

IS FDI IN RETAIL THE ONLY TRUE MANTRA FOR DEVELOPMENT?

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Recently a person very close to the powers that be (name deliberately withheld) asked me a blunt question, “Are you against development?” This was in the context of a discussion in which I had expressed deep reservations about the policy of Foreign Direct Investment in retail trade. My reply was that the question was unfair and aimed at putting me on the defensive by equating such FDI with development and branding anyone opposed to it as inimical to progress. Every Indian wants our economy to grow but there can be a difference of opinion on the growth strategy.

The usual arguments were trotted out about how foreign investors would help the small trader, the farmer and small scale industry because the investor would have to source at least one-third of the inventory from small and medium industry and would also be required to invest in back end activities such as creation of storage facilities, cold storage, etc. He would purchase directly from the producer, eliminate the middleman and ensure that the farmer shares in the profit which would otherwise be passed on to the middleman. Everyone would benefit, especially the consumer. What is more, because of creation of godown facilities and cold storages, grain and other agricultural produce would be secured from the ravages of weather and pests. On the face of it these arguments appear to be very attractive.

What will be the nature of retail trade to which the foreign companies will address themselves? By government’s own admission the policy will apply to only fifty-three major cities. The population of these cities put together would not represent more than fifteen percent of India’s population. About forty percent of the population is below the poverty line. That leaves about nine percent of the population to be covered by the new retail formula. The majority of even this nine percent cannot afford anything but bare essentials and only about five percent would, therefore, really patronise these stores. Can this miniscule minority really bring about an economic revolution in India? Let us look at the goods that these stores would sell. It is true that specialty stores such as Tesco do deal in food products. The majority of these products would either be various kinds of meat or processed foods which are packaged. It is unlikely that they will parallel the grocery stocks of even our large specialty stores which sell the items which the average citizen buys, rice, atta, various types of pulses, edible oils, spices and condiments. These stores are unlikely to trade in basic foodstuffs because their preference would be for processed and packaged foodstuffs. It is possible that to some extent their presence could lead to some growth in the food processing industry, but to expect that this industry would buy directly from farmers and not through agents is extremely remote. The scale of operation of each individual farmer and the vast area over which the farmers are spread makes it unlikely that either the processing industry or the new retail stores will penetrate deep into the countryside to procure basic agricultural materials. I think we are exaggerating the beneficial effects of large retail stores in the matter of marketing of agricultural produce.

There is a very good example of how organised purchase and subsequent processing of produce can benefit farmers and that is the example of Amul. The genius of Dr. Verghese Kurien was that he guaranteed a market for milk produced in Kheda District by purchasing directly from the farmer and making payment at the time of purchase. This created a demand for milk which, in turn, induced farmers to produce more. At the marketing end Amul’s milk and milk produce were made available throughout India and, therefore, from producer to consumer a regular chain was created. This model has been replicated throughout India and today India is the largest producer of milk in the world. The model is totally indigenous and concentrates on a single item, milk. If we really want to benefit the

farmer it is not Tesco and jargon such as investment in back end assets which will work. On this very fundamental issue there is absolutely no thinking in Government and the Planning Commission, almost as if we have turned away from rural India.

Sixty percent of all the land in India is arable and, therefore, land as the resource and agriculture as the means for providing employment will and must continue to play a paramount role. Much of our agricultural land is inaccessible because the road system even today is rudimentary. Irrigation facilities are inadequately developed, power is in short supply and is erratic when available. Extension services do not reach down to the last farmer because they are very thin on the ground and technical advice is just not available to the majority of farmers. In terms of research and development no doubt universities such as the Punjab Agriculture University have done very good work, but there is still no clear direction of research and there is no holistic view of how the fruits of research will reach the last farmer. In fact there is no holistic view of agriculture at all, there is no national land use policy, no national water use policy and no broad overview of farm production and its linkage with the market, no national policy on backward flow of service to agriculture in terms of finance, technology, organisations of farmers for cooperative effort, in fact nothing which can tell us what precisely the farmer can expect from government and what government can do for the farmers.

The non food aspect of foreign investment in retail will, despite government's pronouncements definitely favour China which has a developed a large manufacturing base. Our enforcement of laws and rules is notoriously weak and, therefore, the likelihood is that the foreign retailer will source manufactured goods from wherever he can get them cheap, which almost automatically means China. The small grocery store may still survive because of the nature of trade in India. Whether the industry which deals in fast moving consumer goods will survive a Chinese onslaught is a matter of some doubt. Government would be well advised to take all these issues into consideration before jumping feet first into what appears to be an inviting swimming pool of foreign direct investment in retail, but which may well be a disguised quicksand.
