after the livelihoods of its retailers and also its very own shackled manufacturers. This duty cannot be wished away or left to the tender mercies of the sharp eyed corporate honchos out to make a quick buck behind a convenient fig leaf.

Features of the Indian Retail Industry

Indian manufacturers with a vexatious layer of regulations and laws, a fragmented marketplace and multi-layered distribution system are in no position to compete with China. The Government of India first needs to give our manufacturers a level playing field by bringing our labour, bank, tax, zoning, regulations in line with modern requirements before it invites foreign retailers to lay a giant pipeline for cheaply sourced goods from abroad.

Thus the Indian retail scenario has three features distinguishing it from the developed and 'efficient' west,

1) fragmented and multi-layered retail distribution market,
2) many retailers of various sizes at many locations vying to serve the final consumer,
3) many buyers for the grower and manufacturer thus preventing any retailer from establishing a monopsony and dictating price and credit terms to the growers and manufacturers.

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[11] "Trade imbalance masks a struggle to get by in China" Thomas Fuller; International Herald Tribune Published August 3, 2006

[12] "Trade imbalance masks a struggle to get by in China" Thomas Fuller; International Herald Tribune Published August 3, 2006

If these three features were to be abolished by a stroke of the pen-- the social upheaval caused would be intractable. The hype of large retailers would lure in consumers in vast numbers through advertising, convenience and glamour thus reinforcing their oligopolistic powers and literally closing the livelihood avenues of millions of small Indian retailers and their families. The numbers negatively impacted in our manufacturing sector would be far larger.

Table 7: 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

Table 8: Sectoral GDP, Employment & Growth Rates in India (%)

Sectors	**Share percentage 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)

The sectoral share of industry in China's growth is around 58.5% (see Table 7) whereas industry's contribution to India's GDP growth rate in 2002-03 was only 28%[13]. Considering that industry's share in the GDP was only 21.7% in the year 2004 this is not surprising (see Table 8). While manufacturing low technology goods has already been comprehensively mastered by China (it has a ten year lead on India in implementing reforms), which has the advantages of a command economy under the direction of the so-called dictatorship of the proletariat. This gives it enormous leeway in complying with the "low prices every day" demands of Wal-Mart. Sweatshops and extremely long hours are the norm in most parts of

[13] India Brand Equity Foundation "Services" April 19, 2006

China's export economy. USA can exploit its monopoly position in R&D and high technology manufacture and dominates the world with Boeing, Microsoft, Pfizer, AMD, Intel, etc. Branded goods (Nike, Pepsi, Gap) prices keep on rising, new technology products enter the market at a premium and skim the cream, luxury goods markets are growing.

In such a scenario, what countries like India are left with are the supply of agro and mineral commodities. There is very little possibility of value addition in this segment. What little manufacturing we have is under stress from 'efficient' imports. Does it then make sense for us to open a single point supply chain straight from Guangzhou to the hyper mart in mofussil India, thus leading to the closing of myriad small manufacturing units mostly in small towns? These units may not be making trendy items efficiently, but they keep millions of workers fed and clothed, even if this manufacturing is not 'just in time' and 'six sigma'. We first need to address these problems of macro economic policy at the Government level before we give in to the uninformed fads of our vocal consuming elite. Our economist Prime Minister needs to complete his policy homework before succumbing to the blandishments of his ambitious cabinet colleagues and World Bank trained policy planners. It seems that the UPA Chair, Sonia Gandhi has a more nuanced appreciation of the ramifications of FDI in Retail.[14]

For very sound reasons, the Government of India was hastening slowly, and laudably so, in the matter of foreign direct investment in retail industry. The motivations behind the go slow legislation of the Government of India were well intentioned and meant to avoid social disruption on a national scale. That is the whole purpose of Government, to be even handed among equals, leavened with a paternalistic disposition for the weak and disadvantaged. Just like smart lawyers get apparent murderers off the hook, smarter PR agencies can make a shibboleth of efficiency; pains and travails to the hapless are damned[15].

With a large format retailer such as Carrefour, Tesco, and Wal-Mart providing a single point of sourcing on a global scale and the Indian minion scurrying to tie up the local finances, leasing and recruitment, the intention behind the ban on FDI in retail would be wholly overcome by legal legerdemain. This current arrangement of Bharti and Wal-Mart (and the

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[14] "Go slow on retail FDI: Sonia to PM" Times News Network [Tuesday, February 06, 2007 12:50:16 AM] http://economictimes.indiatimes.com/articleshow/1565159.cms

[15] The Times of India, Delhi, 30th January, 2006, Page 14

myriad proposed fig leaf ventures of Tesco, Carrefour, Total, Woolworth and Metro) has all the elements of monopoly in retail and monopsony in procurement and retail. This can cause a manufacturing job displacement of the kind which the Government of India has always wished to avoid. Wal-Mart (turnover $300 billion, employing over 1.5 million people worldwide[16])which is already purchasing enormous amounts of goods from China ($18billion worth of goods from China in 2004[17])and other low cost countries shall be enabled to depress prices paid to suppliers even further at the likelihood of adding a single portal leading to 1113 million prospective consumers.

With these cheaply sourced goods provided to a knowledgeable India- friendly local enterprise such as Bharti - which can do efficient cross marketing across its existing multi millions client base - the Indian prices can be depressed still further. The pipeline for cheap imports will be held at the pumping end by Wal-Mart and by Bharti at the nozzle end. The net result shall be the same as if both ends were being held by Wal-Mart. Then what becomes of the Government's intention to protect its citizens from wholesale destruction of their livelihoods, whether retailers or manufacturers?

Visit *www.cpasind.com* for more articles on retail and foreign direct investment.

[16] Business Standard, New Delhi A 'scandal' Story, 10th February 10, 2007
[17] Wal-Mart Nation, Time Magazine June 19, 2005
http://www.time.com/time/magazine/article/0,9171,1074120,00.html

Annexure I

Table 9: Community wise employment in different sectors in India (%)

Industry Group	Hindus				Muslims	Other Minorities	All
	All Hindus	SCs/STs	OBCs	UC			
	All						
Agriculture, livestock, forestry etc.	59.9	66.6	62.1	47.1	39.8	56.4	57.7
Mining and quarrying	0.6	0.9	0.5	0.5	0.3	0.5	0.6
Manufacturing	11.0	8.7	11.9	12.4	20.5	9.0	11.8
Electricity, gas and water	0.3	0.2	0.2	0.4	0.3	0.5	0.3
Construction	5.6	8.0	5.1	3.3	6.8	6.1	5.8
Wholesale and retail trade	8.1	4.7	7.7	13.4	16.8	9.7	9.1
Hotels and restaurant	1.3	0.6	1.4	1.9	1.3	1.1	1.3
Transport, storage and communication	3.7	3.3	3.4	4.8	6.4	4.2	4.0
Finance, insurance, real estate etc.	1.6	0.7	1.1	3.7	1.2	2.3	1.6
Community, social and personal services	7.9	6.3	6.6	12.4	6.8	10.2	7.9
Total	100	100	100	100	100	100	100

Source: Page 117 Sachar Committee Report 2006

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