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RE-VISITING AGRICULTURAL POLICIES IN THE LIGHT OF GLOBALISATION EXPERIENCE: THE INDIAN CONTEXT

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Understanding the Role and Implications of FDI in Agri-Food Markets from a Value Chain Perspective: Case of Multi-Brand Retail Trade (MBRT) FDI in India

I

INTRODUCTION

In developing countries, food supply chains, especially the perishable produce chains are seen as inefficient in comparison with those in the developed countries. This leads to policy prescription on the improvement needed and role of foreign direct investment (FDI) to deal with the problem of lack of adequate capital in domestic economy and nature of local players which are small and capital deficient (Singh, 2012). In India too, this kind of analysis of fresh fruit and vegetable chains has led to arguments for FDI in retail trade in the last few years. As a result, the Government of India in November 2011 allowed majority (51 per cent) FDI equity stake in Multi-Brand Retail Trade (MBRT) enterprises and up to 100 per cent in single brand retail trade (SBRT) entities. This was protested by different stakeholders in the sector and the government had to withdraw the Union Cabinet decision on MBRT at that time. But, it was reintroduced in late 2012. The issue of FDI in retail trade had been hanging fire for the last 15 years ever since 100 per cent FDI in wholesale cash 'n' carry trade was permitted in January 1997 on a case- by-case basis. After that, the N K Singh Committee on FDI in retail trade in 2002 suggested the ban to be continued, which led to the Tenth Plan dropping the proposed recommendation on FDI in retail trade. Metro- a German supermarket chain was the first one to enter India as cash 'n' carry wholesaler in 2003 with a store in Bangalore. Then, in early 2006, 51 per cent FDI in SBRT was allowed. Since 2007, all the major wholesale cash 'n' carry players like Walmart, Metro and Carrefour have set up shop in India and have multiple outlets ranging from two to as many as 20. Reliance Retail-an Indian corporate, made an entry into wholesale cash 'n' carry sector with a store 'Reliance Market' in Ahmedabad in 2011and now has 32 such stores across India. Global food supermarkets chains have also been present in India in retail through licensing/franchising arrangements like SPAR (global supermarket with more than 12000 stores in 33 countries) had a licensee -Max Hypermarkets of Dubai based Landmark Group with 13 hypermarket stores in India which ended in December, 2012. Trent Hyper market which runs Tata Star Bazaar chain of stores in India entered into a franchise arrangement with Tesco PLC and wholesale supply

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arrangement with its (Tesco's) wholly owned subsidiary in India (Rao and Dhar, 2013). On the other hand, domestic corporate players have been present in supermarket retail since the early 2000s with hundreds of stores each especially in the southern and the northern Indian cities though most have shut shop in the western Indian cities. In food and grocery segment, in 2011-12, the Future group of Kishore Biyani with four different formats (Big Bazaar, Food Bazaar, KB's Fair Price and Food Hall) was the largest player followed by Reliance Retail with three formats-Mart, Super and Fresh (Singh, 2012).Many domestic food supermarkets have scaled back more ambitious and optimistic plans and now welcome rather than resist FDI to help sustain shaky operations with new capital infusions. More importantly, Indian supermarkets chains have made significant inroads in selling fresh fruits and vegetables and fresh produce already makes 10-15 per cent of grocery sales in leading supermarket chains which is a percentage that was achieved in 15-20 years in Mexico and 40 years in the United States. Therefore, the spread of supermarkets in India stands to have potentially significant consequence for agricultural production and livelihoods of small growers (Cohen, 2013).

The conditions for 51 per cent FDI in MBRT include minimum investment of US$ 100 million by each player, 50 per cent of it in backend infrastructure, 30 per cent procurement from micro, small and medium enterprises (MSMEs with investment up to US$ 2 million when set up which was earlier US $ 1 million),), and the government right to procure the farm produce first. The revised policy provides for 50 per cent of the investment in backend infrastructure to be achieved within three years, not one year, where backend includes all except front end units (stores) and includes processing, manufacturing, distribution, quality, design, packaging, logistics, storage, warehousing, agricultural market infrastructure, but not land or its rental. The 30 per cent of procurement of processed/manufactured products from Indian MSMEs includes procurement also from agri/farmer co-operatives now, and over five years on average to begin with and later, annually. This condition also applies to single brand retail FDI players. The fruit and vegetable produce can be sold unbranded. Further, the revised policy has opened up cities with > I million population, or even smaller ones, if state government wants, and those areas up to 10 kms. around the city limits. The FDI players can self-certify the compliance with minimum US$ 100 million investment, 50 per cent investment in backend and 30 per cent procurement from MSMEs conditions.

In this context, it is important to understand the implications of FDI in food retail for various stakeholders as it is being permitted in the name of farmers, supply chain efficiency and employment generation. The three important questions to be asked on the issue of FDI in retail are: does it really help farmers or more importantly small farmers who are 85 per cent of all cultivators in India? Does it improve efficiency of food chains and help lower food inflation which India is grappling with? And how does it impact traditional food retailers' livelihoods? These questions are important to examine as the Ministry of Commerce and Industry placed full-page adverts in all national newspapers to defend and justify the decision by highlighting the employment, the farmer and the consumer benefits. The advertisement claimed that 10 million more jobs would be created and there would be no significant negative impact on traditional retail sector. It further claimed that the policy has distinct Indian imprint as unlike 100 per cent FDI in some other Asian countries, India only allowed 51 per cent FDI, and, only 53 cities were covered under the provision and every state could follow its own policies and laws on FDI in MBRT (Singh, 2012).

It is argued that FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and reduction of intermediaries and benefit consumers and suppliers, including farmers (Table 1). This is known as ‘buying higher’ and ‘selling lower’ in supermarket terminology. This can also result in net gains in employment at the aggregate level. It is also suggested that any technological and organisational changes have disruptive effects – some losers in the short run and larger number of gainers in the long run. As the presence of large retailer increases, government tax revenues will increase which can be used to compensate the losers (Patibandla, 2012).

TABLE 1. SUPPLY CHAIN EFFICIENCY IN MODERN RETAIL VIS-À-VIS TRADITIONAL RETAIL

Link in the chain (1)	Percentage share traditional retail (2)	Percentage share in modern retail (3)	Remarks (4)
Consumer pays	100	94	Benefit to consumer: 6 per cent
Retailer wastage	5	6	1 per cent higher
Retailer margin	22	25	Retail margin higher by 3 per cent
Semi-wholesaler	5	0	No semi-wholesaler
Wholesale wastage	3	5	Higher cost of cold chain/storage
Wholesale commission	8	0	No wholesaler
Transit wastage	5	2	Reduced by 3 per cent
Village consolidation	2	2	no change as consolidation by modern retailer
Post-harvest wastage	8	4	Reduced by 4 per cent
Net to farmer	42	50	8 per cent higher share
Total	100	94	

Source: NABARD, 2011.

There perhaps is nothing more fundamental to human well-being than food and no more dramatic consequence of globalisation than the transformation of the law and economics of food supply (or value) chains (Cohen, 2013, p.20). In this perspective, this paper analyses the role of FDI in MBRT in terms of improving the efficiency of food supply chains in India and its implications for various stakeholders, from a value chain perspective. It uses empirical evidence from the experience of domestic retail supermarkets and wholesale cash ‘n’ carry supermarkets as well as evidences from other developing countries to examine the role FDI can play. The paper also examines various mechanisms which could be used to leverage the presence of FDI in supermarkets and explores the role of policy and regulation and institutions in promoting the small farmer interest in such value chains. Section 2 provides an analytical framework to assess the supermarket chain impacts and section 3 examines the small producer dimension, section 4 the traditional retail and employment aspect, section 5 the inflation angle- all in the Indian retail context, section 6 assesses some policy and practice mechanisms and section 7 concludes the paper.

II

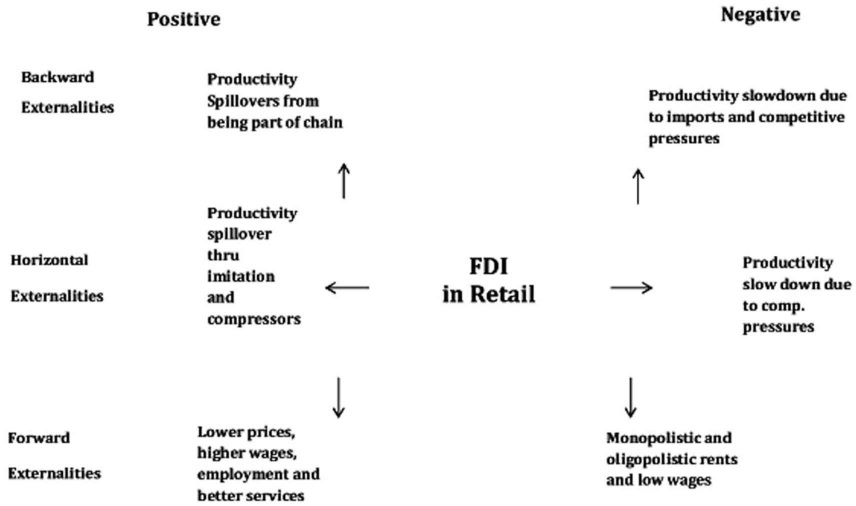
ROLE AND IMPACTS OF FDI:AN ANALYTICAL FRAMEWORK

The concept of value chain has many variants such as commodity chain, value system, production network, supply chain, value network, 'complex' and 'filerie' approach which are also, sometimes, used interchangeably. A value system is a set of interlinked complete firms that have all the business functions (Gereffi *et al.*, 2001). In fact, a value chain describes the full range of activities, which are required to bring a product or service from conception, through the intermediary phases of production and delivery, to final consumers and final disposal after use. It was only during the 1990s that the commodity chain concept has become widely used mainly because of the writings of Michel Porter, Womack and Jones, and Gereffi. There are three key elements of value chain analysis - barrier to entry and rent, governance, and systemic efficiency (Kaplinsky, 2000). The measurement of value in a chain involves looking at distribution of profits, value added, and price mark ups (Gereffi, *et al.*, 2001). One important contribution of value chain analysis is its focus on distribution and marketing which has been traditionally ignored by economics. Further, it helps to look at stages of activity within the chain, which involves costs and which was seen by economists as a costless co-ordination. The analysis in value chain framework helps to identify ways to improve markets, products, and technologies (Wood, 2001). The most important contribution of value chain analysis is that it provides a comprehensive framework for a 'joined-up' series of responses by a number of stakeholders which force analysis into a wider, dynamic, and more strategic consideration of these issues (Kaplinsky, 2000).

Value chain framework addresses the issue of who controls global/national markets and how agents locked into lower value segments can break out of this situation. It is a method of analysing how and for whom such market conduits operate. It is a tool for understanding who benefits how, and how those patterns of benefit distribution can be changed. It has both empirical as well as theoretical focus on markets instead of formal abstract modelling. Secondly, it pays attention to power, its sources, uses, and effects in a socially differentiated environment. It is also an approach to politics and political institution as endogenous to the existence and functioning of markets with attention to differentiated market agents involved in collective action. Finally, regulation, both state and non-state is also an endogenous feature of markets. It insists on an integrated examination of production and circulation of commodities. Therefore, as against other models of global economy, which focus on trade, this framework gives equal importance to production aspects. Further, it takes into account internal factors, in particular, class relations. It is also independent of center-periphery type of relations and neutral in terms of affiliation to any ideological framework-capitalist or socialist. It points to the possibility of redrawing the chains without recommending any particular model (Rammohan and Sundaresan, 2003). Chain co-ordination reinforces or enhances barriers to entry and allows driving agents to institute measures which reduce costs and risk while increasing the speed and reliability of supply or increasing sales (Gibbon, 2001a). The value chain analysis reveals the nature of insertion in to global value chains that influences the functions that local firms can undertake and the options for upgrading available to local producers and their ability to capture a larger share of value added (Nadvi *et al*., 2004).

Global value chains allow the supermarkets to operate without incurring the high costs and risk of ownership of facilities or franchising, and lower transaction costs but still retaining global access to supplies. The buyers (supermarkets) in these chains dominate and govern quality through production standards (Barrientos and Kritzinger, 2004). Major issues in value chain framework include: how chains are organised and managed; who are the winners and losers in the process; how the benefits can be increased to larger number of players involved in these chains; and how to devise mechanism of regulation that can make upgrading opportunities more socially broad based.

The impacts of supermarkets with FDI can be expected across the value chains in which they operate. It includes effects on the backend and the front end in terms of backward and forward linages or externalities. The linkage impacts- both positive and negative- can be expected when the various other stakeholders are part of the given supermarket value chain which is driven by it as the major partner or player. On the other hand, for those who are not part of the given supermarket's value chain, the impacts can be seen more of externalities, both backward and forward. Whereas positive impacts of externalities include spillovers on the backward side for suppliers due to new technology and management systems, and lower prices, higher employment or better services on the forward side, the negative ones are in the nature of productivity slow down due to competition and import threat due to global sourcing strategies of global supermarket players on the backward side of chain, and monopolistic and oligopolistic rents and low wages on the forward side for employees and workers and higher prices for consumers in such market conditions. Further, there are also horizontal impacts or externalities as the supermarkets also affect existing competition. On the positive side, there is productivity spillover due to imitation and partnerships and competitive pressures for existing domestic players and on the negative side, the existing and new entrants face entry barriers and practices of supermarkets which are predatory (Figure 1).



Source: Durand, 2007

Figure 1. Potential Externalities of FDI in Retail Trade in a Developing Economy

Three major issues of impact of supermarket on local economies include: market concentration and, therefore, producer and consumer interest; downward pressure on producer prices with higher costs and responsibilities; exclusion of small producers and impact on small local retailers. The procurement practices of supermarkets and large processors have a huge impact on farmers and present them with an important challenge. Through their coordinating institutions and mechanisms such as contracts, private standards, sourcing networks and distribution centres, they are reformulating the rules of the game for farmers and first-stage processors (Reardon and Berdegue, 2002). There is also supplier farmer rationalisation due to the larger supplier preference of big retailers (Ghezan *et al*., 2002; Farina *et al*., 2005). Though supermarkets initially offered higher prices to producers than those offered by traditional channels, but farmers incurred extra costs like processing and packaging, marketing, transport, and other transaction costs unlike their counterparts in traditional channels (Cadilhon *et al*., 2006). For a comprehensive review of the practices and impacts of supermarkets across developing world, see Singh (2012) and Singh and Singla (2011).

III

MBRT AND SMALL FARMERS

It is important to recognise that India is not the first country in the world or even the Asian region to permit FDI in MBRT. There is plenty of experience from Latin Amercia, Africa and Asia. Traditional retail density in India is also the highest in the world: 11-15 shops per 1000 population; and the sector employs 40 million people.

Further, the Indian modern retail sector grew by 49 per cent per annum during six years of 2000s. But, it did not evolve as it was more of large business houses/players merging with or taking over smaller chains/supermarkets. Also, the issue of domestic versus foreign retailers is not of ownership, but of size and scale which creates entry barriers and higher cost of entry for new players (Peddi, 2012).

One of the arguments for bringing FDI in MBRT is that it will help reduce wastages in the farm produce sector. Here, it is important to point out that this aspect of wastages is exaggerated as there is no absolute wastage and some wastage in perishable produce is inevitable. For example, one recent working paper on the topic just mentions without any reference to any study or data source that about 40 per cent of vegetables and fruits are destroyed before they come to the market (Patibandla, 2012). It is value loss across the chain as finally all qualities/grades of produce sell in the market at some price. In fact, one of the corporates had planned to use a perishable produce like tomato for different uses i.e. fresh produce sales in supermarkets, fresh produce sales in local markets, and for processing into paste. Further, wastages in major vegetables like potato and onion which account for large proportion of the total vegetable produce is not more than 10 per cent and only 10-12 per cent in cabbage and cauliflower (Singh, 2012).Thus, only 10-20 per cent of vegetable production is lost due to poor post-harvest practices and some of it is inevitable as shown by the experience of domestic supermarkets. Another study of the post-harvest losses (PHL) reports only 6.8 per cent losses in cabbage and 12.5 per cent in tomato and 5.8 per cent and 18 per cent respectively in fruits of sapota and guava. It reports only 6 per cent PHL in wheat and black gram and 2.8 per cent in cottonseed oil and 10 per cent in groundnut (Nanda *et al.*, 2010).Yet, another study reports these post-harvest losses in the F&V chain from farmers to processors to be between 10-25 per cent (Ernest and Young, 2009).

In fruits, the wastage ranged from 14.4 per cent in case of grapes in local markets to 21 per cent in distant markets and 29-35 per cent in mango, banana and pomegranate while only 18 per cent in co-operative channel. 50 per cent of total wastage in mango and grapes in case of local markets was at the field level whereas in banana and pomegranate, 40-50 of the total wastage was in the retail part of the channels irrespective of whether it was wholesale or distant or co-operative channel (Murthy *et al.*, 2009).

But, it is also accepted that supermarkets cannot generate cost savings for consumers simply by upgrading and modernising supply chain. The supermarkets need to figure out how much actual profit does the attempt to reduce wastages cost. So far as the economic value which is lost is concerned, the supermarkets can save as much as 21 per cent of the produce but they may still not make money out of it. The reason for this is that the traditional supply chains are really efficient with small intermediaries rapidly moving goods all over the place and the fresh produce does not come with a brand. Therefore, the supermarkets can’t give a perceived value addition to justify higher retail prices and end up competing with traditional channels (Cohen, 2013).

If the operations of domestic fresh food supermarkets in India and those of the global supermarkets are any indication, they will not make any difference to the producer's share in consumer's rupee as claimed by many proponents of the liberal FDI in MBRT policy, other than lowering the cost of marketing of the producers, as supermarkets have collection centres (CCs) in producing areas, in contrast to the traditional Agricultural Produce Market Committee (APMC) markets (*mandis)*which are in distant cities. The supermarkets procure from 'contact' (not contract) farmers without any commitment to buy regularly as they do not want to share the risk of the growers. They procure only part of the produce from farmers directly and rest from APMC mandis directly or through traders (Table 2).

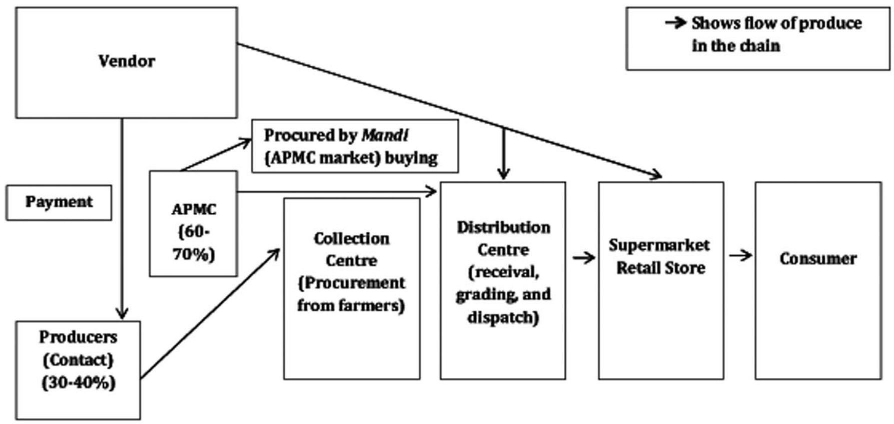
TABLE 2. CHANNELS OF PROCUREMENT OF MAJOR SUPERMARKET FOOD RETAILERS IN INDIA (PRODUCT CATEGORY WISE PROCUREMENT PER CENT IN TOTAL PROCUREMENT)

Supermarket chain (1)	Grains (2)	Pulses (3)	Oil (4)	Fresh Fruits (5)	Vegetables (6)
Smart	Processor-90, Appointed agent-10	Processor-80, Appointed agent-20	Processor-90, Trader-10	Appointed agent-30, Trader-70,	Appointed agent-80, Trader-20,
Home store India retail	Consolidator-60; Trader-40	Consolidator-60; Trader-40	Processor- 100	Consolidator-60, Trader-40	Consolidator -70, Trader-30
Namdhari	Trader-100	Trader-100	Trader-100	Trader-70, Own farm-30	Own Farm-70, Contract Farming-15, Trader- 10- 15
Mother dairy (Safal)	Trader-100	Processor-50, Trader-50	Processor-90, Trader-10	Appointed agent-60, Trader-40,	Informal farmer associations-60, Trader-40,
Birla's More	Trader-80 Processor-10, Job work after procuring the raw material from farmers- 10	Trader-60 Processor-20 Job work after procuring the raw material from farmers-20	-	Appointed agent-35, Trader-65,	Appointed agent-35 Trader-65
Star Bazaar	Trader-100	Trader-100	Trader-100	Trader-95, Appointed agent-5	Trader-95, Appointed agent-5
Spencer's	Trader-50 Processor-50	Trader-100	Trader-100	Farmer-70 per cent	Farmer-70 per cent

Source: NABARD, 2011.

Thus, the involvement of supermarket chains with producers in India is low and there is no delivery of supply chain efficiency as many of them have already wound up e.g. in Gujarat. None of them- domestic retail players as well as whole cash 'n' carry players- have made any significant back end investments so far other than setting up small CCs in procurement regions and some distribution centres (DCs) in cities/markets during the last decade. They have mostly focused on opening stores as a drive to capture market share, rather than on supply chain improvements and operational efficiencies. This may not change with FDI in MBRT, though 50 per cent investments in back end infrastructure is a reasonable condition (Singh, 2012).

The chains offered market price based procurement prices and procured only a limited proportion of the grower's crop without any firm commitment and, more, on a day-to-day basis (Figure 2). They made no provision for any input and did not have any formal contract arrangement. The rejected produce was left for the farmer to dispose of elsewhere as the chains procured only 'A' grade produce (Pritchard *et al.*, 2010) and there was no sharing of any risk –production or market- of the grower suppliers (Sulaiman *et al.*, 2010).



Source: based on Singh and Singla, 2011.

Figure 2. Typical F&V Supply Chain of a Supermarket in India

Further, due to the sheer size and buying power of foreign supermarkets, the producer prices may be depressed. In UK, there was a negative relation between relative market share of a supermarket and price paid to the suppliers in relation to the average price as they procure from wherever it is cheaper and thus in the UK, they procured only 5 per cent of their total food locally (Boycott, 2008). The UK supermarket chain Tesco paid its suppliers 4 per cent below the average price paid by retailers. There have been a large number of supermarket malpractices across the globe which include: payment to be on the supplier list (listing fees); threats of delisting if supplier price is not low enough; payment and discounts from suppliers for promotions/opening of new stores; rebate from producers as a percentage of their supermarket sales; minus margins whereby suppliers are not allowed to supply at prices higher than the competitor price; delayed payments; lowering prices at the last minute when supplier has no alternative; changing quantity/quality standards without notice; just-in-time systems to avoid storage/inventory costs; removing suppliers from list without good reason; charging high interest on credit; using tough contracts, and penalties for failing to supply. Supermarkets also resort to unfair and unethical practices like just in time procurement from suppliers who have to bear the carrying costs and price and quality risks (Boycott, 2008; Singh, 2012). In fact, supermarkets break so many rules that they have become a target of various stakeholders in agriculture and food like environmentalists, foodies, animal lovers and anyone who cares and is concerned about the plight of the countryside, farmers, and food miles (Boycott, 2008).

There is no assurance that farmers will receive higher prices, as prices are more about bargaining power of the supermarkets and the suppliers (Boycott, 2008) as in the context of the UK supermarkets as stated above, it was found that as the share of major supermarkets in retail sales went up, the producer share in consumer rupee went down (Singh, 2012). Table 3 shows the farmer benefit when domestic supermarkets directly procured from them across Indian states. It is not unrealistic to imagine future global markets in which the sale of food will be controlled by 4 to 5 global firms and the handful of regional and national companies. In India, with 11 to 15 million retail outlets, the traditional retail sector employs an estimated 40 million people and 60 per cent of them sell food (Cohen, 2013). It is also known that problems of Indian farming are not about market risk alone but also production risk and structural factors such as irrigation, technology, credit and so on which MBRT players may not address (Singh, 2012).

TABLE 3. FARMERS NET BENEFIT OF SUPERMARKET PROCUREMENT AND REJECTIONS*

	Net benefit over APMC price (per cent)**			Rejection by modern retailers (per cent)**		
Commodity (1)	Chikballapur (Karnataka) (2)	Kurnool (Andhra Pradesh) (3)	Sultanpur (Uttar Pradesh) (4)	Chikballapur (5)	Kurnool (6)	Sultanpur (7)
Beetroot	13	-	-	50	-	-
Bitter gourd	14	-	1	40	-	15
Bottle gourd	-	-	6	-	-	15
Brinjal	29	17	10	55	50	15
Capsicum	23	-	1	40	-	20
Carrot	6		3	50	-	15
Cauliflower	14	-	2	60	-	15
Cabbage	-	-	3	-	-	20
Chilly	5	3	-	60	40	-
Cucumber	8	-	-	50	-	-
Onion	31	7	-	45	50	-
Tomato	9	4	-	60	60	-
Okra	-	9	-		50	-

Source: NABARD, 2011

*Rejected produce sold at APMC and/or village or farmers' markets; **As on November 2009.

Further, it is also claimed that there will be export benefit of supermarkets as they would supply to their global markets by buying from India. Citing the case of Wal-Mart in China where it operates 352 stores in 130 cities, it is pointed out that about 20,000 Chinese suppliers provide Wal-Mart with 70 per cent of its global sales and Wal-Mart accounts for 30 per cent of China's export (Patibandla, 2012). But, the important issue to understand is: Why are FDI supermarkets seeking an entry in India-for export or targeting domestic growing market? If there is export logic, then, why has the policy provided for a mandatory procurement from MSMEs (30 per cent) as part of the FDI conditions? In fact, the Mexican experience shows that FDI in the modern retail sector in Mexico accelerated the transformation of the sector as a whole by reducing the market share, productivity and margins of traditional retailers. Moreover, these modern (transnational) retailers were better connected to global value chains, thus, importing more than their local counterparts. So, the net effect on the local producers was negative. The modern retailing sector was characterised by a low skilled, unstable and weakly unionised labour force. FDI flows in retailing had a negative effect on remuneration since wages in retailing were still far lower than the average wage in the economy (50 per cent). In the context of aggressive competition among the main retailers, attracting skilled labour was less important than reducing costs in order to gain market share by lowering prices. Thus, FDI did not produce positive effects in terms of wages for workers. Significant backward externalities were also observed. Following Wal-Mart's lead, local retailers had reorganised significantly by internalising the distribution of goods within distribution centres, centralising their purchases and pursuing a permanent low prices strategy. Using new informational technologies, buyers had increased their ability to exert governance on value chains. These changes had affected local suppliers negatively, as they lost negotiating power and suffered higher pressures on their margins leading to the asymmetries between local firms; diminishing their capacity to learn and grow. Wal-Mart even became the main contributor to the Mexican commercial deficit. The growing pressure of imports and the increasing governance power of retailers led to the elimination of some local suppliers and a concentration process in supply chains with a risk of immiserising growth for the surviving firms (Durand, 2007).Finally, farmer benefit is not independent of the class question. If these players are going to rope in mostly large and medium farmers, then the issue of exclusion of small into those value chains and networks will remain and the leveraging of FDI presence will not happen as seen in case of contract farming experience in India (Singh, 2012).

In fact, policy makers give right examples of value chains for wrong reasons to defend the FDI policy in the name of farmer benefit. For example, the former chairperson of the Economic Advisory Council to the Prime Minister of India states "The successes of AMUL and Mother Dairy (*fruit and vegetable project in Delhi*) clearly bring out how organised retail can be very beneficial not only to the consumer but also to the farmer. Operation flood pioneered by Dr. Verghese Kurien changed the entire dimension of the dairy sector in India.----Safalis an example of successful organised retail of fruits and vegetables" (Rangarajan, 2012, p. 4). On the other hand, there are other scholars who, based on previous experience, argue: "If what FDI has done to the indigenous dairy industry in Sri Lanka and Bangladesh is any indication, FDI in multi-brand retail may not augur well for Indian agriculture unless there is some way to ensure that the new players source the bulk of their farm products locally" (Shah, 2012, p.31). In fact, the impact of retail liberalisation on agribusiness can be higher than the impact of international trade liberlisation as seen in S-E Asia.

It is surprising that no restrictions on procurement of farm/allied produce were proposed to be put to protect the primary producer or smallholder interest when 85 per cent farmers are small or marginal land operators. In fact, there are not even any incentives to encourage small farmer inclusion. The supermarkets are known to prefer large suppliers of farm produce. Further, there was no provision for formal registered contract farming being mandatory in the decision. After many years of presence of wholesale cash ‘n’ carry players and that of domestic supermarkets in India, 60-70 per cent of their procurement was still from wholesale markets, not directly from farmers. All these evidences indicate that FDI in MBRT might produce no benefit to small farmers (Singh, 2012).

VI

MBRT, TRADITIONAL RETAIL AND EMPLOYMENT

FDI in the modern retailing sector in Mexico accelerated the transformation of the sector by reducing the market share, productivity, and margins of traditional retailers. FDI flows in retailing had a negative effect on remuneration since wages in retailing were still far lower than the average wage in the economy (Durand, 2007). But, there is paucity of literature on the issue of impact of modern retail on traditional retail unlike the impact on farmers and agriculture in India (Singh and Singla, 2011 and 2012).

In fact, the supermarket expansion leads to a phenomenon of ‘retail Darwinism’ in which only the fittest survive. Thus, there is employment loss in the value chain. For example, as compared to 18 jobs created by a street vendor, 10 by a traditional retailer and eight by a shop vendor in Vietnam, a supermarket like Big C needed just four persons for the same volume of produce handled. Metro Cash & Carry employed 1.2 workers per tonne of tomatoes sold in Vietnam compared with 2.9 persons employed by traditional wholesale channel for the same quantity sold. The spread of supermarkets led to 14 per cent reduction in the share of ‘mom and pop’ stores in Thailand within four years of FDI permission (Singh, 2012). In the UK, a superstore led to loss of 276 full time local jobs. Tesco store opening in a town of the UK (Cirencester) led to local food shops share down by 38 per cent, in another town, it was down by 75 per cent and yet another it was lower by 64 per cent,. In Hove, in 2003, local greengrocer lost sales by 30 per cent and the post office lost 25 per cent of its turnover (Boycott, 2008).

India’s wholesale and retail trade sector provides employment to 44 million people who are 10 per cent of the workforce and it is the second largest employer of workforce after agriculture. More than half (60 per cent) of this employment is in urban areas. Further, more than one third of the service sector jobs in urban areas are in retail and wholesale trade sector. It is being claimed that 10 million new jobs will be created. But, it is not clear from where these jobs will come. This is similar to the argument made when Pepsi was brought in Punjab in 1989 and it was claimed that

50,000 new jobs will be created by its various projects. But, later, it was found that it was counting potential supplying farmers also in that number!

In India, in Mumbai, 71 per cent of the traditional retailers and all of the F&V retailers reported decline in sales with the emergence of the modern retail. The decline in sales had most frequently impacted larger shops (400-500 sq ft and 300-400 sq ft) and least commonly the size range of 100-200 sq ft. 63 per cent of the retailers felt threatened by malls and 16 per cent felt threatened with closure (Kalhan, 2007). 39 per cent of the fixed F&V sellers and 34 per cent F&V hawkers reported decline in turnover. The annualised closure of the traditional retailers due to the competition from modern chain retailers was the highest in the Western (3.2 per cent), 1.5 per cent each in Northern and Southern regions and the least in the East Indian region (0.4 per cent); the overall in India being 1.7 per cent (Joseph and Soundrarajan, 2009).

Another survey based study reported 78-89 per cent traditional retailers reporting decline in sales, profits and customers across cities in Haryana, Tamil Nadu, Uttar Pradesh, Karnataka and Delhi. They reported 17-29 per cent decline in sales, 16-23 per cent in profits and 13-25 per cent decline in customers and 49 per cent were aware of closure of some traditional outlets (Kalirajan and Singh, 2009).Singh and Singla (2011) also found that with the emergence of modern retail chains, number of footfalls in traditional outlets declined across all locations. The per centage decline in footfalls was the highest in Bangalore (35.5 per cent during week-days and 27 per cent during week-ends), which is one of the most supermarket penetrated cities in India, followed by Ahmedabad (32 per cent during week-days and 26.6 per cent during week-ends) and Chandigarh (17 per cent during week-days and 14.9 per cent during week-ends). Further, number of regular customers visiting the outlets also came down everywhere after the entry of modern retail chains, more so in Ahmedabad (23 per cent) and Bangalore (19 per cent) and only 8 per cent in Chandigarh. In Ahmedabad 60 per cent traditional retailers reported decline in sales compared with only 45 per cent in Bangalore and 33 per cent in Chandigarh. Thus, 46 per cent traditional retailers across cities reported decline in sales due to the presence of retail chain outlets. Bangalore traditional retail sellers reported the largest decline in their turnover (22.5 per cent) and income (31 per cent) followed by Ahmedabad (12.3 per cent and 27.8 per cent respectively) and Chandigarh (9.7 per cent and 19.6 per cent respectively). Further, about 35 per cent of traditional retailers across cities were aware of the push cart vendors/F&V outlets which had gone out of business in their vicinity. Majority of the traditional retailers reported the decline in sales due to presence of the retail chain outlets, though the entire sales decline can’t be attributed to the modern retail chains as other factors like reduced household income, high prices, and recession have might also impacted their sales.

The turnover for employee at Wal-Mart is 29 times that of the unorganised sector in India. This will mean foreign players with 10 per cent share of retail market employing 19,000 persons will replace 0.55 million persons in the traditional sector

(Patibandla, 2012).Therefore, it is important to include the potential employment loss in traditional retail sector when calculating the employment benefits from modern retail and net employment effect should be considered in policy decision. Further, as supermarkets use modern technology, not many jobs may be forthcoming from their operations even with 50 per cent investment in back end operations.

Another proposed condition proposed was that FDI in retail would be permitted in all cities with population of more than one million. This will impact a large majority of traditional retailers as they are concentrated in large cities. Another question to be asked is: how many cites in India are really below one million population and for how long? It is reported that there are 53 cities with population of more than one million and they are across the country and account for 42 per cent of urban population in India. Further, given the size of the supermarket retail stores, they may be located in one city but their coverage in terms of potential clientele will extend to neighbouring towns as well. It is reported that just 39 cities have 120 million population which is almost one third of India’s urban population (Singh, 2012).

It is accepted by the architects and proponents of the FDI in MBRT policy that ‘Once the share of overall modern retail in food reaches about 25-30 per cent, it is bound to affect the *kirana* (grocery) traders first and then the small and marginal traders. These *kirana* stores, street hawkers etc. can also become a part of the modern retail change story if they (a) can be assimilated into organised retail; (b) are upgraded through infusion of capital, better training etc.; and (c) can organise themselves under their banner through franchises etc’ (Rangarajan, 2012; p.3). But, it is not recognised that the modern supermarket share has already reached that percentage in cities like Bangalore and Hyderabad, and expected to reach 21 per cent nationally by 2020. Also, each category is important, not total volumes as these traditional small retailers deal with specific products. Further, competition is regional, not national (contrasting examples of Gujarat and Karnataka). Entry of Reliance Fresh led to closure of middle scale grocery stores in south and *kirana* stores and traditional F&V retailers reported 20 per cent decline in sales (Patibandla, 2012).

V

MBRT AND FOOD INFLATION

So far as role of FDI driven food supermarkets in containing food inflation is concerned, the evidences from Latin American (Mexico, Nicaragua, Argentina), African (Kenya, Madagascar) and Asian countries (Thailand, Vietnam, India) show that the supermarket prices for fruits and vegetables and other basic foods were higher than those in traditional markets. In fact, in China, where large global retailers like Walmart, Tesco and Carrefour have hundreds of stores, food inflation has been an issue since 2004 and some local governments have offered subsidy even through the supermarkets, to lessen its effect on consumers. Further, the products which are offered at a lower price by modern retail are less relevant for the poor who buy them loose in small quantities. Poor can't access supermarkets for reasons of distance, mobility and even higher prices by supermarkets in poor areas. Thus, there is no direct correspondence between modern retail and lower food prices and, thus, better food security of the poor consumers. Therefore, the inflation containment logic for FDI in food retail does not stand ground given the empirical evidence from across the globe. Thus, supermarkets would lead to concentration of market power, with upstream suppliers facing buyer power in terms of lower prices and consumers (buyers) facing higher prices due to lower competition besides traditional retailers suffering a decline in their business (Singh, 2012).

In Mexico, where 80 per cent retail was modern and 5 major players had 80 per cent of all modern retail sales, Walmart was found 10 per cent costlier in same basket of goods compared with regional or local supermarket players and 25 per cent costlier than municipal markets in Mexico (Bales, 2008). Further, the margins of supermarkets whether domestic or foreign are much higher than those of the smaller regional or traditional players (Table 4). When there is supermarket market share concentration, prices paid to suppliers and charged from buyers suffer negatively (Singh, 2012). Finally, price advantage is not above other concerns like livleihoods and employment and competitive markets as Biles puts it in the context of Mexico: "Mexican households may have won the battle for low prices while losing the war to improve their livelihoods" (Biles, 2008, 49).

TABLE 4. CATEGORY WISE MARGINS (PER CENT) OF SUPERMARKETSAND REGIONAL RETAILERS

	Supermarkets									Regional retailers					
Product category (1)	Mother dairy (2)	Home store (3)	Smart retail (4)	Namdhari (5)	Margin free (6)	More (7)	Star bazaar (8)	Food world (9)	Super-market average (10)	Vijaya K super (11)	Apna bazaar (12)	Triveni (13)	Varkeys (14)	C-3 (15)	Regional average (16)
Grains	25	20	13	18	18	10	12	15	15.9	10	10	5	10	20	11.0
Pulses	25	15	13	15	18	10	10	15	14.8	10	10	5	3	20	9.6
Oil	25	5	8	6	20	6	4	9	9.7	4	5	5	15	11	8.0
Fresh fruits	20	12	15	25	30	12	15	18	18.4	-	10	10	15	20	13.8
Vegetables	20	12	15	25	25	10	15	18	17.5	-	10	12	20	20	15.5

Source: NABARD, 2011.

VI

POLICY ISSUES AND MECHANISMS

The biggest fear in India is not that the FDI in MBRT per se is worse than domestic corporate investment in it for farmers or traditional retailers though size/scale will certainly be bigger and, therefore, will have more severe impacts, it is that there may not be adequate institutions and effective governance mechanisms to regulate and monitor the operations of the global retailers to ensure fair prices for farmers and end consumers, as well as generate jobs. If the monitoring of wholesale 'cash n carry' stores so far is anything to go by, there is no regulation and the norms are being flouted openly at the store level by the existing players. Thus, leveraging of

FDI requires effective local institutions to benefit larger sections of the stakeholders in the long run (Singh, 2012).

The so called freedom being given to states on FDI decision is not a good step as it may fragment the market and benefits of FDI will be undermined. This is evident from experience of freedom given to states to amend the Agricultural Produce Market Committee (APMC) Act which has taken 12 years and still there are a few states which have not amended the Act and many others have done it in their own way and this has become a thorny issue in agribusiness policy and practice. Further, given that FDI is an important global issue in terms of WTO negotiations, and involves foreign relations, it is important to treat it as a national, and not a regional issue. So far as protection of traditional retail interest is concerned, if there could be Milk and Milk Products Order (MMPO; which restricted private entry into certain milk sheds created by co-operatives) in the dairy sector to protect dairy co-operatives in India from private and multi-national onslaught in post-1991 deregulation phase of Indian dairy sector, why can't there be protection of traditional retail for some time to give it the breathing space? The example of China is quoted to justify the FDI permission. But, China took over 12 years to liberalise its FDI regime, and in stages. China adopted a policy of caution and 'hurrying slowly'. It first allowed only 26 per cent FDI in retail in 1992, took another 10 years to raise the limit to 49 per cent, and allowed full foreign ownership in 2004, but only in certain cities. It even revoked some previously granted approvals, to reduce the foreign retailers' footprint (Singh, 2012).As a result, today, of top 10 supermarkets in China, 8 are Chinese, and Wal-Mart and Carrefour shares are only 5-6 per cent even after 5 years.

Given the global and the Indian experiences of supermarkets so far, it was important to slow down supermarket expansion by introducing mechanisms such as zoning within cities, business licenses, and trading restrictions. Further, there is need to limit buying power of the supermarkets by strengthening the competition laws like the legal protection given under the Delayed Payments Prevention Law, 1956 to subcontracting industries in Japan in their relations with large firms wherein large procuring firms could not undertake certain forbidden acts like refusal to receive delivery of commissioned goods, delay in payment beyond agreed period, returning delivered goods without good reason, forced price reduction, compulsory purchase of parent firm's good by subcontractor, and discounting payment after prices have been agreed. These provisions are monitored by the Fair Trade Commission and the Small and Medium Enterprise Agency (SMEA). If contract farming is only another name for subcontracting prevalent in industry, then it is only logical to extend such legal provisions with necessary modifications to farming contracts (Singh, 2012).

Also, provisions for legally binding and clearly worded rules for fair treatment of suppliers, and an independent authority like a retail commission to supervise and regulate supermarkets for supplier, consumer, and labour aspects and support to local retailers, are required. This authority should ban buying of products below cost and selling below cost, make contract farming must, improve local traditional markets for small growers, slow the pace of supermarket expansion, establish multi-stakeholder initiatives in the chains and provide support to small producers and traditional food retailers. Producers' organisations and the NGOs need to monitor and negotiate more equitable contracts with the supermarkets. Government should play an enabling role by legal provisions and institutional mechanisms, like helping farmer co-operatives, producer companies and producer groups, to facilitate smooth functioning of the supermarket linkage and avoid its ill-effects. These entities have a potential to deal with supermarkets on behalf of smallholders whom supermarkets will also find attractive to work with (Singh and Singh, 2014).

Finally, the food markets should be structured in a manner which allows economic actors to generate maximum amount of welfare for consumers and some of the gains are re-distributed via political means to compensate those who found themselves newly unemployed (Cohen, 2013). Further, Cohen quoting Timmer (2009) writes: "In fact, the ultimate impact of supermarkets in developing countries will be on the level and distribution of improved welfare for the consumers…. What happens to other stakeholders like small farmers and traditional retailers will be factors in both the size of the welfare gain and its distribution but also many other factors will come into play" (Cohen, 2013, p.82-83). Finally, as a class question, the interest of consumers who are wealthy and the primary producers and others depending on the existing supply chains who are poor have to be traded off in a manner that the individual consumer interest does not override the responsibility of any society to provide economic security to its population (Cohen, 2013).

VII

CONCLUSIONS

The above experience of food supermarkets in various developing countries shows that the primary producer benefits from such retail linkage are not automatic and farmers or suppliers especially small ones are likely to be left out or not able to sustain the linkage, if appropriate mechanisms like farmer groups or policies to protect them from supermarket practices are not in place. Even traditional retail sector has suffered from the onslaught of supermarkets in various Asian countries and given India's large traditional retail sector which is so crucial for livelihoods of poor, steps outlined above are needed to protect the traditional sector or assist them in competing with the supermarkets. Finally, supermarkets are not about providing cheaper food to the buyers in general and, therefore, the inflation containment logic does not hold water. What is needed is preparedness to leverage the supermarket presence for better smallholder and traditional retail livelihoods in terms of producer institutions, regulation, and well-tailored incentives for inclusiveness.

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