No **F**oreign **D**irect **I**nvestment in Retail

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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.

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.

The current debate on allowing foreign direct investment (FDI) in India's retail trade primarily focuses on two issues – employment and consumer welfare. Supporters of this move have developed consumer centric arguments while the opponents are more concerned with its adverse impact on employment. In a recent article in the Economic and Political Weekly, Guruswamy et al. (March, 2005) deliberated on this issue in detail and made an empirical estimation of the future job losses, should the government allow entry of FDI in retail sector. The estimated job loss ranged between 4,32.000 and 6,20,000. In percentage terms this works out to over 1.0% –1.5% of current work force of around 40 millions (The Telegraph; UK, estimates it as 80 millions) engaged in retail trade in India. Though FDI in retailing is not allowed (as of December 26, 2005), the Government of India has a more liberal policy towards wholesale trade; franchising and commission agents' services. Foreign retailers have already started their operations in India through

- joint venture where the Indian firm was an export house
- franchising (KFC, Nike)
- sourcing from small-scale sector;
- cash and carry operation (Giant in Hyderabad)
- non-store formats- direct marketing (Amway).

Large international retailers of home furnishing and apparels like Pottery Barn, Gap and Ralph Lauren have made India as one of their major sourcing hubs. In February 2002, the world's largest retailer, Wal-Mart opened a global sourcing office in Bangalore. Up to 100% FDI is allowed in Cash and Carry wholesale. The Great Wholesaling Club Ltd is one such example. (Mukherjee, 2000).

In the latest 'revised conditional offer' submitted by the GOI to WTO in August 2005, under article XIX of the GATS, India has offered to undertake extensive commitments in a number of sectors/sub-sectors including wholesale trade services and distribution services (limited to services incidental to energy distribution but excluding energy trading and load dispatch function), marine and air transport services.

In the revised offer by the GOI under the on going GATS negotiation, we observe a systematic move towards creating the basic infrastructure essential for the smooth functioning of modern retail chains. The bottlenecks like lack of proper storage facilities and efficient logistic services have been addressed through liberal FDI policy in air and maritime transport services and maritime auxiliary services, which included storage and warehousing services in the ports.

To analyze the effect of FDI on Indian retail sector, we have made two different projections of Indian economy in the next five years when the level of FDI inflow is expected to increase.

Scenario 1 - The economy grows at a faster rate, say 8% or above and the benefits of growth 'flows down' the line (not simply "trickles down") benefiting even the poorest of the poor. Economic and social disparity reduces, 'poverty line' becomes a topic of economic history, and purchasing power across different economic class increases and Human Development Index (HDI) improves substantially.

Scenario II - Economy grows, as predicted, at a higher rate of say 8% but the benefits of growth "trickles down" at a slower rate. Economic and social disparity widens, middle class and poorer sections get marginalized, purchasing power of the majority of the population does not improve, transition towards market economy becomes painful, and we observe a phase of "jobless growth". The working class looses its bargaining strength and HDI does not improve much.

If the social economic condition in the next five years prevails in the same way as described in Scenario 1, issues like employment loss would loose to attract much attention, as the expanding economy with better distributional equity would be able to absorb such shocks. Moreover, with a general rise in purchasing power, consumer would prefer more choices and better quality of products, which a modern retail chain would be able to offer.

If however, we observe the recent social economic trends, the projection as per Scenario II is more likely. One of the special features of economic growth in India in the 1990s was the decline of "employment elasticity" (employment generated per unit growth of output). In specific terms, while the employment elasticity of the 1980s and early 1990s was 0.5, it decreased to 0.16 in the late 1990s. The higher capital intensity of economic growth due to globalization and competitive pressure was responsible for this.

To tackle the problem of "jobless growth" which became the defining feature of economic development of India in recent times, the Planning Commission had set up two expert groups. The first Task Force, under Montek Singh Ahluwalia, was set up in 1999 and produced its report in 2001. It recommended a number of programs of economic policy reforms, such as de-reservation of small industries and expanding the role of FDI in small industries and trade. It emphasized more on the increase in the rate of growth than special programs for creating jobs. Dissatisfied by the approach of the Task Force, the Planning Commission had set up a Special Group in 2001 under the Chairmanship of Dr. S. P. Gupta, Member, Planning Commission, to study the same problem. In the order appointing the Special Group, the Deputy Chairman of the Planning Commission pointed out that the earlier Task Force had not paid adequate attention to the issue of the large backlog of under-employment. The Planning Commission was obviously not quite happy with the emphasis laid by the Task Force on growth per se (Venkitaramanan, 2002).

Montek Singh Ahluwalia who headed the first Task Force, is back to the management of the Indian economy with a much higher responsibility as Deputy Chairman of the Planning Commission. It is most likely that he would pursue the same policies, may be more aggressively, he recommended earlier. Under such conditions, employment elasticity in the next five years is likely to decline further resulting to the widening of the economic disparity among different groups, as projected in the scenario II. Based on this projection, we shall analyze the likely impact of FDI on major stakeholders of the Indian retail sector through addressal of few important issues.

I
Uniqueness of Indian retail market

The Indian trading sector, which enjoys a few thousand years of history, has some unique features. These features identified as under, should be considered before allowing FDI into retail trade.

1. Products and services normally reach the end consumers from the manufacturer / producers through two different channels: (a) Producers sell via independent retailers (vertical separation), (b) directly from producer to consumer (vertical integration) .In the later case, producers establish their own chain of retail outlets; develop franchise (Lafontan and Slade,1997).

2. In India however, the above two modes of operations are not very common. At present, less than 3% of the retail transactions in India are done in the organized sector (vertical separation), which is likely to be increased to 15%- 20% by 2010 (Fitch Ratings, 2003). Till date, it is restricted to metro cities only. The second type (vertical integration) is common to few national and subsidiaries of global firms. Moreover, Indian wholesale trade is not properly organized. Apart from few government initiatives like formation of Tea, Coffee, Spices Boards; State Trading Corporations- most of which have become defunct by now, private initiatives have mostly remained localized. The two notable exceptions could be the recently launched e-procurement network 'e-chopal', developed by ITC Ltd- a diversified cigarette company in which the global tobacco giant the British American Tobacco (BAT) has substantial stake. Through e-chopal, ITC wants to procure agricultural products directly from the farmers for their food division. The other initiative has been made by Hindustan Lever Ltd. (HLL) – the Indian subsidiary of global FMCG giant Unilever. HLL had opened a separate food division few years ago. Though this division has not contributed much in terms of revenue, HLL has put in huge resources

to develop this strategic business unit (SBU). In the last two years, different distribution models have been tried/ experimented. Recent developments indicate that HLL-Unilever is moving towards geocentric mode of operation from the age-old polycentric mode. In the new operational structure, the food division may become the hub for Unilever's global food operation.

Baring these exceptions, the commonly used model in India, unlike in developed countries where large trading companies play a significant intermediate role -like the 11,000 odd trading companies ('shosha') of Japan , is the dominance of small and medium players. The trading sector is highly fragmented with large number of intermediaries. The wholesale trade in India is also characterized with the presence of thousands of small commission agents, stockiest and distributors who operate strictly at a local level. Apart from these, in many cases the small producers - mostly artisans and farmers, sell their goods directly to the end consumers through their participation in the market as sellers. Existence of thousands of such individual producer cum sellers (in some cases it becomes a family affair when say, the father is a producer and the son is a seller and so on) are examples of "vertical integration" of the Indian retail sector.

3. The Indian retail sector exhibits a unique example of customer relationship management where numerous small vendors develop customer relationship with their consumers by staying closer to them, either by opening a tiny outlet in the residential area or by hawking goods at the doorstep of the consumers. In this process, a personal relationship, most often extending beyond the business interest, develops.

4. Another note worthy feature of the Indian retail sector is the absence of any barrier to entry or exit. Any one can enter or leave the Indian retail sector at any point of time.

5. Retail sector contributes 14% of the Indian GDP. Apart from its economic contribution retail sector immensely contributes to the political system by acting as a shock absorber and maintaining social stability. Thus when a factory shuts down rendering people jobless; the farmers remain idle during off seasons or get evicted from the land; the stagnant manufacturing sector fails to provide jobs to the thousand of unemployed youths; the retail sector absorb them all. Skilled labor turns into a street hawker, a farmer delivers milk packets door to door, an educated unemployed youth hawks newspapers and a better off unemployed person starts a telephone booth and retails telecom cards as an 'add on' service. Again when the factory reopens (in exceptional cases); harvesting time arrives; some of these new entrants leave the retail trade and return back to their respective jobs.

6. After agriculture, probably, the incidence of disguised unemployment (and under employment) is highest in the Indian retail sector. Small retailers (nearly 12 million outlets) most of whom operate in the unorganized sector, dominate the trade. Though Guruswamy (2005) estimates that more than 6 lakhs of people involved in the unorganized retail sector would be displaced if global players like Wal-Mart's capture even 20% of the retail trade, in reality we may not observe any visible change in the unemployment level. Only the percentage of disguised employed (rather disguised unemployed) population in the retail sector would increase.

7. The organized retail sector in India is in its nascent stage. Not a single firm in India (except retail oil outlets of petroleum companies) has a nation wide presence. All major retail TNCs still get identified with the home countries like Wal-Mart (USA), Royal Aholds (Netherlands), Carrefour (France). Absence of a major Indian player with a nation wide multi-product retail chain will put the Indian retailers at an uneven platform in any form of bargains vis-à-vis their overseas big brothers It is only fair that the above-

discussed unique features of the Indian retail sector should get due consideration in the current debate on inviting FDI in retail trade.

II
Identification of major beneficiaries of FDI – the push and pull factors

Why is the government so keen in inviting FDI in the retail sector? While searching for this answer, we must remember that already major retailers have entered into the retail market through franchise and other arrangements. FDI is another such arrangement through which foreign firms can exercise more control in the management of their Indian operations. There could be the following possible reasons for inviting FDI in retail trade:

- Organized domestic retailers want to collaborate with the world leaders to expand their existing business.
- Proprietary expertise in retail trade exists with few global players only. The latter would not transfer their expertise to local firms unless they are allowed to operate in the domestic market.
- The government needs FDI to meet foreign currency crisis
- Only the global retailers can satisfy the rising and varied demands of Indian consumers.
- Foreign firms are interested in the growing Indian domestic market.
- India is an emerging procurement hub for global retailers especially for handicraft products (including textiles) and semi-processed local food items.
- Share of FDI in the trading service is declining in the developed countries. Capital is looking for a better pasture. Major players are loosing their popularity.
- New rules in international trade encourage movement of FDI across nations to maximize return on investment.

Analysis of the above possible reasons reveals the truth behind the move. The findings, which have been presented in a table as, ‘pull and push factors’ give a better insight into this debate. The first four possible reasons as above may be termed as ‘pull factor’ and the remaining four as ‘push factors’

1. Business Today (May 8, 2005) reported that, among the big Indian retailers, views on FDI issue was mixed. Those in favor of FDI argued that huge amount (up to Rs.10,000 crore) would be required in the next five/six years to improve the share of organized retail in India from current 3% to 10% of the total retail trade. Indian investors were reluctant to invest such a huge quantity. In this context, it may be argued that unlike in manufacturing, capital requirements in retail is very low. The vendors substantially finance a large component of the business – the working capital (Mukherjee, 2002).

2. In the literature on retail, presence of any cutting edge proprietary expertise – either technical or managerial could not be traced. FDI movement could not be linked to transfer of any such expertise.

3. The Government of India at present is burdened with huge balance of payment surplus. As of August 2005, the surplus was $ 133.6 billion. The argument in favor of inviting FDI to attract foreign exchange is not acceptable.

4. Domestic organized retailers can offer wide range of important products to the consumer. Moreover through franchise channel, global retailers like KFC, Subway, etc. can offer high quality service to the domestic clients. On the question of wider choice, new findings suggest that availability of wider options develop complexity in the consumer decision taking process leading to stronger brand loyalty! Research reveals that an average grocery store in USA, offers 35,000 to 40,000 SKUs (stock keeping units) versus 12,000 to 15,000 thirty years ago. The suppliers offer about 20,000 new items each year; with 1,000 being new efforts while the rest are line extensions. However, the top 5,000 items still account for about 90 percent of sales, as they did thirty years ago (HBS Working Knowledge, Readers Respond: Is Less Becoming More? November 14, 2005). Below we mention few recent findings (Heskett, 2005) on this important issue.

- Management experts questioned whether there were benefits for producers, particularly those producing increasingly varied products targeted for smaller and smaller market niches. They reported, "nearly 70 per cent of managers admit that excessive complexity is raising their costs and hindering their profit growth." This implied that too much innovation merely increased complexity without creating economic benefits for either the producer or the consumer.

- Another expert commented that there were problems associated with too much choice on the customer's side. As choice increased, search costs increased, and decisions involved evaluation of more options. Since human by nature were elementally rational beings, this could mean that consumers discounted or ignored a lot of the options. This could increase brand loyalty as a mechanism that reduced search and evaluation costs.

- There was also the issue that with more options, it took longer time to make a decision. At the same time, due to social changes, consumers had even less time to make choices, especially for everyday products that have smaller wallet share. This again indicates relying on known branded items. On the seller side if one could satisfy customers well once, they might be more likely to stick with that seller even though they have more choices.(HBS Working Knowledge, Readers Respond: Is Less Becoming More? November 14, 2005).

5. Among the top ten emerging market retail destinations, India ranked 2nd in term of attractiveness (Business Today). The richest 20% of the Indian population (over 200 millions) who as per 1999 data grabbed over 43% of the total consumable items (HDR 2005, Page – 235) is a significantly large market for attracting global retailers. Between 1999 and 2003, the

disposable income of Indian middle class (300 million) has increased by 20% (The Telegraph, UK).

6. Major retail chains like Wal-Mart and Tesco have already opened their procurement centers in India. For large-scale procurement operation, they will have to invest in infrastructure and develop an efficient supply chain. This requires huge investment. By opening retail chains in the host country they would like to exert monopoly power eliminating other major buyers from the market. In this context, we must remember that India is fortunate to be part of two major bio-diversity hot spots out of a few remaining bio-diversity hot spots of the world. The wide food variety and rich heritage of textile and other handicrafts makes India a very attractive sourcing destination for retail giants. In the absence of national champions like Marubenis in India, the small and medium enterprises/ suppliers of this country will loose the opportunity of earning better revenues in the global market. But they will have to bear the additional risks of global market fluctuations. Wal-Mart had procured goods worth $ 1.5 billion from India in 2004, which is expected to touch $ 2. billion this year. From India, Wal-Mart mainly sources home furnishings, T-shirts, night-suits etc (HBL, November 15, 2003; May 13,2005). It has also been reported that Wal-Mart has already proposed to the West Bengal government to take over the fresh food markets of in and around Kolkata. Though the government has not accepted the proposal as yet, it has not rejected it either. The government has 'kept the multinational company waiting'.(HBL, October 29,2005).

7. Analysis of FDI stock for service sector by industry indicates, between 1990 and 2002, the share of inward FDI stock in the trade has declined from 25% to 18%. In the same period, outward FDI stock has declined from 17% to 10%. During the same period, out of the total inward FDI in trade, developed countries' share declined to 78% from 90%. Of the remaining 22%, developing countries share were 4% and that of Central and East European (CEE) countries were

18%. Undoubtedly, this region has emerged as the hottest destination for trade FDI.

It must be understood that the share of developed countries had declined from 99 per cent in 1990 to 88 per cent in 2002. The estimated world inward FDI, average annual flows, by sector and industry, between 1989-1991 and 2001-2002 figures indicate that after finance, trade, and business activities,' transport, storage and communication', is the only other service industry, which attracts relatively high FDI. However, if we take in to account the share of FDI in trade, compared to other prime service industries, we find a remarkable decline (between 1991, and 2002) in the share (from 20.15% to 12.35%) of trade but steep rise in the share of 'transport, storage and communication' sector - a sector related to supply chain management (SCM). In a global economy, SCM is an integral part of trading services. The above table on FDI data flow also indicates the increasing attractiveness of developing and CEE countries' trade sector to the foreign investors.

In February 2005, Wal-Mart Canada, the Canadian arms of Wal-Mart Stores, closed one of its two Quebec stores, after the company announced the stores financial situation was 'precarious'. (Datamonitor, 2005), Apart from market saturation in developed countries, it is reported that retailers like Wal-Mart are facing opposition from local communities. According to a recent survey under taken in US, 38% respondent had expressed negative view about the Wal-Mart Stores. 56% of the Americans agreed with the statement that Wal-Mart was 'bad for America' and its prices came 'with high moral and economic costs' (HBL, December3, 2005). Many European countries have also initiated different measures to restrict the market distorting power of giant retailers. All these factors might have contributed to the movement of FDI from developed to emerging markets.

8. Trade liberalization and improvement in communication systems have increased the opportunity for the retailers to buy their products from producers' worldwide. Some of the factors that have contributed to this trend are: reduction in tariff, incentive in foreign investment, cheaper real time communications, and cheaper transport. Cut throat competition among major retailers in the develop countries compelled them to take advantage of this opportunity to maintain their profit.

III
Possible impact on marginal producers and work force - The experiences of other countries

The third important missing issue in the whole debate is the possible impact of such action on numerous small and marginal producers especially in the agrarian and handicraft/ handloom sectors. To get an idea about the possible impact on marginal producers and workers, we shall restrict our discussion to previous research findings on this issue.

1. In April 1999, the Director General of Fair Trading (DGFT) referred to The Competition Commission, UK, for investigating the supply of groceries from multiple stores in Great Britain. The Competition Commission identified 24 multiple grocery retailers who supplied groceries from supermarkets with 600 sq. meters or more of grocery sales area, where the space devoted to the retail sale of food and non-alcoholic drinks exceeded 300 sq meters and which were controlled by a person who controlled ten or more such stores.

   The major findings of the Commission were:

   - Examination of the price trends in the industry revealed an overall decline of 9.4per cent in the real price of food from 1989 to 1998.

   - Regarding pricing practices, the Commission examined five practices allegedly carried out by the main parties, about which they had received complaints and concluded that three of them (a) (b) and (c) below distorted competition and gave rise to a complex monopoly situation. The first two of these (a) and (b) also operated against the public interest:

     (a) It was found that all the main parties (with the exception of two) were engaged in the practice of persistently selling some frequently purchased products below cost, and that this contributed to the situation in which the majority of their products were not fully exposed to competitive pressure and distorted competition in the supply of groceries.

(b) It was also found that the practice of varying prices in different geographical locations in the light of local competitive conditions, ('Price flexing'), was carried on by major retailers.

(c) The Commission observed that Asda, Booth, Budgens, the Co-ops, Safeway, Sainsbury, Somerfield, Tesco and Waitrose adopted pricing structures and regimes that, by focusing competition on a relatively small proportion of their product lines, active competition on the majority of product lines could be restricted. This distorted competition in the retail supply of groceries because not all the parties' products were fully exposed to competitive pressure.

- The Commission received many allegations from suppliers about the behavior of the main parties in the course of their trading relationships. Most suppliers were unwilling to be named, or to name the main party that was the subject of the allegation. As the Commission could anticipate a climate of apprehension among many suppliers in their relationship with the main parties, the Commission had put a list of 52 alleged practices to the main parties and asked them to tell which of them they had engaged in during the last five years.

- It was found that a majority of these practices were carried out by many of the main parties. They included requiring or requesting from some of their suppliers various non-cost-related payments or discounts, sometimes retrospectively; imposing charges and making changes to contractual arrangements without adequate notice; and unreasonably transferring risks from the main party to the supplier. A request from a main party amounted to the same thing as a requirement. These practices, as per the Commission, gave rise to a complex monopoly situation.

- To address these adverse issues effectively, the Commission recommended a statutory Code of Practice.

2. Oxfam's research project investigated the condition of millions of poor workers mostly women who work in different developing countries to fuel export growth. For this, it interviewed hundreds of women workers and many farm and factory managers, supply chain agents, retail and brand company staff, unions and government officials. In all, the research included interviews and surveys spread over 12 countries with 1,310workers, 95 garment factory owners and managers, 33 farm and plantation owners and managers, 48 government officials, 98 representatives of unions and non-government organizations (NGOs), 52 importers, exporters, and other supply chain agents, and 17 representatives of brand and retail companies The research documented the experiences not only of women workers, but also of their employers, the managers and owners of farms and factories. Few important findings of the report are:

   - Retail and brand companies have positioned themselves as powerful gatekeepers between the world's consumers and producers. Their global supply chains stretch from the supermarket shelves and clothes rails in the world's major shopping centers to the fruit and vegetable farms of Latin American and Africa and the garment factories of South Asia and China.

- Globalization has hugely strengthened the negotiating hand of retailers and brand companies. New technologies, trade liberalization, and capital mobility have dramatically opened up the number of countries and producers from which they can source their products, creating a growing number of producers vying for a place in their supply chains. These companies have tremendous power in their negotiations with producers and they use that power to push the costs and risks of business down the supply chain. Their business model, focused on maximizing returns for shareholders, demands increasing flexibility through 'just-in-time' delivery, tighter control over inputs and standards, and ever-lower prices.

- Under such pressures, factory and farm managers typically pass on the costs and risks to the weakest links in the chain: the workers they employ. For many producers, their labor strategy is simple: make it flexible and make it cheap. Faced with fluctuating orders and falling prices, they hire workers on short-term contracts, set excessive targets, and sub-contract to sub-standard unseen producers. Pressured to meet tight turnaround times, they demand that workers put in long hours to meet shipping deadlines. And to minimize resistance, they hire workers who are less likely to join trade unions (young women, often migrants and immigrants) and they intimate or sack those who do stand up for their rights.

- The demands for 'just-in-time' delivery have typically cut production times in few sectors by 30 per cent in five years. Coupled with smaller, less predictable orders and high airfreight costs for missed deadlines, the small producers are pushed to the walls. Moroccan factories producing for Spain's major department store. E1 Corte Ingles must turn orders round in less than seven days. 'The shops always need to be full of new designs, we pull out all the stops to meet the deadline … our image is on the line' said one production planning manager. But the image they hide is of young women working up to 16 hours a day to meet those deadlines, underpaid by 40 per cent for their long overtime working.

- Global supply chains have created new opportunities for labor-intensive exports from low-cost locations. The result is a dramatic growth in the number of producers, heightening competition among the world's factories and farms for a place at the bottom of the chain. At the top end, however, market share has tended to consolidate among a few leading retailers and brand names. Such an imbalance between intensely competing producers and relatively few buyers in the global market put the small suppliers at the receiving end. The owner of a Brazilian shoe factory, facing intense international competition to sell to leading footwear retailers in Europe commented: 'We don't sell, we get bought'.

- Over the past twenty years, fresh produce and food service industries have headed towards global consolidation. In the food service industry, US-based Yum Brands has 33,000 restaurants – including Taco Bell, Pizza Hut, and KFC – in over 100 countries, and is especially focusing on expansion in China, Mexico, and South Korea. Supermarkets – grocery retailers with multiple stores – dominate food sales in rich countries and are rapidly expanding their global presence.

- In the USA, by 1997, supermarkets and even bigger 'super-centers' owned by companies like Wal-Mart and Kroger controlled 92 per cent of fresh-produce retailing. In the UK, by 2003, just five supermarket chains controlled 70 per cent of the market.

- Since supermarkets are increasingly controlling food retailing, the world's farmers are competing for a place in their supply chains. It can be good business, especially for farmers selling top-quality and out-of-season produce. But fresh produce is a risky business. And the extreme imbalance in negotiating power between a handful of supermarkets and the world's farmers means that most of the gains from trade are captured at the top. Supermarkets are pushing price and payment risks onto farmers and growers, controlling packaging and delivery requirements, squeezing producers' margins, and focusing on technical, not ethical standards.

3. In 1981, an UN study also suggested similar picture of deprivation of local producers. But Oxfam data shows that during last twenty years, the condition of the poor suppliers of fresh fruits have deteriorated further. The UN study showed that the 'retained value' from the Philippines bananas sold in the Japanese market by TNCs in 1974 was only 17% of the retail price. And the Thailand, fresh pineapples in 1978 canned and marketed by US TNC Dole, earned only 35% of the final consumer value of canned pineapples. Of this 35%, only 10% went to the share of the agriculturists and rest 25% to processing, packaging etc. which were predominantly done by TNCs' subsidiaries. In another recent report (Biz/ed, 2004), which corroborates with the above observation, it was estimated that in case of bananas sold in European market by US multinationals, the farmer might get around 10% of the price of a banana with workers getting anything from 9%

in the case of Fair-trade bananas to little as 1.5% on traditional farms. In comparison, the trading companies the likes of Del Monte, Chiquita, Dole and Fyffe's could be getting up to a third of the price whilst retailers took around 40%.

4. In a recent documentary film titled Wal-Mart- the High Cost of Low Price, on Wal–Mart, its director, Robert Greenwald high lighted various practices of the mega retail outlet which were not expected from a business house who preached ethical business. Commenting on the film, in Fortune, November 28, 2005,Colvin (2005) wrote

> ''…It is (the film) a response to the great social disrupter of our times- the emergence of a friction – free global economy. This news film,.. … is a cry from the hearts of the people being wrenched from the old world in the new and not liking it. There are millions of them, and they will demand to be heard in the media, the markets, and government.'

The government before taking a final decision to allow FDI in retail sector to strengthen this model of global trade should review the above findings. Small suppliers, unorganized workers and consumers are the major looser as global retailers and brand owners consolidate their power through free movement of global capital. GATS have opened up opportunities before the entrepreneurs of the developing countries to participate in the international trade as one of the many small suppliers to the global supply chains. The global retailers now optimize their return on capital through implementation of a complex model of supply chain management that consists of services, manufactured goods and commodities sourced mostly from low cost offshore destinations. But this model has an in-built over-exploitive character that has already been exposed to a large extent by various research findings as above. (Dey, 2005)

IV
Impact on existing labor laws

In the light of recent police atrocities against labors of Honda factory at Gurgaon and repeated suggestions by advisers and consultants like McKinsey to bring in drastic reforms in the Indian labor law to make it more flexible allowing easier implementation of the 'hire and fire' policy, one of the findings of the Oxfam report may look very relevant. Governments should strengthen protection of its workers in the face of intense commercial pressures. Instead many have traded away workers' rights, in law or in practice. Under pressure from local and foreign investors and from IMF and World Bank loan conditions, they have often allowed labor standards to be defined by the demands of supply chain flexibility: easier hiring and firing, more short-term contracts, fewer benefits, and longer periods of overtime. It brings a short-term advantage for trade, but at the risk of a long-term cost to society. The economic success of the 'global retailing model' as propagated by Wal–Marts, Royal Aholds etc requires flexible labor market to survive. Like many other governments, if Indian government also abolishes the safe guards it had enacted over the years, to protect its labor force, the business environment would become conducive for global integration. Enough indications are already there to apprehend that the government is also planning to bring in changes, as desired by the external forces, in the existing labor laws.

The government of India has taken an initiative to allow the existing textile firms to exercise the option of dividing their employees into 'core' and 'non core' workers. While the existing labor laws would be applicable to 'core' groups, the firm would have the flexibility to recruit and retrench the 'non core' workers provided the unit undertakes that each of these workers would be employed for 100 days a year. (HBL October 31, 2005) Recently it has been reported (ABP 16.11.05) that the communist government of the state of West Bengal has been seriously considering to ban trade union activities in IT enabled services like Call centers. The Ministry of Labor, Government of India has already proposed (HBL, October16, 2005) to amend the Contract Labor Act of 1970.

The industries that the Labor Ministry has suggested for exclusion from the purview of the Act included, IT, services in ports, railway stations, hospitals, education and training institutions, guest houses, constructions and maintenance of buildings, roads and bridges, export oriented units established in Special Economic Zone. We may recall that most of the services proposed for exemption of the existing contract act are part of the latest submission of the GOI to the existing negotiation process under GATS.

V
Safeguard options available with the government to protect the interest of small producers and suppliers

Service TNCs are putting all their efforts to bring in suitable changes in the GATS to safeguard their vested interest. For example, major associations of global retailers like FTA (Foreign Trade Association) and European Services Forum (ESF), which has global retail firms such as Metro, Ahold and Marks & Spencer as members, have taken renewed initiatives to introduce a separate agreement under WTO on trade and investment to safeguard their overseas investments. For example in a position paper on trade and investment in April 2003, European Services Forum demanded, a legally binding, comprehensive WTO agreement on rules for investment. According to that document (ESF, 2003), a WTO agreement on investment should:

- Be legally binding and based on the fundamental legal principles of most favored nation and of national treatment (i.e. non-discrimination);
- Contain:

  (a) A stand-still against the introduction of new barriers on to investment;

  (b) Post investment protection;

  (c) Protection of all material and intellectual property of the company;

  (d) Effective protection against direct expropriation as well as against indirect expropriation through discriminatory treatment

  (e) A mechanism for compensation in the case of expropriation

  (f) Independent and bind disputes settlement mechanisms;

  (g) Right of the company to determine its own ownership structure and provisions on legal, regulatory and administrative transparency;

- Promote scheduling of concrete and specific commitments by WTO members, to further open their markets to foreign direct investment.

Earlier in 2001, FTA demanded for the abolition of any restriction – neither product exclusion nor sectoral limitation for mode 3 (Commercial presence). It also called for the strengthening of the investment rules (GATS). Euro Commerce, the employers' confederation, not only lobbies for liberalization under the GATS agreement, but also pushes for the reduction of tariffs in NAMA and Agriculture, since the retail sector wishes to import its merchandise as cheaply as possible.

Before investing in the emerging economies, the global TNCs now want concrete and specific commitments on unlimited freedom of operation from the host countries. They expect, all such commitments to be made under GATS frame work so that once any commitment is made; the host government looses the option to retract from it in future. In this context, the experience of Thailand, which opened up its retail sector for FDI in the 1980s, could be an eye opener for us. The Thai government liberalized their trading sector before the GATS negotiation process was started. European retail giants Tesco, Royal Ahold, Carrefour had set up their operations in Thailand. As expected, many of the traditional retailers had to down their shutters unable to compete with global firms in an unequal fight. For example, traditional traders controlled 74% of the retail market in 1997 but by 2002, their share came down to 60%. Faced with severe criticism from local retailers, the government announced that they would put control on large retail establishments by imposing the zoning policy regulation. In 2002, the 'Retail Business Act' was enacted to control the expansion of foreign retailers. However, the Thai government changed their decision on zoning regulation allegedly under pressure from European Commission (EC) who had requested Thailand to open up their retail sector through GATS negotiations. As WTO lists zoning laws as "trade barriers", it is feared that the Thai government would loose the most effective tool to control the expansion of giant retail chains if they further open their retail sector through commitments under the GATS negotiation process. (Deckwirth Christina)

India is a larger economy than Thailand with a mature political system. In the changed global trading environment, to protect the interest of its small producers and workers how much safeguard the government of India will be able to bargain in the on going GATS' negotiation process, is another important issue that should be monitored carefully.

Concluding Remarks

The FDI debate has opened up many issues which deserve proper attention of the policy makers before the retail sector is opened up to foreign investors. The findings and deliberations in this paper reveal that unlike in other sectors, FDI in retail will have a much wider impact on the economy. Essentially, organized global retail chains will break the traditional symbiotic relationship that exists between small producers and small retailers. Also, in the new retailing format, due to unequal terms of trade in a monopoly like situation, small producers and suppliers are likely to suffer most.

Also it is necessary 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. Therefore 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.

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. 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. 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. Malaysia’s Bumiputra clause insists that 30% of equity is held by indigenous Malayans. Philippines insist that 30% of inventory by value be grown within the country.

In order to prevent such drawbacks, the government can adopt certain measures to strengthen the domestic unorganized retail sector. Few suggestions are:

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 unorganised sectors to expand and improve efficiencies.

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. 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.

3. Entry of foreign players must be gradual and with social safeguards so that the effects of the labour dislocation can be analyzed & 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.

4. 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.

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

6. 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.

7. 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.

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