Indian government opens retail sector to foreign corporations

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In a decision that will have devastating consequences for some of the poorest sections of Indian society, the Indian cabinet last month approved the opening up of the country's retail and other sectors of the economy to foreign investment.

There are approximately 40 million people and 11 million outlets in India's retail sector. Many of these are marginal businesses—small shops and stalls, street vendors and hawkers—which will be destroyed by competition from large retail outlets and chains. Many people, who have no alternate source of income or work, will be left completely destitute.

The government decision on January 24 allows up to 51 percent foreign direct investment (FDI) in "single brand" retail stores. Nike, Nokia or Levi can establish stores, but multi-brand retailers such as Wal-Mart and Carrefour are excluded, for now.

The Congress-led government also opened up diamond mining, the development of new airports, the laying of natural gas pipelines, cash-and-carry wholesale trading and export trading to foreign investors. Companies investing in these industries no longer need to seek approval from the Foreign Investment Promotion Board and all FDI limits have been removed. The government has also approved the removal of restrictions in aspects of the petroleum, power trading, coal, rubber and coffee sectors.

The latest measures are part of a program of privatisation, deregulation and restructuring that began in 1991. Over the last decade and a half, successive governments have opened up transportation, telecommunication, food processing, electrical equipment, software, hotel and tourism, financial services, non-financial services, metals and other industries to foreign investment.

Commerce and Industry Minister Kamal Nath announced the changes before flying to the World Economic Forum conference in Davos in late January where Indian business and government officials touted for increased foreign investment. Nath told the leaders of the world's richest corporations that India was seeking to increase its FDI to $US10 billion by 2006-2007, up from the $6.5 billion invested in 2005.

India's team at Davos, which featured Nath as well as the Finance Minister, the Chief Ministers of Delhi, Kerala and Rajasthan and representatives of Indian business, ran a high-profile campaign to promote the benefits of investing in India. The Confederation of Indian Industry spent $4 million on an "India Everywhere" campaign at Davos.

Delegates arriving at Zurich airport were greeted with a billboard announcing India as the "world's fastest growing free-market democracy". The slogan "15 years, six governments, five prime ministers, one direction" underscored the commitment of all parliamentary parties in India to the free market agenda.

Although the Indian government hails foreign investment as an economic boon, the growth has largely benefitted the wealthy to the detriment of large sections of workers, small business and farmers. The opening up of the Indian economy and deregulation has resulted in substantial public sector job cuts, the destruction of industries, land seizures and cuts to food and fuel subsidies.

Nath tried to play down the effects of the latest changes on the poor, claiming that the opening of the retail sector was "limited" and would leave existing small retailers unaffected. But any change is going to have a devastating impact on an economic sector that employs 7 percent of the workforce or about 40 million people and supports as many as 200 million people.

Partly due to poor infrastructure, India's retail economy is backward by world standards. Approximately 98 percent of those employed in retail are in what is categorised as the unorganised sector—businesses that are small, unlicensed and do not pay tax. The sector is far less developed than in most major countries in Asia. China's organised retail sector is 20 percent of the total, while the proportion is 50 percent in Malaysia and 40 percent in Thailand.

Retail activities such as door-to-door selling, street carts and market stalls, act as a last resort for the unemployed, given the lack of jobs in manufacturing and agriculture. Many in the retail trade are living below the poverty line. A report published in December 2004 by the Centre for Policy Alternatives (CPAS) entitled "FDI in India's Retail Sector: More Bad than Good" stated that retailing is "probably the primary form of disguised unemployment/underemployment in the country".

The report continued: "Given the already over-crowded agricultural sector, and the stagnating manufacturing sector, and the hard nature and relatively low wages of jobs in both, many million Indians are virtually forced into the services sector. Here, given the lack of opportunities, it is almost a natural decision for an individual to set up a small shop or store, depending on his or her means or capital. And thus a retailer is born, seemingly out of circumstance rather than choice."

Commenting on the likely impact of foreign competition, the CPAS report stated: "India has 35 towns each with a population over 1 million. If Wal-Mart were to open an average Wal-Mart store in each of these cities and they reached the average Wal-Mart performance per store—we are looking at a turnover of over 80,330 million rupees [$1.82 billion] with only 10,195 employees. Extrapolating this with the average trend in India, it would mean displacing about 432,000 persons."

The report added that if large retailers were to obtain 20 percent of the retail trade "this would mean a turnover of 800 billion rupees [$18 billion] on today's basis. This would mean an employment of just 43,540 persons displacing nearly eight million persons employed in the unorganised retail sector."

Unlike export-orientated investors, foreign retailers such as Wal-Mart, Carrefour SA of France and Metro AG of Germany, which have been lobbying the government to open up the sector, will seek to dominate the domestic Indian market. Their success as well as those of Indian retail chains will be at the expense of small traders.

Large retailers also threaten the livelihoods of small farmers and manufacturers. Through their buying power they can force down prices. In addition, retail chains will often want to deal with bigger and more efficient suppliers rather than small producers.

A 2004 paper by Andrew Shepard, an economist with the UN Food and Agriculture Organisation, confirmed that large supermarkets often push small farmers out of business. "Farmers experience many problems in supplying supermarkets in Asia and in some cases this has already been reflected in the fairly rapid declines in the numbers involved as companies tend to delist suppliers who do not come up to expectations in terms of volume, quality and delivery," he stated.

The paper cited, among other examples, the development of the Giant retail chain in Malaysia which slashed the number of vegetable suppliers from 200 in 2001 to just 30 in 2003.

The Indian decision to open up the retail trade has provoked opposition. Following the announcement, the Hindu supremacist Bharatiya Janata Party (BJP) passed a resolution opposing foreign involvement. The BJP's president in Delhi, Harsh Vardhan, complained the measure would make India subservient to foreigners and would cause major job losses. However, BJP-led governments played a major role in opening up the economy when in power from 1998 to 2004.

The Communist Party of India-Marxist (CPI-M) and the Communist Party of India (CPI) complained that they had not been consulted over the measures. CPI secretary, D. Raja, declared: "We have been opposing it. I don't know why the government has to take such a decision." These parties help prop up the ruling Congress-led United Progressive Alliance in the national parliament.

The four Left Front parties—the CPI-M, CPI, the Revolutionary Socialist Party and All-India Forward Bloc—met privately on January 27 and, according to the *Times of India*, decided to activate retail trade merchants' organisations to protest against the decision. There was no hint, however, that the Left Front would withdraw its support for the UPA government.

Moreover, in the Indian state of West Bengal, the CPI-M led government is a vigorous advocate of free market policies, including in the retail sector. Last October West Bengal Chief Minister Buddhadeb Bhattacharjee held talks with Wal-Mart representatives about the company's proposal to take over all the fresh food markets in and around Calcutta.

Speaking to the Indian Chamber of Commerce in October, Bhattacharjee said he had accepted a proposal by the German company Metro to provide wholesale supplies to hotels in West Bengal. He also spoke favourably about a proposal from an Indonesian company to build a three-storey shopping mall in Calcutta that would stock foreign goods.

Neither the BJP nor the Left Front parties, which falsely claim to be socialist, has any alternative. These parties—left and right—seek to exploit the hostility of ordinary working people to the devastating social impact of free market policies, encouraging the illusion that the policies of national economic regulation remain viable. When in power, however, the BJP and the Stalinist parties have been just as eager to attract foreign investors as the present UPA government.