Impact on farming communities economics essay

Economics

IntroductionAs per the current regulatory regime, retail trading (except under single-brand product retailing — FDI up to 51 per cent, under the Government route) is prohibited in India. Simply put, for a company to be able to get foreign funding, products sold by it to the general public should only be of a ‗single-brand‘; this condition being in addition to a few other conditions to be adhered to. India being a signatory to World Trade Organization’s General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to Foreign Direct Investment (―FDI‖). In 1997, FDI in cash and carry (wholesale) with 100% ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. 51% investment in a single brand retail outlet was also permitted in 2006. FDI in Multi-Brand retailing is prohibited in India. All Indian households have traditionally enjoyed the convenience of calling up the corner grocery " kirana" store, which is all too familiar with their brand preferences, offers credit, and applies flexible conditions for product returns and exchange. And while mall based shopping formats are gaining popularity in most cities today, the price-sensitive Indian shopper has reached out to stores such as Big Bazaar mainly for the steep discounts and bulk prices. Retail chains such as Reliance Fresh and More have reportedly closed down operations in some of their locations, because after the initial novelty faded off, most shoppers preferred the convenience and access offered by the local kirana store. So

how these Western multi-brand would stores such as Wal-Mart and Carrefour strategies their entry into the country and gain access to the average Indian household? Wal-Mart has already entered the market through its partnership with Bharti, and gained opportunity for some early observations. The company's entry into China will also have brought some understanding on catering to a large, diverse market, and perspectives on buying behaviour in Asian households. Carrefour on the other hand has launched its wholesale cash and carry operations in the country for professional businesses and retailers, and will now need to focus more on understanding the individual Indian customer. As such, these retail giants will try to gain from some quick wins while reaching out to the Indian consumer. For one, they will effectively harness their expertise with cold storage technologies to lure customers with fresh and exotic vegetables, fruitsand organic produce. Secondly, they will also emphasise on the access that they can create for a range of inspirational global foods and household brands. Thirdly, by supporting domestic farmers will try ensuring supplies of essential raw materials to them. Surely, these should engage shoppers' and farmers interest–but what needs to beseen is whether they can effectively combine these benefits, with the familiarity, convenience and personalised shopping experiences that the local " kirana" storeshave always offered. 2. 3 FDI Policy in IndiaFDI as defined in Dictionary of Economics (Graham Bannock et. al) is investment in aforeign country through the acquisition of a local company or the establishment thereof an operation on a new (Greenfield) site. To put in simple words, FDI refers tocapital inflows from abroad that is invested in or to enhance the production capacityof the economy.[9]Foreign Investment in India is governed by the FDI policy announced by theGovernment of India

and the provision of the Foreign Exchange Management Act(FEMA) 1999. The Reserve Bank of India (‗RBI‘) in this regard had issued anotification, [10] which contains the ForeignExchange Management (Transfer or issueof security by a person resident outside India) Regulations, 2000. This notificationhas been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policyon continued basis and changes in sectoral policy/ sectoral equity cap. The FDIpolicy is notified through Press Notes by the Secretariat for Industrial Assistance(SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest in India, except few sectors/activities, whereprior approval from the RBI or Foreign Investment Promotion Board (‗FIPB‘) wouldbe required. 2. 4 FDI Policy with Regard to Retailing in IndiaIt will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidatedFDI Policy issued in October 2010[11] which provide the sector specific guidelines forFDI with regard to the conduct of trading activities. a) FDI up to 100% for cash and carry wholesale trading and export tradingallowed under the automatic route. b) FDI up to 51 % with prior Government approval (i. e. FIPB) for retail trade of‗Single Brand‘ products, subject to Press Note 3 (2006 Series)[12]

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c) FDI is not permitted in Multi Brand Retailing in India. 2. 5 Prospected Changes in FDI Policy for Retail Sectorin IndiaThe government (led by Dr. Manmohan Singh, announced following prospectivereforms in Indian Retail Sector1. India will allow FDI of up to 51% in ―multi-brand‖ sector. 2. Single brand retailers such as Apple and Ikea, can own 100% of their Indianstores,

up from previous cap of 51%. 3. The retailers (both single and multi-brand) will have to source at least 30% oftheir goods from small and medium sized Indian suppliers. 4. All retail stores can open up their operations in population having over1million. Out of approximately 7935 towns and cities in India, 55 suffice suchcriteria. 9. Hemant Batra, Retailing Sector in India Pros Cons (Nov 30, 2010)http://www. legallyindia. com/1468-fdi-in-retailing-sector-inindia-pros-cons-by-hemant-batra10. Notification No. FEMA 20/2000-RB dated May 3, 200011. FDI_Circular_02/2010, DIPP12. http://siadipp. nic. in/policy/changes/pn3_2006. pdf115. Multi-brand retailers must bring minimum investment of US$ 100 million. Halfof this must be invested in back-end infrastructure facilities such as coldchains, refrigeration, transportation, packaging etc. to reduce post-harvestlosses and provide remunerative prices to farmers. 6. The opening of retail competition (policy) will be within parameters of statelaws and regulations. 2. 6 Single and Multi-Brand Retailing2. 6. 1 FDI in Single-Brand RetailThe Government has not categorically defined the meaning of ―Single Brand‖anywhere neither in any of its circulars nor any notifications. In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign InvestmentPromotion Board (FIPB) approval and subject to the conditions mentioned in PressNote 3[13] that (a) only single brand products would be sold (i. e., retail of goods ofmulti-brand even if produced by the same manufacturer would not be allowed), (b)products should be sold under the same brand internationally, (c) single-brandproduct retail would only cover products which are branded during manufacturingand (d) any addition to product categories to be sold under ―single-brand‖ wouldrequire fresh approval from the government. While the phrase ‗single brand‘ has not been defined, it implies that foreigncompanies

would be allowed to sell goods sold internationally under a ‗single brand‘, viz., Reebok, Nokia, and Adidas. Retailing of goods of multiple brands, even if suchproducts were produced by the same manufacturer, would not be allowed. Going a step further, we examine the concept of ‗single brand‘ and the associatedconditions: FDI in ‗Single brand‘ retail implies that a retail store with foreign investment can onlysell one brand. For example, if Adidas were to obtain permission to retail its flagshipbrand in India, those retail outlets could only sell products under the Adidas brandand not the Reebok brand, for which separate permission is required. If grantedpermission, Adidas could sell products under the Reebok brand in separate outlets. 2. 6. 2 FDI in Multi-Brand RetailThe government has also not defined the term Multi Brand. FDI in Multi Brand retailimplies that a retail store with a foreign investment can sell multiple brands underone roof. In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry ofCommerce circulated a discussion paper [14] on allowing FDI in multi-brand retail. The paper doesn‘ t suggest any upper limit on FDI in multi-brand retail. Ifimplemented, it would open the doors for global retail giants to enter and establishtheir footprints on the retail landscape of India. Opening up FDI in multi-brand retailwill mean that global retailers including Wal-Mart, Carrefour and Tesco can openstores offering a range of household items and grocery directly to consumers in thesame way as the ubiquitous ‘ kirana’ store. 13. ibid 14. Discussion Paper on FDI in Multi Brand Retail Trading, http://dipp. nic. in/DiscussionPapers/DP_FDI_MultiBrandRetailTrading_06July2010. pdf124. 2 SWOT Analysis of Retail Sector: 1. Strengths:■ Major contribution to GDP: the retail sector in India is hoveringaround 33-35% of GDP as compared to around 20% in USA.■ High Growth Rate: the retail sector in India enjoys an

extremely highgrowth rate of approximately 46%. High Potential: since the organised portion of retail sector is only 2-3%, thereby creating lot of potential for future players. High Employment Generator: the retail sector employs 7% of workforce in India, which is rite now limited to unorganised sector only. Once thereforms get implemented this percentage is likely to increase substantially. 2. Weaknesses (limitation): Lack of Competitors: AT Kearney‘ s study on global retailing trendsfound that India is least competitive as well as least saturated markets of theworld. Highly Unorganised: The unorganised portion of retail sector is only97% as compared to US, which is only 20%. Low Productivity: Mckinsey study claims retail productivity in India isvery low as compared to its international peers. Shortage of Talented Professionals: the retail trade business inIndia is not considered as reputed profession and is mostly carried out by thefamily members (self-employment and captive business). Such people are notacademically and professionally qualified. No ‗Industry‘ status, hence creating financial issues forretailers: the retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds. 263. Opportunities (benefits): There will be more organization in the sector: Organized retailwill need more workers. According to findings of KPMG , in China, theemployment in both retail and wholesale trade increased from 4% in 1992 toabout 7% in 2001, post reforms and innovative competition in retail sector inthat country. Healthy Competition will be boosted and there will be acheck on the prices (inflation): Retail giants such as Walmart, Carrefour, Tesco, Target and other global retail companies already haveoperations in other countries for over 30 years. Until now, they have not at allbecome monopolies rather they have managed to keep a

check on the foodinflation through their healthy competitive practices.🎬 Create transparency in the system: the intermediaries operatingas per mandi norms do not have transparency in their pricing. According tosome of the reports, an average Indian farmer realises only one-third of theprice, which the final consumer pays.🎬 Intermediaries and mandi system will be evicted, hencedirectly benefiting the farmers and producers: the prices ofcommodities will automatically be checked. For example, according toBusiness Standard, Walmart has introduced ―Direct Farm Project‖ at HaiderNagar in Punjab, where 110 farmers have been connected with BhartiWalmart for sourcing fresh vegetables directly.🎬 Quality Control and Control over Leakage and Wastage: due to organisation of the sector, 40% of the production does not reach theultimate consumer. According to the news in Times of India, 42% of thechildren below the age group of 5 are malnourished and Prime MinisterDr. Manmohan Singh has termed it as ―national shame‖. Food often gets rot infarm, in transit and in state-run warehouses. Cost conscious and highlycompetitive retailers will try to avoid these wastages and losses and it will betheir endeavour to make quality products available at lowest prices, hencemaking food available to weakest and poorest segment of Indian society.🎬 Heavy flow of capital will help in building up theinfrastructure for the growing population: India is alreadyoperating in budgetary deficit. Neither the government of India nor domesticinvestors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capitalinflow will enable us to create a heavy capital base.🎬 There will be sustainable development and many othereconomic issues will be focussed upon: many Indian small shop 27owners employ workers, who are

not under any contract and also under agedworkers giving rise to child-labour. It also boosts corruption and black money. 4. Threats:🎬 Current Independent Stores will be compelled to close: This will lead to massive job loss as most of the operations in big stores likeWalmart are highly automated requiring less work force.🎬 Big players can knock-out competition: they can afford to lowerprices in initial stages, become monopoly and then raise prise later.🎬 India does not need foreign retailers: as they can satisfy thewhole domestic demand.🎬 Remember East India Company it entered India as traderand then took over politically.🎬 The government hasn‘ t able to build consensus. In view of the above analysis, if we try to balance opportunities and prospectsattached to the given economic reforms, it will definitely cause good to Indianeconomy and consequently to public at large, if once implemented. Thus the periodfor which we delay these reforms will be loss for government only, since majority ofthe public is in favour of reforms. All the above mentioned drawbacks are mostlypolitically created. With the implementation of this policy all stakeholders will benefitwhether it is consumer through quality products at low price, farmers through moretransparency in trading or Indian corporates with 49% profit share remaining withIndian companies only. 28CHAPTER-5Effects of FDI on various Stakeholders5. 1 Impact on Farming CommunitiesA supermarket revolution‖ has been underway in developing countries since theearly 1990s. Supermarkets (here referring to all modern retail, which includeschain stores of various formats such as supermarkets, hypermarkets, andconvenience and neighbourhood stores) have now gone well beyond the initialupper- and middle-class clientele in many countries to reach the mass market. Within the food system, the effects of this trend

touch not only traditional retailers, but also the wholesale, processing, and farm sectors. When supermarkets modernize their procurement systems, they require morefrom suppliers with respect to volume, consistency, quality, costs, and commercialpractices. Supermarkets‘ impact on suppliers is biggest and earliest for food processing andfood-manufacturing enterprises, given that some 80% of what supermarkets sellconsists of processed, staple, or semi-processed products. But by affectingprocessors, supermarkets indirectly affect farmers, because processors tend topass on the demands placed on them by their retail clients. Supermarket chainsprefer, if they are able, to source from medium and large processing enterprises, which are usually better positioned than small enterprises to meet supermarkets‘ requirements. The rise of supermarkets thus poses an early challenge toprocessed food microenterprises in urban areas. By contrast, as supermarkets modernize the procurement of fresh produce (some10–15% of supermarkets‘ food sales in developing countries), they increasinglysource from farmers through ―specialized and dedicated wholesalers‖ (specializedin product lines and dedicated to modern segments) and occasionally throughtheir own collection centers. Where supermarkets source from small farmers, they tend to buy from farmerswho have the most non-land assets (like equipment and irrigation), the greatestaccess to infrastructure (like roads and cold chain facilities), and the upper sizetreacle of land (among small farmers). Where supermarkets cannot source frommedium- or large-scale farmers, and small farmers lack the needed assets, supermarket chains (or their agents such as the specialized and dedicatedwholesalers) sometimes help farmers with training, credit, equipment, and otherneeds. Such assistance is not likely to become

generalized, however, and soovertime asset-poor small farmers will face increasing challenges surviving in themarket as it modernizes. When farmers enter supermarket channels, they tend to earn from 20 to 50%more in net terms. Among tomato farmers in Indonesia, for example, net profit(including the value of own labour as imputed cost) is 33–39% higher amongsupermarket channel participants than among participants in traditional markets. Farm labour also gains. But supplying supermarket chains requires farmers to29make more up-front investments and meet greater demands for quality, consistency, and volume compared with marketing to traditional markets. Support for retail reformsIn a pan-Indian survey conducted over the weekend of 3 December 2011, overwhelming majority of consumers and farmers in and around ten major citiesacross the country support the retail reforms. Over 90 per cent of consumers saidFDI in retail will bring down prices and offer a wider choice of goods. Nearly 78per cent of farmers said they will get better prices for their produce from multiformat stores. Over 75 per cent of the traders claimed their marketing resourceswill continue to be needed to push sales through multiple channels, but they mayhave to accept lower margins for greater volumes.[37]

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Farmer groupsVarious farmer associations in India have announced their support for the retailreforms. For example:🎬 Shriram Gadhve of All India Vegetable Growers Association (AIVGA) claimshis organization supports retail reform. He claimed that currently, it is themiddlemen commission agents who benefit at the cost of farmers. He urgedthat the retail reform must focus on rural areas and that farmers receivebenefits. Gadhve claimed, " A better

cold storage would help since this couldhelp prevent the existing loss of 34% of fruits and vegetables due to inefficientsystems in place." AIVGA operates in nine states including Maharashtra, Andhra Pradesh, West Bengal, Bihar, Chattisgarh, Punjab and Haryana with2, 200 farmer outfits as its members. [38]🎬 Bharat Krishak Samaj, a farmer association with more than 75, 000 memberssays it supports retail reform. Ajay Vir Jakhar, the chairman of Bharat KrishakSamaj, claimed a monopoly exists between the private guilds of middlemen, commission agents at the sabzi mandis (India's wholesale markets forvegetables and farm produce) and the small shopkeepers in the unorganizedretail market. Given the perishable nature of food like fruit and vegetables, without the option of safe and reliable cold storage, the farmer is compelled tosell his crop at whatever price he can get. He cannot wait for a better priceand is thus exploited by the current monopoly of middlemen. Jakhar askedthat the government make it mandatory for organized retailers to buy 75% oftheir produce directly from farmers, bypassing the middlemen monopoly andIndia's sabzi mandi auction system.[38]37." India government puts foreign supermarkets " on pause"". Reuters. 4 December 201138." Farmer Organisations back retail FDI". The Financial Express. 2 December 2011. 30🎬 Consortium of Indian Farmers Associations (CIFA) announced its support forretail reform. Chengal Reddy, secretary general of CIFA claimed retail reformcould do lots for Indian farmers. Reddy commented, ―India has 600 millionfarmers, 1, 200 million consumers and 5 million traders. I fail to understandwhy political parties are taking an anti-farmer stand and worried about half amillion brokers and small shopkeepers.‖ CIFA mainly operates in AndhraPradesh, Karnataka and Tamil Nadu; but has a growing member from rest ofIndia, including Shetkari Sanghatana in Maharashtra, Rajasthan Kisan

Unionand Himachal Farmer Organisations. Prakash Thakur, the chairman of the People for Environment Horticulture &Livelihood of Himachal Pradesh, announcing his support for retail reformsclaimed FDI is expected to roll out produce storage centers that will increasemarket access, reduce the number of middlemen and enhance returns tofarmers.[39] Highly perishable fruits like cherry, apricot, peaches and plumshave a huge demand but are unable to tap the market fully because of lack ofcold storage and transport infrastructure. Sales will boost with the opening upof retail. Even though India is the second-largest producer of fruits andvegetables in the world, its storage infrastructure is grossly inadequate, claimed Thakur. Sharad Joshi, founder of Shetkari Sangathana (farmers‘ association), hasannounced his support for retail reforms.[40]Joshi claims FDI will help the farmsector improve critical infrastructure and integrate farmer-consumerrelationship. Today, the existing retail has not been able to supply freshvegetables to the consumers because they have not invested in the backwardintegration. When the farmers' produce reaches the end consumer directly, the farmers will naturally be benefited. Joshi feels retail reform is just a firststep of needed agricultural reforms in India, and that the government shouldpursue additional reforms. Suryamurthy, in an article in The Telegraph, claims farmer groups acrossIndia do not support status quo and seek retail reforms, because with thecurrent retail system the farmer is being exploited. For example, the articleclaims: [41] Indian farmers get only one third of the price consumers pay for food staples, the rest is taken as commissions and mark-ups by middlemen andshopkeepers. For perishable horticulture produce, average price farmers receive is barely12 to 15% of the final price consumer pays. Indian potato farmers sell their crop for Rs. 2 to 3 a

kilogram, while the Indianconsumer buys the same potato for Rs. 12 to 20 a kilogram.[42]39. Suryamurthy, R. (2 December 2011). " Enter, farmer with an FDI in retail query". Calcutta, India: TheTelegraph. 40. " Enter, farmer with an FDI in retail query". Calcutta, India: TheTelegraph. 41." FDI in retail is first major step towards reforms in agriculture, feels Sharad Joshi". TheEconomic Times. 2December 2011. 42." Major Benefits of FDI in Retail". The Reformist India. 30 November 2011315. 1. 1 Case Studies of how various MNC‘ s are helpingFarmers [43]CASE 1. PepsiCo India HELPING FARMERS IMPROVEYIELD AND INCOMEThe company‘ s vision is to create a cost-effective, localized agro-supply chain for itsbusiness by:🎬 Building PepsiCo‘ s stature as a development partner by helping farmers growmore and earn more.🎬 Introducing new high-yielding varieties of potato and other edibles.🎬 Introducing sustainable farming methods and practising contact farming.🎬 Making world-class agricultural practices available to farmers and helpingthem raise farm productivity.🎬 Working closely with farmers and state governments to improve agrosustainability and crop diversification.🎬 Providing customized solutions to suit specific geographies and locations.🎬 Facilitating financial and insurance services in order to de-risk farming. THE JOURNEY SO FARWhere stand today, at a glimpse🎬 Today PepsiCo India‘ s potato farming programme reaches out to more than12, 000 farmer families across six states. We provide farmers with superiorseeds, timely agricultural inputs and supply of agricultural implements free ofcharge.🎬 We have an assured buy-back mechanism at a prefixed rate with farmers. This insulates them from market price fluctuations.🎬 Through our tie-up with State Bank of India, we help farmers get credit at alower rate of interest.🎬 We have arranged weather insurance for farmers through our tie-up with

ICICILombard.🎬 We have a retention ratio of over 90%, which reveals the depth and successof our partnership.🎬 In 2010, our contract farmers in West Bengal registered a phenomenal 100%growth in crop output, creating in a huge increase in farm income.🎬 The remarkable growth has resulted in farmers receiving a profit betweenRs. 20, 000– 40, 000 per acre, as compared to Rs. 10000–20, 000 per acre in2009. 43. http://pepsicoindia. co. in/purpose/environmental-sustainability/partnership-with-farmers. html32Case 2. Bharti Walmart initiative through Direct FarmProjectCorporate Social Responsibility (CSR) initiatives in Bharti Walmart are aimed atempowerment of the community thereby fostering inclusive growth. Through ourphilanthropic programs and partnerships, we support initiatives focused onenhancing opportunities in the areas of education, skills training and generating localemployment, women empowerment and community development. In conjunction with the farmers‘ development program in Punjab, community-buildingactivities have been implemented in village, Haider Nagar. Due to lack of sanitationfacilities, households tend to use the farm fields, thereby affecting yields andimpacting the produce that is being supplied to stores. In order to improve the yieldsand the community‘ s way of life, we are working on the issues of Sanitation andBiogas, Education, Awareness Building and Health and Hygiene.🎬 Education: 100% children enrolled in formal education program. Children‘ s group had been formed to discuss children issues. All the nonschool going children had been given non-formal basic education required tomainstream them in the government schools. A sanitation block has beenconstructed, hand pump has been installed and school uniforms have beendonated to create a better learning environment for children. Fifteen studentshave been mainstreamed back in

school.🎬 Health and Hygiene: A dispensary has been started in Haider Nagarto help people avail medical facilities in the village itself. Nearly 2000 patientshave availed the dispensary facilities. Twenty Community Dustbins have alsobeen installed in the village to bring about a change in the living conditions ofthe people and to provide them garbage free environment.🎬 Sanitation and Biogas: Ensured that 100% households have toiletsin the village. Eighty Bio Gas plants have been installed to help peopleconserve gas energy and utilize the waste generated from their cattle andtoilets; thus making the environment healthier.🎬 Waste Management: twenty Community Dustbins have been installedin the village to bring about a change in the living conditions of the people andto provide them garbage free environment thus ensuring a healthier living. This and many other cases suggest that opening of Indian retail sector to FDI is awin-win situation for farmers. Farmers would benefit significantly from the optionof direct sales to organized retailers. For instance, the profit realization forfarmers selling directly to the organized retailers is expected to be much higherthan that received from selling in the mandis. Also Rise in the organized retailwhether domestic or through entry of foreign players will lead to an increase ininvestments in both forward and backward infrastructure such as cold chain andstorage infrastructure, warehousing and distribution channels thereby leading toimprovement in the supply chain infrastructure in the long run. Global majorssuch as Wal-mart, Carrefour and Tesco are expected to bring a global scale intheir negotiations with theSource: http://bharti-walmart. in/Community. aspx? id= 6433MNCs such as Unilever, Nestlé, P&G, Pepsi, Coke, etc. The improved cold chainand storage infrastructure will no doubt lead to a reduction in losses of agricultureproduce. It may also lead to

removal of intermediaries in the retail value chainand curtail other inefficiencies. And this may, result in higher income for a farmer. 5. 2 Impact on Traditional Mom and Pop StoresThe main question being raised is whether the traditional mom and pop stores willsurvive and co-exist or leave the field for major organized retail players? The answer could be a co-existence. The major advantage for the smaller playersis the size, complexity and diversity of our Indian Markets. If we look at theorganized retail players, most of them have opened shop in the Metros, Tier 1 andTier 2 towns. Very rarely do we find organized players in the rural areas and wehave more than 70% of the population living in the rural areas. There are a multitude of reasons being floated around to prevent the liberalisationof the FDI norms for Indian retail:🎬 Primary among these is the concern regarding the kirana stores as well otherlocally operated Mom and Pop stores being adversely affected by the entry ofglobal retail giants such as Walmart, Carrefour and Tesco. As these brandswould come with advanced capabilities of scale and infrastructure in additionto having deep pockets, it is argued that this would result in the loss of jobs forlakhs of people absorbed in the unorganised sector.🎬 Fears have also been raised over the lowering of prices of products owing tobetter operational efficiencies of the organised players that would affect theprofit margins of the unorganised players.🎬 Instability surrounding the political arena with a number of scams of varyingmagnitudes doing the rounds has also led to a sense of uncertainty amongforeign investors. Many Industry experts though, feel that the reservations against the introduction ofMulti-Brand retail are mostly misplaced. The successful deployment of 100%FDI inChina is a case in point. Partial FDI in retail was introduced in 1992 in China. Subsequently, in December 2004, the Chinese retail market

was fully opened up toutilise the enormous manpower and wide customer base available that has led to arapid growth of the sector. Today, its retail sector is the second largest (in value) inthe world with global retailers such as Walmart, 7-Eleven and Carrefour comprising10% of the total merchandise. Multi-brand retail, if allowed, is expected to transform the retail landscape in asignificant way:🎬 Firstly, the organised players would bring in the much needed investment thatwould spur the further growth of the sector. This would be particularlyimportant for sustenance of some of the domestic retailers that don‘ t have theresources to ride out the storm during an economic slump such as the casewith Vishal, Subhiksha and Koutons, which couldn‘ t arrange for funds tosustain their growth.🎬 The technical know-how, global best practices, quality standards and costcompetitiveness brought forth through FDI would augur well for the domesticplayers to garner the necessary support to sustain their growth. 34🎬 Indian has also been crippled by rising inflation rates that have refused tocome within accepted levels. A key reason for this has been attributed to thevastly avoidable supply chain costs in the Indian food and grocery sales whichhas been estimated to be a whopping US$ 24 Bn. The infrastructure supportextended to improve the backend processes of the supply chain would enableto eliminate such wastages and enhance the operational efficiency.🎬 FDI in multi-brand retail would in no way endanger the jobs of peopleemployed in the unorganised retail sector. On the contrary, it would lead tothe creation of millions of jobs as massive infrastructure capabilities would beneeded to cater to the changing lifestyle needs of the urban Indian who iskeen on allocating the disposable income towards organised retailing inaddition to the local kirana stores. These stores would be able to retain theirimportance

owing to their unique characteristics of convenience, proximityand skills in retaining customers. Also, these would be more prominent in theTier-II and Tier-III cities where the organised supermarkets would find itharder to establish themselves. FDI in multi-brand retail is therefore a necessary step that needs to be taken topropel further growth in the sector. This would not only prove to be fruitful for theeconomy as a whole but will also integrate the Indian retail sector with the globalretail market. It is not a question of ‗how' it will be done but ‗when'. Contrary to the above view, Traditional retailing has been established in India for many centuries, and ischaracterized by small, family-owned operations. Because of this, such businesses are usually very low-margin, are owneroperated, and have mostly negligible real estate and labour costs. Moreover, theyalso pay little by way of taxes. Consumer familiarity that runs from generation togeneration is one big advantage for the traditional retailing sector. It is often saidthat the mom-and-pop store in India is more like a father-and-son enterprise. Such small shops develop strong networks with local neighbourhoods. Theinformal system of credit adds to their attractiveness, with many houses ‗runningup a tab' with their neighbourhood kirana store, paying it off every fortnight ormonth. Moreover, low labour costs also allow shops to employ delivery boys, suchthat consumers may order their grocery list directly on the phone. Theseadvantages are significant, though hard to quantify. In contrast, players in theorganized sector have to cover big fixed costs, and yet have to keep prices lowenough to be able to compete with the traditional sector. Getting customers toswitch their purchasing away from small neighbourhood shops and towards largescale retailers may be a major challenge. The experience of large Indian retailerssuch as Big Bazaar shows that it is indeed

possible. Anecdotal evidence ofconsumers who return from such shops suggests that the wholesale modelprovides for major bargains – something Indian consumers are always on thelookout for. The other major challenge for retailers in India, as opposed to the US, is thestorage setup of households. For the large-scale retail model to work, consumersvisit such large stores and return with supplies likely to last them for a few weeks. Having such easy access to neighbourhood stores with whom, as discussedabove, it is possible to have a line of credit and easy delivery service, congested35urban living conditions imply that few Indian households might be equipped withadequate storage facilities. In urban settings, real estate rents are also very high. Thus opportunities in thissector are limited to those retailers with deep pockets, and puts pressure on theirmargins. Conversely for retailers looking to set up large stores at a distance fromresidential neighbourhoods may struggle to attract consumers away from theirtraditional sources of groceries and other products. CHAPTER-77. 1Following are the few recommendations forformulation of policies by government: Much of the Indian retail trade (particularly grocery) still has traditional features: small family-run shops and street hawkers dominate the situation in most of thecountry. However, the retail trade in India is now undergoing an intensive structuralchange which could cause irreversible damage to local commodity supply chainsand competition. The existing regulations are not adequate to fulfil the new 49requirements. India can learn (and perhaps forestall loss of genuine competition andproduct variety) from the experience of south-east Asian countries which areimproving regulatory frameworks and some advanced retailing economies likeGermany which are already considered more successful

regulators in this sector. German competition policies in content and implementation are significant for Indiato the extent that they are different from other advanced retailing countries like theUS and Great Britain. German policy now proactively aims to preserve small andmedium competitors in retail sector. Policies for ―Competitiveness with Inclusiveness‖ in the Supermarket Revolution. As the supermarket revolution proceeds in developing countries, governments haveseveral options for helping small farmers participate in supermarket channels (orgain access to viable alternatives) and traditional retailers coexist or compete withthe modern retail sector. Option 1: Regulate Modern Retail? To the extent developing countrieshave regulated modern retail; their goal has been to reduce the speed and scope ofits spread. The regulations have mainly limited the location and hours of modernretail. On balance, these regulations have done little to limit supermarket spread, partly because although regulations tend to target large-format stores (and thus notlimit small traditional stores), modern retail comes in a wide variety of formats, including neighbourhood stores and convenience stores. Few developing countries have a pro-traditional or pro–small retail policy. Insteadthey usually take a laissez-faire approach to small shops and hawkers and makeminimum initial public investments in open and covered municipal markets. Anumber of developing countries even have policies that encourage the developmentof supermarkets and regulate wet-markets in order to modernize commerce, lowerfood prices and congestion, and increase public hygiene and economiccompetitiveness. Finally, in the early stages of supermarket spread, the supermarket sector isrelatively fragmented (weakly concentrated), and farmers and processors thus havea wide range of potential buyers among

supermarket chains and between themodern and traditional sectors. In the advanced stage of supermarket spread, however, the sector becomes concentrated— for example, in Latin America four tofive chains typically control about 75percent of a sector that in turn controls anaverage of 55percent of food retail. At that stage it is important for governments andthe private sector to enforce competition policies. Option 2: Upgrade Traditional Retail. A number of good examples ofprograms to upgrade traditional retail exist. Of particular interest are those of Eastand Southeast Asia, such as in China, Hong Kong, the Philippines, Singapore, andTaiwan. In most of these countries, the programs in question are municipal, sometimes under a national umbrella policy. The programs have several elements incommon: 50• Governments involved in these programs have a ―broad tent‖ approach ―that is, they allow development of supermarkets as well as traditional retailers.• They are proactive: the Hong Kong Consumer Council‘ s dictum of ―managing andfacilitating change‖ rather than leaving wet-markets to flounder and collapse, characterizes all the East and Southeast Asian approaches studied.• They promote traditional retailer modernization and competitiveness. Singapore‘ sapproach is to ―cherish but upgrade and modernize.‖ Hong Kong‘ s policy is to ―retainbut modernize.‖• They accept the social and market role of wet-markets, hawkers, and smalltraditional shops but encourage them to locate in non-congested areas and on fixedsites (to increase hygiene and tax payment) and to improve their physicalinfrastructure. They also train the operators in business skills, food safety, andhygiene.• They experiment with privatizing wet-market management in some cases (such asin China and Hong Kong). Option 3: Upgrade Wholesale Markets to Serve Retailersand Farmers Better. Small

shops and wet-market stall operators typicallysource food products from wholesale markets, which typically buy from smallfarmers. Upgrading wholesale markets‘ infrastructure and services is thus importantto the whole traditional supply chain. Private-sector actors are helping traditionalretailers (and supermarket independents and chains) obtain the services andproducts they need. Examples are modern cash-and-carry chains that act as wholesalers, likeBharti/Wal-mart in India, Metro in China, and Makro in Pakistan. But governmentsand wholesaler associations also need to invest in upgrading wholesale markets inorder to maximize access by farmers and retailers. Such programs have beenundertaken in China and Mexico. Option 4: Help Farmers Become Competitive Suppliers toSupermarkets. Private-sector programs are emerging to help small farmersget the assets and services they need to supply supermarket channels. Metro, forexample, has direct procurement links to fish and vegetable farmers in China. Agrifood businesses in India, like ITC, Tata, Godrej, Reliance, and DSCL Hariyali , haverural business hubs that offer consumables, farm inputs, and technical assistanceand procure output from farmers. Governments need to supplement private efforts with public investments inimproving farmers‘ access to assets, services, training, and information. Some ofthese assets are public goods, such as regulations on retailer-supplier relations topromote fair commercial practices, wholesale market upgrading, market information, and physical infrastructure such as cold chains and roads. Other assets are semi-51public or private goods, such as assistance with market linkages between smallfarmer cooperatives and supermarket chains; training in postharvest handling; andcredit facilities for making on-farm investments in assets needed to meet quality andvolume requirements, such as irrigation

and greenhouses. Option 5: Urban Planning Laws. The state of urban planning in India issuch that there is as yet no ceiling on the size or number of retail outlets that may bestarted in a designated commercial zone. The ministry of urban development at thecentral level has no jurisdiction over urban area planning in the states except in thecase of exceptional laws pertaining to the coastal regions, forests, the Delhi regionand union territories. It is clear that land use laws/zoning laws are not the mostcommonly used regulatory devices against large format retailing and at present theland use laws in urban centres are in the most pliant condition since the localgovernments implement them and they are most susceptible to omission andcommission on behalf of real estate developers who, in turn, share a commoninterest with corporate retailers. What is needed is to include regulations for theestablishment of big retail projects in States Regional Planning documents. Whenmunicipalities allow big retail projects, they are scrutinised to ensure that they meetthe requirements of regional planning. The position of the neighbouring municipalities thus needs to be strengthened by anew law (that has been introduced to adjust German building law with Europeanregulation). New big retail projects are now checked to assess their influence on thelocal supply. Investors in retail have to prove that their project will not end upaffecting retail shops in the same or neighbouring municipality, and smaller shops inthe neighbouring municipalities will not close down due to the new competition. Theproposal of not allowing FDI in retail initially to major cities, SEZs as well as certainsectors; and also not allowing in cities with population of less than 1million is move inright direction. Option 6: Regulation of misleading statements andadvertisements. The law against dishonest competition

(referred to as unfairtrade practices in India) forbids a number of marketing practices which are regardedas dishonest. These include misleading statements or advertisements about businesscircumstances, especially the nature, origin, manner of manufacture or the pricing ofgoods or commercial services or the size of the available stock. In a recentlyreported case in India a leading corporate retailer, Subhiksha claimed inadvertisements that its prices were the lowest compared to rivals like Big Bazar, DMART, and Apana Bazar, etc. Big Bazar filed a case against the advertisements andthe Advertising and Standards Council of India is understood to have given its verdictin April 2007. However, the verdict has not been made public as yet. 52Option 7: Regulatory Framework to avoid monopolisticpractices. The possible monopolistic/ monopsonistic tendencies of the largeretailers (fears of ‗predatory behaviour' and ‗abuse of dominance') would have to beproactively dealt to ensure competition in the market. Appropriate policy formulationcan also aide this cause, as was done during the telecom sector liberalisation withthe National Telecom Policy mandating that each circle should have at least 4-6players. It is to be understood that free and fair competition in procurement of farmproduce is the key to farmers' enhanced remuneration. ConclusionThe discussion above highlights:(1) Small retailers will not be crowded out, but would strengthen market positions byturning innovative/contemporary.(2) Growing economy and increasing purchasing power would more thancompensate for the loss of market share of the unorganised sector retailers.(3) There will be initial and desirable displacement of middlemen involved in thesupply chain of farm produce, but they are likely to be absorbed by increase in thefood processing sector induced by organised retailing. 53(4) Innovative government measures could

further mitigate adverse effects on smallretailers and traders.(5) Farmers will get another window of direct marketing and hence get betterremuneration, but this would require affirmative action and creation of adequatesafety nets.(6) Consumers would certainly gain from enhanced competition, better quality, assured weights and cash memos.(7) The government revenues will rise on account of larger business as well asrecorded sales.(8) The Competition Commission of India would need to play a proactive role. Thus from developed countries experience retailing can be thought of as developingthrough two stages. In the first stage, modern retailing is necessary in order toachieve major efficiencies in distribution. The dilemma is that when this happens itinevitably moves to stage two, a situation where an oligopoly, and quite possibly aduopoly, emerges. In turn this implies substantial seller and buyer power, which mayoperate against the public interest. The lesson for developing countries is that effective competition policy needs to be inplace well before the second stage is reached, both to deter anticompetitivebehaviour and to evaluate the extent to which retail power is being used to unfairlydisadvantage smaller retailers and their customers. The sources of retail power needto be understood to ensure that abuses of power are curbed before they occur. Themore important debate lies in the parameters of competition policy. The benefitsbrought by modern retailers must be acknowledged and not unduly hindered. While itis true that some dislocation of traditional retailers will be felt, time will prove that thehardship brought will not be substantial. Competition law is being created andadopted across Asia but in the immediate future its impact is not expected to belarge. Competition laws only become vital as time passes and retail becomesconcentrated in the hands of a few powerful companies,

whether or not thesecompanies are foreign or domestic. In conclusion, the issue that India must grapple with now is the impact of reducedcompetition brought about by retailer concentration will have on various stakeholdersand the ways in which competition laws and policy can deal with this growth of powerbefore it is too late. The new Competition Act, 2002 has all the required provisions. Itwould, anyhow, depend on how it is implemented.

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