DHARMENDRA KUMAR | DIRECTOR, INDIA FDI WATCH

"WE NEED TO ENSURE THAT SMALL FARMERS RETAIN COMPLETE CONTROL OVER THEIR LAND AND FARMING"

The Government of India recently eased the rules of foreign direct investment (FDI) in seven key sectors ranging from civil aviation and defense to food products and pharma in a bid to attract more money to create jobs and boost economic growth. The government raised foreign investment caps in some sectors, brought more investments under the automatic route that will not entail prior approval, and relaxed some conditions governing FDI to improve the ease of doing business. This is the second major overhaul of FDI rules in seven months. In November, the government had eased norms for 15 sectors. According to the government, India has become one of the most open economies in the world with these radical changes in FDI policies, but will the country benefit from this form of investment? To discuss the issue, Ramesh Kumar Raja talked to Dharmendra Kumar, director of India FDI Watch which has been at the forefront of the debate in India on FDI, especially in retail trade services. He conducts various research works primarily on issues of trade and investment which include "A Future of Co-existence? Hawkers and the impact of corporate and chain retail" and "Agri-retail: Implications for the weakest links in the supply chain". He has also co-authored with Pia Eberhardt of Corporate Europe Observatory a research report titled "Trade Invaders: how big business is driving EU-India FTA".

EDITED EXCERPTS:

Recently, India opened its defense and other sectors for higher FDI after which government said India has become most open country for FDI. What is your comment on the move and the statement?

Undoubtedly, Indian foreign direct investment policy has widely opened the gate for foreign investors. Now, most sectors are on the automatic route barring a very small negative list. Sensitive and much debated sectors like defense, civil aviation, airport construction, pharmaceutical and retail are now completely or almost fully opened for foreign direct investment. Like many other countries, India has treaded cautiously and opened its door for FDI in a phased manner. But, the present Indian government seems to be in haste and has liberalized hitherto controversial sectors without preparing a sound ground to benefit from policy changes and leaving aside the much needed regulatory framework overhaul. In fact, the liberalization process has relaxed regulations rather than to plug in the loopholes. FDI can be beneficial for an economy only if it brings in modern technology, creates jobs and expands the production base.

FDI is a highly sensitive subject in India. Why does any move in relation to FDI become so controversial, even in areas such as defense?

Any policy of bilateral, regional or multilateral trade and investment have various kinds of ramifications. It not only shapes your economy but is quite influential in guiding and in many cases controlling your polity, culture and foreign relations. Foreign investors and traders eventually colonizing a destination country is a common recent past of the third world countries including India. In present times, we come across many evidences where a foreign investor or trader calls shots in the destination country. Defense is quite sensitive and requires utmost diligence. It's true that India, being the largest importer of defense equipment in the world has its manufacturing capacities at a nascent stage. In India, defense manufacturing is still by and large being taken care of by public sector. The Self Reliance Index of our defense acquisition remains around 30 per cent. We need to improve indigenization. This could only be done through increased investment in research and development. Mere policy posturing won't help. The allocation to the Defense Research and Development Organization (DRDO) remains only around six per cent of the total defense expenditure. Private domestic companies operating in the field of defense manufacturing shy off from investing in R&D. They hardly invest one per cent of their total turnover. Foreign investors are looking for definite market and control. Most likely, India is going to remain the largest importer of defense equipment in times to come as well. Unfortunately, technology transferred in the past has not even allowed us to upgrade the equipment. Specific clauses related to technology transfer and granting India special rights during emergencies must be included in the contracts.

India FDI Watch has been against FDI in retail. Why so? Don't you think higher FDI will reduce the structural inefficiency in the retail sector and add jobs?

FDI in retail particularly in multi brand retail is a subject encompassing the whole supply chain including of food. Any move on this front would impact both ends of the supply chain producers and consumers. Supermarkets can have considerable influence over who produces food, how it is produced and what is eaten. Supermarkets too have structural inefficiency with a high per centage of wastage. There are nearly 60 million Indians directly depending on retail trade services. Small farmers never become part of such so-called modern supply chain as chain retailers look for large volumes. On the contrary, small farmers could even lose the local market. Along with livelihood concerns, the supermarketization of the Indian retail sector also raises concerns over food sovereignty, food security, food safety, nutrition, local economies and the environment.

So far, India has not made any commitment on retailing services to the World Trade Organization. Yet, the sector is increasingly being autonomously liberalized to corporatize it including by global capital. India now allows 100 per cent foreign direct investment (FDI) in wholesale trading, single brand retailing and business to business e-commerce through automatic route. The previous central government of India also finally allowed FDI in multi brand retailing up to 51 per cent but through government route and with some riders. Through the recent FDI policy changes, Indian government has eased FDI norms and the conditions on minimum capitalization and floor area restrictions have now been removed for the construction of shopping complexes. Up to 100 per cent FDI is now allowed in coffee/rubber/cardamom/palm oil & olive oil plantations via the automatic route. 100 per cent FDI is now allowed via the auto route in duty free shops located and operated in the customs bonded areas. Manufacturers can now sell their products through wholesale and/or retail, including through e-commerce without government approval. The new FDI policy has also relaxed the domestic sourcing conditions for single-brand retailers. Single brand retailers are not required to meet the 30 per cent sourcing condition until they open their first store. In case of state of the art and cutting edge technology, the sourcing condition has been removed. The policy also allows a single entity to do both wholesale trading and single-brand retailing provided both business arms separately comply with the relevant regulations.

It must be noted that the retail trade is not infinite. In the short run, the so-called modern retail may co-exist with traditional retail. This co-existence necessarily may not be in the same geographical area and the same format. Eventually the growth of the superstores would take place only at the cost of small stores. The number of livelihoods displaced in the process would be far greater than the number of jobs superstores could add. This is quite evident from the so far experience we have from across the globe including of USA, western European countries, Latin American countries and countries of south East Asia.

Could you throw some light on the work of your organization? What you want to achieve?

India FDI Watch works to promote ecologically sustainable and economically viable modes of production, distribution and consumption. It endeavors to protect food sovereignty and livelihoods. Specifically, India FDI Watch wants to secure regulatory framework that will protect communities and the environment; ensure the stability of existing small businesses; guarantee fair wages and improve working conditions for employees.

Being a member to WTO and as potential member of leading regional trade bodies such as APEC and RCEP, India has to open its markets by reducing trade barriers including in investments. What impact would it have on Indian economy?

There are concerns related to India's engagement in the World Trade Organization (WTO) and the new generation free trade agreements (FTA). Regional Comprehensive Economic Partnership (RCEP) and other regional and bilateral trade and investment treaties and negotiations under way deal with not only tariff cuts but also a range of other issues such as investment, intellectual property rights, services and competition etc. This could have far reaching implications on India's future economic and social development. India is currently facing huge trade deficit with ASEAN, South Korea, Japan and China. RCEP is expected to worsen the huge trade deficit and damage India's manufacturing sector. Similarly, concerns are expressed in the field of intellectual property (IP). Many proposals in the area of IP go well beyond our current national IP legislations, especially the Indian Patents Act 1970, which would compromise access to medicines and technologies in many critical areas. Likewise, many foreign negotiators want all RCEP member countries to become members of another IP agreement on seeds – the UPOV Convention. Firstly, this would be 'TRIPS-plus', taking us beyond what WTO requires us to do in the area of seed. Secondly, it will mean going against the 'farmer's rights' provisions in our national law – Protection of Plant Varieties & Farmers' Rights Act, (passed by Parliament in 2001 in compliance with WTO.

The leaked investment chapter shows that the proposals are going against India's current position on investment treaties. India has developed a model BIPA text. India has also re-negotiating 57 of its 83 bilateral investment treaties (BITs) on the basis of its new model BIPA & to avoid one-sided approach to protecting investor's interest. But demands being made in negotiation like RCEP may push us beyond our position on investments as well, for example, on the investor-state dispute mechanism.

In a recent article you stated that trade policies need to focus on farmers. Could you elaborate with examples?

Food is a human right and it should not be commoditized. India needs to commit to Food Sovereignty and the Right to Food and resist "free trade paradigm" and "market-driven development". We need to learn from FTAs like the European Union's Economic Partnership Agreements (EPAs) with Africa that resulted in more hunger and poverty. Public policies and investments should be oriented towards protecting and strengthening local farmers led markets. We already have many well regulated farmers' and direct markets functioning as longstanding traditional markets. These markets mainly provide a market to marginal and small farmers. Small farmers based food systems promote social justice and dignity. Aggressive commitments by India on agriculture trade and investment in international agreements are largely guided by its orientation to augment the country's market share in the global trade of agriculture produce. Such export driven policies hardly benefit small farmers. We need to ensure that small farmers remain in complete control over their land and farming and have fair and equitable access to resources.

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