FDI in Retail: What it entails?

The Hindu February 2, 2013 *Suvrata Chowdhary*

More than two decades after the first wave of reforms were introduced in the year 1991; the country's socio-economic health has by no means become better. In the midst of these galloping problems, the announcement by the UPA government about FDI in multi brand retail comes not as a relief but as a matter to be given a serious thought. The debate so far is threefold: (a) one section which is drooling over the reforms and projecting huge surge of investment in infrastructure and thereby increment in the employment levels. (b) The second group is the one which is sceptical about the opening of markets for foreign retail giants like Walmart,Carrefour, Kmart etc. not because they fear that it would affect the overall development of the economy. Rather, this group fears competition from the big foreign companies which have deep pockets to procure products from the world market. Thus, it would affect their profits by a huge margin. (c) The third group comprises of the unorganized retail sector which fears its elimination from the market in the long run.

Various claims made by UPA seem to fall flat on any reason if we take into consideration the outcomes of previous reforms. Employment in formal sector has not increased by any count since 1991, informalization of labour in the formal sector is a clear indication of this fact. Productivity in agriculture, where almost 54 per cent of the population is dependent has declined. It is no longer a profitable venture as the input costs have gone up in the post green revolution phase. Rise in the phenomena of rural to urban migration, rural non-farm employment, farmer suicides, show what precarious condition agriculture has landed into. Gradual shift of the economy from agriculture to industry, as expected in the prospects of reforms, has proven to be a fallacy. Instead, the existing industries have become more capital intensive leading to the displacement of labour on a mass scale. Trade liberalisation has given the global players a free hand to rein the economy. As a consequence rate of inflation is rising unchecked as the price of crude oil is fluctuating globally. These examples showcase that reforms and liberal policies have not led to the overall development of the economy.

In the light of the above observations, announcement of FDI in multi brand retail does not give much hope. The Indian retail sector is not only very vast but also varied in its composition. The huge population of the country, the rise of the middle class and its purchasing power and a huge market for foreign investment in India are factors that have invoked the interest of the foreign investors. But, it becomes imperative to see what this FDI would entail for the retail sector when it is analyzed by keeping the informal economy at the centre of the debate.

When only 4 percent of the retail trade in India comes under the organized retail it becomes essential to evaluate or assess the viability of FDI taking into consideration not this 4 percent but the 96 percent which belongs to the unorganized retail sector. The unorganized retail sector is not a homogeneous category, it comprises of peddlers, street vendors, kiosks, push-cart vendors, weekly traders. It is not unknown that the majority of those engaged in retailing at the lower end of the economy depend on the small and medium enterprises for their supplies. It has been reiterated time and again, by many economists, how and under what conditions the unorganized sector has risen to such heights in India and other developing countries via the route of the neo-liberal regime. Indian retail market is quite diverse in terms of scale, culture and structure. Some reasons for this diversity can be attributed to the divide that exists between rural and urban India. Traditional forms of marketing (neighbourhood markets, mandis, and periodic/weekly markets) coexist with modern day markets (supermarkets, hypermarkets, Single brand outlets etc.). Decline of the rural economy coupled with lack of employment in the manufacturing sector (organized sector) created a vast pool of surplus labour in the country in the post reform period. This multitude of labour started migrating to urban centres in search of employment and many of them landed up with self employment in the service sector of which retailing forms a huge part. Annihilation of small scale and self employed lower middle class will lead to large scale poverty and destitution because the unorganised sector is absorbing the shocks of migration and rural distress. It manages by catering to middle classes in the metropolis. If this market is gone, they will all be unemployed.

On the one hand the government is trying to convince that FDI would not harm the local trading practices and on the other hand various traders associations, vendors are fearing its exit from the retail market in the long run when various multi brand retail giants with their deep pockets and marketing skills would create direct contacts with farmers and producers of essential commodities. Whether it's a small vendor selling fruits on his bicycle or a trader who has a kiosk in a neighbourhood where he sells grocery or a weekly market trader who sells garments, all three of them depend on a vegetable mandi, grain mandi and wholesale market for garments respectively. With the entry of the multi-brand retail giants in the market two possibilities emerge (**a**) these retail giants are expected to procure 30 percent of goods from medium scale enterprises (but it is not necessary that these enterprises should be from the host country) thus, in case it decides to capture the domestic market it would create direct contact with small and medium enterprises and get commodities at the lowest possible cost and take benefit of the economies of scale. In case this happens, then the retail giants would slowly gain hands and monopolize the market and dictate the prices of essential commodities in the domestic market. This would slowly displace small vendors who don't have enough working capital to compete with retail giants. These vendors who till now were able to purchase goods from the wholesale market by proving their credit worthiness would no longer be able to give cash and carry goods to the retail market.

(**b**) Since multi brand retail stores have the liberty to buy products from anywhere in the world and they have enough resources to conduct market research, it would explore the world market and invest wherever they would be able to maximize their profits through final sale. In this scenario, small vendors and traders would continue to have access to the products which are produced by the small scale industries but at the same time these enterprises would face severe competition from cheap commodities imported from elsewhere. In the long run it is speculated that the prices of their commodities would fall in the markets and sooner or later these domestic small enterprises would be forced to quit. For example, T. Vellayan, president of the Tamil Nadu Federation of Trader's Associations gives the example of how the import of palm oil and soyabean oil for edible purposes proved ineffectual to the oil manufacturing units. Vellore, Tiruvannamalai, Cuddalore and Villupuram districts had several stone oil presses. But these traditional oil mills closed down. In Pudukottai district, oil mill premises have been converted into marriage halls (*Frontline,* Dec.2011).

Another justification given by the government for allowing FDI is that it would stabilize the inflationary trends that the Indian economy is witnessing for the past two years. This logic seems to be a wishful thinking because rising inflation cannot be controlled by the multi brand retail giants instead the prices of food grains, fruits and vegetables and essential commodities would only increase once these retail outfits will make a market for their products in India. Price of diesel and petrol has been exponentially hiked up; this is going to affect the cost of production both in agriculture and manufacturing. Farmers are not going to benefit in any way as they would continue to be exploited by the multi brand retail giants in the long run. If in this context we see the large unorganized retail sector, we can observe how small vendors of fruits and vegetables are able contain the inflationary pressure by offering lower prices.

One round of a weekly market in the neighbourhood of Delhi or elsewhere would show that the margins between the prices at which weekly traders sell their products and the price at which any supermarket sells the same thing varies by more than 20 to 30 percent. Multi brand retail giants would not only affect the price of food grains at the national level but it might also result in the disappearance of Agricultural Produce Marketing Committees which keep a certain minimum check on the price of the foodgrains coming to the grain markets. Thus, corporate capital would get a free reign in the indigenous markets of India and the process of primitive accumulation would set in as predicted by C.P. Chandrashekhar, Prabhat Patnaik et. al. This would have direct impact on that section of the unorganized retail sector which is employed in the lowest level of the market hierarchy who do not have ready cash to invest and whose livelihood is dependent on the recycling of debt for a day, a week, a month or a year because the prices are going to rise in the long run and so will the interests on the borrowed sum.

The adverse impact of the FDI would befall the unorganized retail sector with great intensity if the State makes more stringent rules of zoning and regulation. I have been researching the local weekly markets of Delhi for the past three years. These markets are very prominent feature in all parts of Delhi and NCR. There are around twelve hundred weekly markets of which only one fourth are recognized by the Municipal Corporation of Delhi (consequence of zoning). Approximately 2.5 million people are employed through these markets. This figure would just double if we take in to account additional employment that is created around these markets. Various own account and household enterprises are producing commodities on a daily basis for such low end markets. Local weekly markets provide a very easy channel of distribution of commodities produced not only in local small scale industries but also in the neighbouring States. For instance, rubber chappals and shoes made in Agra, sarees made in Surat, hosiery made in Coimbatore, woollens made in Ludhiana are all sold at affordable prices here in these very markets. FDI in multi brand retail would either displace various wholesale markets or the size of such markets would shrink. Today the local markets run on capital which has a fluid or floating nature. But with the coming of multi brand retail stores this floating capital would freeze and small retailers and vendors will be evicted from the market.

It is argued by the government that FDI in retail would create employment opportunities. But employment for whom is the crucial question? It would create employment for those who are educated and have professional experience. Taking cue from my observation in the weekly markets of Delhi I would argue that majority of those now employed in these markets have minimal education and have no professional degrees apart from their marketing knowledge. Now if FDI in multi brand retail comes, it is not in any way going to benefit these traders if they lose their sole means of survival.

I have observed in the course of my research that through weekly markets of Delhi hundreds of people have employed themselves who were displaced for one reason or the other. At the same time it has created a distinct market for lower middle class who would not go to a super market or a mall for shopping. Where will this section of population shop for daily needs with the entry of multi brand retail outlets in case it leads to the displacement of weekly markets?

Instead of providing infrastructural facilities the State already keeps street vending, peddling and weekly markets at the helm by keeping them in that buffer zone where it is difficult to 'recognize' their real viabilility for the economy at large. Often these are characterized as unlawful, black, or hidden activity.

It is my contention that in order to make way for the private capital the State might evict street vendors, cancel their licenses, or remove tehbazaari rights for weekly markets in the times to come. Just as in Delhi, Mumbai, Bangalore and other metropolitan cities, the State, has from time to time uprooted slums and relocated them to the periphery of the city, to make way for the investment by private corporate builders in order to make the city slum free. Similar decisions if taken for the unorganized retail sector would gravely increase inequality and poverty.

Suvrata Chowdhary, is a PhD student at the Centre for the Study of Social Systems, JNU. Email: suvratachowdhary@gmail.com

Key Words: FDI in retail, Agricultural Produce Marketing Committees, multi-brand retail, small traders