

FDI in Retail: Benefiting neo-liberalism, harming people

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The plethora of reform measures announced by the UPA government has brought in its wake a political crisis, with the second largest party in the coalition withdrawing its support and massive protests being launched all over the country by the opposition parties, including the Left. Much of the ire against the government has been on the decision to allow FDI in retail trading. This article locates the decision to allow FDI in retail in the backdrop of the current problems in the Indian economy and provides a critique of the decision from a political economic perspective.

Issue of Growth Rate of Indian Economy

The growth rate of the Indian economy has indeed slowed down, compared to what was attained in the period between 2003-2008, before the world economic crisis. The growth rate of GDP has slowed down from 8.4% in 2010-11 to 6.5% in 2011-12. In the first quarter of 2012-13, the GDP growth rate further slipped to 5.5%. Manufacturing growth has suffered a major setback with the growth rate plummeting to -3.2% in June 2012, compared to 11.1% in June 2011. A major factor driving this slowdown has been a slowdown in investment demand in the economy, where the investment-GDP ratio has come down from 33.9% in 2011-12Q1 to 32.8% in 2012-13Q1. This fall in investment demand has been the main driver of the slowdown in growth in the economy.

The question is why did this slowdown in investment take place? The main reason cited by the Prime Minister as well as his neo-liberal followers is that there has been a decline in the investor confidence in the economy. This decline in investor confidence is mainly because of two factors, one is the adverse economic condition existent in the world economy as such and the other is the so called 'policy paralysis' which the government was entangled in, which sent negative vibes to the investors to invest in India, in the absence of any big ticket reform agenda. Therefore, the PM thought it prudent on his part to break away of this 'policy paralysis' and announced the measures of FDI in retail and other sectors and an increase in diesel prices to ensure a 'revival in investor confidence domestically and globally'.¹

This analysis of the problem plaguing the Indian economy however is completely misleading. In order to understand this problem we must first of all understand how the Indian economy was growing and what was happening to the people when we were

¹ Prime Minister's speech to the nation on 21st September 2012, available on <http://pmindia.nic.in/speech-details.php?nodeid=1226>

registering very high growth rate of GDP. The Indian growth story first of all had a very narrow base. If we look at the consumption pattern of the Indians from the NSS surveys we will see that it is only the upper sections of the population both in the rural as well as the urban areas, who were drastically increasing their real consumption. The lower part of the population was either witnessing falling real consumption or at best stagnant real consumption. This consumption of the rich was taking place in sectors which had high import content or the production followed the technology prevalent in the advanced capitalist countries. As a result while the consumption was taking place and hence growth, the employment generation in the economy did not increase. In fact, between 2004-05 and 2009-10, the growth rate of employment in the economy declined from 2.7% per annum to only 0.8% per annum. Therefore, India was clearly suffering from the phenomenon of jobless growth.

The investment demand in the economy came from three sources mainly. One is the increase in export demand that took place during this period. In order to increase exports, investment is crucial to adopt new technologies and thereby compete in the global market to increase the market share. Therefore, in order to improve the export competitiveness of the economy, investment was taking place. The second source of investment demand came from the real estate and construction sector, which witnessed a boom in India. The third source of investment demand was the consumption demand itself. The high-end products consumed by the rich in the country provided the inducement to invest in the production of such commodities. Notably, the government sector had no or negligible role in pushing up the investment demand in the economy. The crucial question was whether these sources of investment demand, in the absence of a strong commitment by the government to invest, were sustainable or not?

None of the above factors have proved to be sustainable. This is not because of any accident but the nature of the growth process itself. Take for example the issue of exports. Export demand is outside the policy scope of any economy. With the global economic crisis hitting the USA and other advanced capitalist countries, it is but natural that the export demand would come down and as a result, the investment demand related to the exports would also come down. As far as the other two factors are concerned, they were largely fueled by inflow of global finance capital into India aided by a policy regime which encouraged such inflow of finance. With the withering away of restrictions on inflow of global finance capital, the Indian economy was awash with foreign capital. This inflow in its turn caused a real estate bubble to emerge in the economy, whereby real estate prices increased rapidly bringing in the construction boom and its concomitant impact on investment. On the other hand as a result of this foreign finance, a liquidity overhang existed in the economy, which made easier for the banks to provide easy loans. As a result, the retail loans of the banks increased substantially and it is this debt financed consumption boom that we witnessed in India.

This debt-financed consumption boom on the other hand, impacted on investment as explained earlier.

All these factors however by their very nature were unstable. The inflow of global finance stopped with the crisis, since finance capital booked profit in India and tried to recover the loss in USA and other advanced countries. Secondly, an outflow of finance from India started, which resulted in historic devaluation of the rupee. This outflow of finance showed that for finance capital the rupee was never a very safe bet for holding wealth. Rather, gold emerged as the safest asset for holding wealth leading to its prices increasing drastically. At the international level however, the situation in the USA and Europe did not improve much and therefore global finance stacked in these places wanted a safe destination. Their ire in not finding India to be adequately safe got reflected in the assessment of the credit rating agencies which devalued India's credit rating and the world financial press asking Manmohan Singh to do more reforms. Even President Obama lamented that India prohibited foreign investment in too many sectors.² In other words there was a concerted attempt on the part of global finance capital to open up the Indian economy even more for them to reap profit from.

The question however can be poised as to why India was put under such pressure from international finance capital. The answer to this lies in the fact that the global economic crisis still continues with the growth rate of the world as well as the advanced capitalist countries not improving much. However, even under these circumstances, India and China continue to have relatively high growth and resemble a degree of economic stability. Moreover, in India there are sectors, like retail, which have huge potential but have not been opened to the caprices of global finance capital. These are basically huge markets that exist in a country like India but remained relatively outside the reach of global capital because of the restrictions imposed by the government. Therefore, for global capital, opening up retail and other sectors becomes extremely crucial for their urge for earning huge profits. In this urge for their dominance and exploitation to be expanded even more in India, they find a willing companion in Manmohan Singh, the Prime Minister of India.

According to Dr. Singh the reform measures like opening up the retail sector to FDI and increasing the price of diesel will generate investor confidence in the Indian economy and lead the country to high growth. Therefore, the neo-liberals ask what is wrong in doing this, since foreign capital does not find India to be an attractive destination any more. Therefore, these steps are only going to reverse the trend and again increase the growth rate. The problem with this argument is that when the growth rate was increasing rapidly even then the common people of the country were the sufferers. This kind of growth, relying on the consumption of the rich financed by debt and subservient

² <http://ibnlive.in.com/news/india-prohibiting-fdi-in-retail-barack-obama/271438-2.html>

to the whims and fancies of global capital is bound to be inequalising. This is because by its very nature, the growth process does not generate enough employment and secondly the government, in the name of reforms withdraws from the basic services leaving the poor and ordinary to fend for themselves. While Dr. Singh has congratulated himself for the high growth witnessed in his tenure has conveniently hid the truth that most of the under-nourished children and women live in India, more than 2 lakh farmers committed suicide in the country, when this growth was taking place, agriculture in the country has become completely un-remunerative and India's rank as per the Human Development Index is a disastrous 134. In other words, the growth of GDP which is celebrated so often by the government and the media meant very little for the poor of this country. By bringing in another series of reforms Dr. Singh wants to repeat the same approach of ushering in another round of inequalising growth. The short point is that Dr. Singh and others suffer from 'growth fetishism' and refuse to look at the larger picture of deprivation, poverty and hunger that exists in the country.

The decision to open up the retail sector in the country to FDI is an example of this basic fallacy in the 'growth fetishism' of the votaries of neo-liberalism. Let us see how.

FDI in Retail

Let us first understand what the state of retail trade in our country is today. As mentioned earlier, the growth rate of employment in India has decreased sharply between 2004-05 and 2009-10. In a country like India, there is no unemployment allowance given to the unemployed. Therefore, one cannot stay alive being completely unemployed in the country. One has to do whatever little job is possible to eke out a living. The informal sector in the country provides refuge to this large chunk of the population who are unable to find decent employment and are just eking out a living in the form of being disguised unemployed. The retail sector provides one such resort for these people. The Indian retail sector is the second largest employer in India after agriculture, employing over 4 crore (40 million) persons most of whom are small unorganised or self-employed retailers. Therefore, we are here talking about a very important sector of the Indian economy in terms of employment generation.

Even in terms of its size in monetary terms, the Indian retail market is huge. According to an estimate of Price Waterhouse Coopers³, the size of the retail market in India today is \$500billion, out of which only 5% is catered to by organised retail and the rest 95% by the unorganised retail market which is the main reservoir of employment in India, as described earlier. It is also estimated in the same report that the Indian retail market will be worth \$1.3 trillion by 2020. In other words, there exists a huge untapped market for companies like Walmart to come and invest in.

³ The Indian Kaleidoscope: Emerging Trends in Retail, FICCI and PWC, September 2012

While this huge market is of the primary interest to the companies trying to flock into India, the entry of these companies will have serious implications for the economy. Let us first talk about the issue of employment. The main economic reason for the existence of such a huge reservoir of employment in the retail sector in India, is because the unorganised retail trade has low labour productivity. However, with entry of global chains like Walmart, the labour productivity will increase manifold. This will result in a fall in employment in the retail sector as a whole, implying that many persons engaged in retail trade will lose their employment. Albeit, some people will work in the new big departmental stores, but their number will be less than what these stores will displace. It can be however argued that those who will lose employment in the retail sector can find employment in some other sectors of the economy. This argument will also not hold since in any case the growth rate of employment in the Indian economy is coming down. Therefore with the growth of the foreign retail stores in the country, the employment in India will be adversely affected. As opposed to this argument, the Deputy Chairperson of the Planning Commission has asserted that the supply chain of these large retailers will provide lot of employment to the people and therefore even if there is an employment loss at the front-end of the retailer, it will be compensated by employment generation at the back-end. This argument is also wrong since even in the supply chain labour-displacing technologies will be used by the large retailers resulting in less employment, overall.

This is not to argue that low productivity jobs as are available in the unorganised retail sector in the country should be perpetuated. The point is that in the name of modern retail these people will be displaced without any alternative job opportunity available. Indeed modern jobs are required in every sector of the economy including retail. But with the advent of FDI in retail these modern jobs will only cater to a small section of the population, leaving many more out of the labour force. Such a situation is not desirable at all.

The fact that introduction of giant retail chains like the Walmart results in job and income loss in the traditional retail sector has been witnessed in many countries, including the USA. According to a study, one Walmart store opening in USA reduces county-level retail employment by 150 and reduces county-level retail earnings by \$1.2 million.⁴ Even the ICRIER report on FDI in retail notes the following:⁵

- In urban Chile between 1991 and 1995, 15,777 small shops went out of business, mainly in Santiago, a city of 4 million. This represented a decline of 21–22 per

⁴ The Effects of Walmart on Local Labour Markets, Institute for the Study of Labour, 2007, <http://ftp.iza.org/dp2545.pdf>

⁵ Impact of Organized Retailing on the Unorganized Sector, ICRIER Report, http://dipp.nic.in/english/publications/reports/icrier_report_27052008.pdfhttp://dipp.nic.in/english/publications/reports/icrier_report_27052008.pdf

- cent in small general food, meat, and fish shops; 25 per cent in deli and meat shops and dairy product shops; and 17 per cent in fruit and vegetable shops
- In Argentina from 1984 to 1993, during the most intense period of take-off of supermarkets, the number of small food shops declined from 209,000 to 145,000, meaning that roughly 64,000 shops went out of business.
 - In Hong Kong between 1974 and 1985, the number of small grocery shops selling general provisions dropped by 30 per cent.

More such examples of fall in employment as a result of entry of organised retail like the Walmart can be given. Therefore, it cannot be denied, based on both economic theory as well as experience from other countries that FDI in retail will result in employment loss for the traditional retailers.

The other issue that is often cited in favour of FDI in retail is that this will hugely benefit our farmers. The main argument is that farmers will get rid of the intermediaries, will be paid proper price and wastage of farm products will be reduced. It is true that the farm-gate price is much less than the retail price in India. But is this the main problem of Indian agriculture? The answer is surely NO. The main problem of Indian agriculture pertains to an increase in cost of cultivation, engineered by successive government policies, in terms of increasing fertiliser and power prices, lack of public investment in agriculture etc. FDI in retail will not solve this problem of the agrarian economy at all. Rather, with the introduction of firms like Walmart etc, a large number of intermediaries will be removed and the supply chain will be monopolised by the likes of Walmart. The question is how much farm produce do these super-market chains actually buy from the farmers. According to a FAO report, the super-markets buy both from wholesalers as well directly from farmers. However, these companies want to buy at the least price possible to earn super-normal profit. Therefore, when they are buying from wholesalers, various wholesalers compete with each other to supply to the super-markets and in the process the farm-gate price of the produce is reduced. For the farmers, apart from a possible reduction in price, the other worry is with maintaining the quality of produce assigned by the super-markets, failing which the crop is rejected. In other words, supplying to the super-market chains is a risky business for the farmers, who are generally risk averse. Therefore, it is not clear at all why farmers would benefit from introduction of super-market chains in India.

The other argument in favour of inviting FDI in retail is that it will modernise the supply chains in the country. It is undoubtedly the case that there is an urgent need for such modernisation to take place. This modernisation of supply chain has been achieved in India by a co-operative called Amul, where no FDI was required. It is not clear why this experience cannot be replicated for other products. It requires political will and a clear vision on the part of the government to facilitate such modernisation. Instead of taking initiatives in this regard, the government is trying to shift the responsibility to the

super-markets to do. Undoubtedly, they will do so for their own benefit only and not for the entire country. Therefore while the supply chain of Walmart may get modernised in this process, most of the farmers in India will be outside the scope of this. In other words, this modernisation if it happens will have a very narrow base and cannot reach out to the entire country.

Where will the super-markets source their products from? In response to this, the government had earlier claimed that 30% of the products sold in these stores have to be sourced from local industries. However, under WTO regulations no country can compel stores like Walmart to do so. Instead, these companies source their products from their global supply chains and sell it in countries like India. Even in USA, Walmart stopped sourcing products from US companies which made US manufactures suffer. Secondly, even if they source products from within the country, the bargaining power of companies like Walmart is so high that they compel the suppliers to accept lower prices, which in turn the suppliers shift to the workers. Therefore, with introduction of FDI in retail the small scale industries in India may be severely affected.

FDI in Retail for Growth

In spite of so many problems associated with the FDI in retail proposal, why is the government hell bent upon pursuing it? We have already said that for the government, the only goal worth pursuing is to increase the growth rate of the economy. In order to do so, they want to attract foreign capital to India. By opening up the retail sector to global capital, the government wants to give a message that Indian economy is an attractive investment destination for them, from which they can earn huge profits. With this enticing of global finance capital, the government wants to create another bubble in the economy to drive growth. Even if the government succeeds in doing so, the problems of the people far from being ameliorated will actually intensify because of the severe impact of FDI in retail.

The political support for this move comes from the urban upwardly mobile middle class. This section of the population has benefited from the policies of liberalisation. They want to emulate the life-styles prevalent in the advanced capitalist countries. Therefore, for them opening up stores like Walmart is essential to satisfy the economic and cultural aspirations of their class. Hence, they are mobilising opinion for this policy through the mainstream media. It does not matter to them that in this process thousands of their fellow country-men will become unemployed.

This obsession of growth of the government and the middle class at any cost is essentially a reflection of the growth process in the country. It has been proved beyond doubt that the Indian economy can grow based on the consumption and investment demand of the rich and the upwardly mobile middle class; the growth in turn adds to

the fortune of these classes. Therefore, in order to maintain such a growth process, what is important is that these classes be made to spend more. FDI in retail is a policy to entice these classes to keep up their spending riding on an inflow of foreign capital and super-market chains like the Walmart.

The need of the hour is to break away from this inequalising growth process completely. The reliance should not be on foreign capital or the expenditures of the rich to drive growth. The alternative growth strategy in terms of institutionalising a wage-led growth path which is much more egalitarian, benefiting the farmers as well as the workers needs to be implemented. In order to do so however neo-liberalism has to be defeated politically. Of course the progressive forces must join hands in opposing FDI in retail. But the ambit of the struggle is much larger where neo-liberalism must be defeated, otherwise policies like this will continue to be implemented in the country.