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ENVIRONMENT

Protecting the Himalayas

The ministerial declaration issued by India, Bhutan, Nepal, and Bangladesh addressing food, water, energy, and biodiversity concerns in the Himalayan region is a welcome initiative to protect this biodiversity-rich mountain range. The vast area faces a variety of problems that directly affect the local communities, and threaten ecosystem services provided to millions of people in neighbouring countries. Some of the serious issues that need urgent attention are accelerated forest loss, soil erosion, resource degradation, and loss of habitat and biodiversity. Climate change is a major source of worry, and needs intensive study because of its potential for severe ecological damage. It is a step forward therefore that four countries in the subcontinent convened the Climate Summit for a Living Himalayas in Bhutan and evolved a consensus-based mitigation effort primarily for the eastern part. The task before the signatories is to build institutions that will pursue research and share knowledge, beginning with a centre for the study of climate change. Sustained effort is necessary to achieve the key goals: access to reliable and affordable energy; food and water security; demarcation of connected conservation spaces; and sustainable use of biodiversity for poverty alleviation.

The Himalayan region includes many climatic systems: tropical, subtropical, temperate, and alpine. Thanks to sheer inaccessibility, this remote and difficult landscape has mostly escaped the ill-effects of the industrial farming system, such as pesticide and insecticide use and the introduction of hybrid or transgenic crops. Himalayan biodiversity

provides a resource base for an estimated 80 million people, mostly subsistence farmers and pastoral communities. The challenge is to provide strong support systems to help them adapt to climate change. And yet data that can aid conservation of biodiversity are far from comprehensive. India, for instance, acknowledged at the summit that an inventory of the Eastern Himalayas, the target region for protection, at the level of genes, species, ecosystem, and landscape is yet to be completed. This task can brook no delay. The Himalayas form part of global natural heritage, and the U.N. Framework Convention on Climate Change must provide substantial funding for research, capacity-building, and preservation. It is also important to harness traditional knowledge and get local communities to participate in conservation programmes. A good example of this is the protection plan for snow leopards in India's Spiti valley. The Himalaya protection programme can achieve even more, if Pakistan, China, and Afghanistan join the initiative.

FOREIGN DIRECT INVESTMENT

Opportunism knocks

Giving the green signal to multibrand retail FDI is the government's first big-ticket reform initiative in a long time. When implemented, it could transform India's chaotic and predominantly unorganised retail sector while hugely benefiting agriculture as well as the inflation-hit consumer.

Yet, instead of discussing if not welcoming the step, parties even outside the staunchly anti-reform Left brigade have ganged up to disrupt [Parliament](#). The JD(U)'s gone so far as to say the [UPA](#) can kiss the winter session goodbye unless it backtracks. While it favours an all-party meeting on the issue, the government would do well to stand firm. [Opposition](#) outfits cite the FDI-friendly move as "anti-people" to justify their non-cooperation. That's a fig leaf for opposition for opposition's sake - at taxpayer cost.

If opposition parties had genuine concerns about retail liberalisation, they would have sought a debate. By jamming legislative functioning instead, even those claiming pro-reforms credentials like the BJP or TDP seem motivated by rank opportunism. As for UPA partners like the overtly populist Trinamool or scam-tainted DMK, they've anyway been functioning as ally and opposition as and when it [suits](#) them. Incredibly, all these parties protest price rise and profess to champion farmers. Had they meant it, they'd see virtue in reform.

We need investments to remove supply side constraints that give inflation its pernicious structural nature. Global retailers' entry means

capital to build farm-to-fork infrastructure like integrated storage, cold chain and transport links. Technological upgrade will modernise the underdeveloped farm sector, whose productivity must match rising food needs.

With unmediated access to big buyers, farmers' incomes will rise even as lower prices benefit consumers. Contrary to opposition propaganda about job loss, a boosted industry-agriculture interface will create much-needed employment. And if Indian retail behemoths couldn't wipe out kirana stores known for personalised service, why assume global players can?

None of this will convince votaries of cocoon-building protectionism in the opposition benches. But that reasonable leaders like [Arun Jaitley](#) should also bash the policy gives the main opposition party's game away. BJP-led obstructionism has already blockaded major initiatives like GST.

Multibrand retail FDI could now face roadblocks in 28 of the 53 cities where it's to launch. Worryingly, foreign investors are already spooked by signs of incipient stagflation in India. And domestic firms are fleeing our increasingly unpropitious investment climate, taking Rs 3 lakh crore overseas in just the last 18 months. In this backdrop, the opposition's opportunistic cussedness on full display sends a terrible signal. If our political class is [bent](#) on killing off India's growth story, why expect investors to have faith in it?

HINDUSTAN TIMES 30.11.11 FOREIGN DIRECT INVESTMENT

Under 3 promises, 2 politics & 1 policy of FDI in retail

Gautam Chikermane

The full-page advertisements in the papers on Sunday justifying the government's well-conceived but badly-timed opening up of retail to foreign direct investment on Thursday has three promises for the rest of us - farmers will get higher prices for their produce, consumers will pay lower prices to buy those products, and workers will benefit from more jobs. If all three play out as planned in the spreadsheets of Udyog Bhawan that houses the ministry of commerce, all will be well. But past experience doesn't offer much scope for optimism.

Take farmers. Are they getting a better remuneration for their crop because of organised retailers already in the market? No. And there are two points that policymakers need to address urgently. One, none of the organised retailers have bothered to go beyond a 100 km radius of Delhi and Mumbai. Within that radius too, it is the tyranny of the mandi middlemen that works.

In the hills of Uttarakhand, for instance, I have seen farmers leave their peaches on the road to be picked up by the aadtis (mandi middlemen) at their convenience. In the absence of the farmer, the aadti decides how good the peach is (larger peaches fetch more) and what price to pay the farmer. In an unacceptable power asymmetry, the farmer has no negotiating power - he can either take it or let it rot. The real reform to benefit the farmer lies in the dismantling of the present opaque aadti-

based, aadti-run system and replacing it with another that's transparent and genuinely in farmers' interest, not merely political talk.

As a consumer in Delhi, I have bitten into those sweet peaches of Uttarakhand and benefited from prices that are lower than the corner shop or the vendor outside my gate. But here's the difference. When I pay Rs 60 for a kg of peaches, the going rate in the Haldwani mandi is Rs 19 a kg. Remove all expenses of transport, packaging and commission, the farmer gets Rs 11 a kg, if lucky. Which means the farmer pays Rs 42 for every Rs 100 worth of his peaches to reach Haldwani, a price that's beyond the justification of any economics. To put it in perspective, as consumers, we pay 5.5 times what the farmer gets to eat that peach.

On the jobs front, 10 million jobs through retail is a possibility. The question is what sort of jobs. As you walk the streets of Sitla in Uttarakhand, you will see many boys of farmer families not working on their farms but building houses or roads. The NREGA has raised rural wages that is giving farmers an option beyond their farms or to the landless the choice of growing infrastructure rather than crops.

On the non-agricultural front, the argument is the entry of Wal-Mart or a Carrefour will create more businesses and hence jobs. Before we jump to a conclusion either way, two questions. One, how will the government ensure that sourcing is done from small and medium enterprises (SMEs)? And two, how will it ensure that the SMEs are not a front for a larger enterprise?

Around these three promises, there are two politics playing out. The first is from three powerful women leaders. "Some people might support 51% FDI in retail but I do not support it," Congress ally, West Bengal chief minister and Trinamool Congress leader Mamata Banerjee said.

"MNCs will monopolise market, exploit farmers and consumers...40 million people will be uprooted and thrown out of business," Tamil

Nadu chief minister and AIADMK chief J Jayalithaa said. "As the move (to allow FDI in retail) is aimed at benefiting Rahul Gandhi's foreign cronies, any reluctance on UPA's part to roll back the proposal would only strengthen my resolve to take some tough decisions," Uttar Pradesh (UP) chief minister and Bahujan Samajh Party (BSP) chief Mayawati said. These are important as they hold the key that will unlock the door to companies setting up businesses in these three important states. If they say 'no', that's the end of all reforms.

The second politics is at the Centre. Here, the oppositions are two. One, the issue. "We continue to oppose FDI in retail, it will badly affect agriculture," Communist Party of India (Marxist) leader Sitaram Yechury said. "Two Standing Committees have given reports against the FDI in retail sector. But still the government went ahead with FDI. It must be withdrawn," BJP leader SS Ahluwalia said. These must be debated, though I feel with more than 10 years of discussions behind us, it's time to take a decision. The discussion now should move towards execution of policy through strong governance.

And two - ironically one where greater noise is being generated - timing. Or why the issue was not discussed in Parliament. "It (opening FDI in retail) is contempt of the House. They should have discussed this issue in Parliament and taken a decision in accordance with the sense of the House," Leader of the Opposition in Lok Sabha Sushma Swaraj said. "When Parliament is in session, why was this decision taken," Yechury said.

Finally, it would do us good to know that organised retail is an inevitable part of economic development. But what I like about the policy is that the government has looked beyond merely the management of big corporate money while designing this reform. From banking and insurance to airlines and telecom, all discussion around economic reforms has so far has pivoted around increasing FDI, period. For the first time, the government has put conditions that attempt to look

beyond shareholding and direct attention to issues such as catalysing half the investment in infrastructure or sourcing 30% of the produce from SMEs. Whether this works out or not is secondary - politics and governance will decide the success of these moves - but a start has been made and it's one in the right direction.

Wholesale sell-out

Sitaram Yechury

The current impasse in Parliament has created a logjam that threatens to disrupt the proceedings of the winter session. The latest reason that has brought the situation to such a pass is the decision of the Union cabinet to permit foreign direct investment (FDI) in the multi-brand retail sector, opening the way for international supermarket giants like Wal-Mart, Carrefour and Tesco to open their shops in India.

While the Cabinet does have the right to take executive decisions, it's unprecedented that such decisions are taken and announced when Parliament is in session. This runs contrary to the spirit of parliamentary democracy and our constitutional scheme of things. It is, therefore, not unreasonable that parliamentarians, cutting across political parties, have demanded that this decision ought to have been taken after the issue was discussed by both the Houses. Once the decision has been taken, any discussion on the issue is simply infructuous. Unless, of course, the government is willing to reverse its decision and allow a meaningful discussion in Parliament to determine what decision India must take on this score. This is precisely what all the opposition parties, and some important allies of the government in the UPA, are demanding today.

Thus, whether this winter session can be salvaged, or, whether it would be allowed to be wasted, depends crucially on the willingness of the government to accede to such a reasonable demand. This session had, on its agenda, the passage of important legislations, including the Lokpal

Bill. It's learnt that the Parliamentary Standing Committee examining the draft Lokpal Bill has completed its deliberations to recommend its suggestions to the Parliament. Whether this Bill will see the light of day in this session, as promised by the government and by a unanimous resolution of both the Houses to this effect will, thus, crucially depend on the government's response on reversing the Cabinet's decision on permitting FDI in the retail sector.

If this doesn't happen, then serious and legitimate doubts over the UPA's intentions arise. Such a disruption of the session would permit the government to conveniently avoid getting both embarrassed and cornered on issues of price rise, corruption and black money, apart from the contentious issues involved in the Lokpal Bill. Recollect that in the last two decades, the Lokpal Bill was brought before the Parliament on more than one occasion, but it never saw the light of day due to, among other reasons, a disagreement on whether the prime minister must be included in its ambit. The disruption of parliamentary proceedings in this session can well allow such procrastination to continue, denying India an effective institution of a lokpal.

The ball, thus, is in the government's court. If it's committed to the welfare of the aam aadmi, it must break this logjam by reversing the Cabinet decision on FDI, discuss the matter in the Parliament and take a decision in accordance with the sense of the House. This would also allow Parliament to discuss and make the UPA take the required decisions on other important issues.

The opposition to allowing FDI in the retail sector began from the moment such a proposal was first announced in the 2004-05 budget speech. Given the firm opposition by the Left parties, whose support was crucial for the then UPA government, this was shelved. Subsequently, on January 11, 2011, the president of the Congress and chairperson of the UPA wrote to the prime minister urging him to take a hard look at the impact that the entry of foreign players would have on small-scale

stores and on the livelihood security of small-scale operators before taking any decision.

Opposing such a proposal, the Left parties, in a note to the then UPA-Left Coordination Committee, in October 2005, highlighted the fact that retail trade, on the basis of a conservative estimate, contributes around 11% to India's GDP and had then employed over 40 million people. According to the Fourth Economic Census, 1998, retail trade accounted for 42.5% of the total non-agricultural own account enterprises in rural areas and 50.5% in the urban areas. This translates into 38.2% in rural and 46.4% in urban employment in such own account enterprises. Therefore, crores of Indians are today dependent upon retail trade for their livelihood. Undermining this by permitting the entry of multinational giants will only push millions into poverty and misery. This will add to the woes of the 'real India' where over 80 crore people eke out an existence on less than Rs 20 a day.

Substantial issues can be discussed in the Parliament if the UPA decides to create conditions for such a discussion. It is clear that permitting FDI in the retail sector may well provide new avenues for profits for the beleaguered international capital in today's global double dip recession. Maybe, such were the assurances that Prime Minister Manmohan Singh gave President Barack Obama when he met him recently. This, however, can only happen at grave expense to the Indian people and it will damage the health of our economic fundamentals too.

Rather than adhering to some false notions of prestige, there is nothing lost if the government were to reverse its decision and allow a proper discussion and the rest of the winter session to function in order to discharge its duty in legislating on the crucial issues discussed here.

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The views expressed by the author are personal

The retail counter-revolution

C. P. Chandrasekhar

AP The players displaced would consist of not only smaller retailers but also medium and large wholesale dealers who would be rendered irrelevant by the ability of large conglomerates to contract with and procure directly from producers. File photo

With deep pockets and international sourcing capabilities, global retail chains will outcompete domestic players, displace jobs, and undermine livelihoods.

In predictable fashion, the Manmohan Singh government chose to ignore voices of opposition and implement its agenda of permitting foreign investment in the retail trade. While Parliament was in session, the Cabinet met to approve the hitherto prohibited foreign direct investment in multi-brand retail, with a cap of 51 per cent on foreign equity that ensures majority ownership. Simultaneously, the cap on foreign equity investment in single-brand retail has been enhanced to 100 per cent, offering sole ownership rights to foreign investors.

Large international retailers are bound to use the opportunity to get a share of the large Indian market. Foreign sales have been an important source of revenue for many of them amounting in 2007 to as much as 74 per cent in the case of Ahold of Netherlands, 52 per cent for Carrefour of France, 53 per cent for Metro of Germany, 22 per cent for Tesco of the United Kingdom and 20 per cent for Walmart of the United States. Walmart's 20 per cent too has to be seen in context: with \$379 billion of revenues in 2007, it stood way ahead of Carrefour, which came in second with \$123 billion in the global league table for revenues.

Power of the chains

The power of these chains has been amply illustrated in other contexts, where they have been in operation. With deep pockets and international sourcing capabilities, they exploit economies in procurement, storage and distribution to outcompete and displace domestic intermediaries in the supply chain. This occurs not in one or a few centres, since each retail chain tends to establish procurement, warehousing and distribution facilities across regions and cities. Once the smaller middlemen are displaced, we have a few large firms and their agents dealing with a multitude of small, medium and relatively large producers on the one side, and a mass of consumers, on the other.

The relationship with producers is that of an “oligoposony,” with a few buyers and a large number of sellers. With consumers, it is one of an “oligopoly” with few sellers and a large number of buyers. Structurally, this provides the basis for an increase in margins at the expense of prices paid to producers or charged to consumers. The new “middlemen” appropriate these higher margins. That a part of the margin may be shared with the producer or consumer to increase retail volumes and market shares does not take away from the fact that the distribution of power within the supply chain benefits the large intermediary. In the medium term, it is the dominant position of these large players that would influence the size and direction of margins.

Thus, on the production side, the danger is that the prices paid to and returns earned by small suppliers, especially in agriculture, would be depressed because a few oligopolistic buyers dominate the retail trade. Given the precarious viability of crop production even at present, that shift could severely damage livelihoods. On the other hand, once the retail trade is concentrated in a few firms, retail margins themselves could rise, with implications for prices paid by the consumer, especially in years when domestic supply falls short.

Within the supply chain itself, it is to be expected that the players displaced would consist of not only smaller retailers, stretching from *kirana* stores to street vendors, but also medium and large wholesale dealers who would be rendered irrelevant by the ability of large conglomerates to contract with and procure directly from producers. The immediate and direct effect would be a substantial loss of employment in the small and unorganised retail trade as well as in segments of the wholesale trade displaced by the big retail chains.

The potential significance of this impact can be judged from the role of the retail and wholesale trade in generating employment in the country. According to the National Sample Survey Office's survey of employment and unemployment in 2009-10, the service sector category that includes the wholesale and retail trade (besides the much smaller repair of motor vehicles, motorcycles and personal and household goods) provided jobs for 44 million in the total workforce of 459 million.

It is no doubt true that the impact of foreign-invested retail would be restricted to the urban areas since entry as of now is permitted only in cities with a population of more than one million. But this is where the employment in trade would be the highest. Twenty-six million out of the 44 million employed in the sector are located in urban areas. Many of these workers find themselves in the services sector (especially in the retail trade) because of inadequate employment opportunities in agriculture and manufacturing. Out of 71 million jobs in services in the urban areas, around 36 per cent are in the retail and wholesale trade and repair services. In sum, from an employment point of view this is a sector that is central to livelihoods, however precarious some of those jobs can be. It is a poor substitute for the missing social security programme.

Questionable claims

The government's claims that the entry of large retail led by transnational firms would not make a difference to net employment and would, in fact, augment it substantially are questionable. They exaggerate the direct and indirect employment that large retail would create and ignore the number of jobs they would displace. The requirement that the foreign investor should bring in a minimum investment of \$100 million implies that the FDI being sought is in units that are more technology- and less labour-intensive. On the other hand, the attempt to temper the adverse impact on employment by restricting entry to cities with populations exceeding one million is without substance. It does not change the source of the competition (giants like Walmart, Carrefour, Tesco and Metro) nor the locations in which such competition is most likely to be faced.

Yet, the Commerce Minister's claim is that the policy has a “unique Indian imprint” that would make its impact here very different. This is a poor effort to obfuscate issues. Consider one aspect of the unique imprint: the requirement that 30 per cent of manufactured or processed products sold should be sourced from small and medium enterprises. This requirement based on a process of self-certification that is to be monitored would be difficult to implement even in India. But it becomes meaningless because it applies to such producers from anywhere in the world. As a briefing paper from the Commerce Ministry notes, in order to ensure that there is no violation of World Trade Organisation norms, “30 per cent sourcing is to be done from micro and small enterprises which can be done from anywhere in the world and is not India specific.” This would be impossible to implement and will only encourage international sourcing at the expense of domestic producers.

Rushed decision

In sum, there is little to justify the rushed decision to open up to FDI in retail. As of now the retail chain works well, there are no noticeable shortages, and a large and diverse country is well serviced. None but the

government argues that FDI in retail is a remedy for the relentless inflation the country faces. The weak segment of the supply chain is the public distribution system created to ensure remunerative prices for farmers and reasonable prices for consumers. That and productivity enhancing public investment are what need the government's attention.

Not surprisingly, the decision to permit FDI in multi-brand retail has not been received well domestically. An Opposition, which was already engaged in highlighting the failure of the government to rein in inflation, corruption and the generation of black money, has responded with anger. Parliament remains stalled and non-functional, keeping in suspension other important issues and bills that need to be debated. Some allies of the Congress in the UPA have also had to express their opposition to the move.

Whether those deciding the economic policy of the UPA would budge and retract is yet to be seen. Given the on-going debate on the subject, the government must have anticipated opposition to its executive decision. But it possibly presumed that it can hold its position and win out at the end. The tussle is, therefore, likely to be long and socially wasteful.

(C.P. Chandrasekhar is Professor of Economics at Jawaharlal Nehru University, New Delhi.)

WHO GAINS FROM FDI IN RETAIL?

Sukhpal Singh

ONE of the conditions for 51% FDI in multi-brand retail proposed is that the players will source at least 60% of their farm produce requirements from small farmers. A small farmer is defined as one with up to 10 hectares. It is important to understand implications of FDI in food retail for various stakeholders.

The more important questions to be asked on the issue of FDI in retail are: Does it really help farmers or small farmers? Does it improve efficiency of food supply chains and help lower food inflation which India is grappling with? And of course, how does it impact traditional food retailers' livelihood?

Small farmers may not gain

The operations of domestic fresh food supermarkets in India have not made any difference to the producer's share in the consumer's rupee so far (one of the arguments of the DIPP discussion paper for permitting FDI in retail) other than lowering the cost of marketing of the producers as supermarkets have collection centres in producing areas unlike the Agricultural Produce Market Committee (APMC) markets (mandis) which are in distant cities.

But these supermarkets will buy only 'A' grade produce, that too on open market-based prices, and only a part of the output of farmers, who end up going to an APMC mandi to dispose of the remaining/rejected produce. The chains procure from "contact" farmers without any commitment to buy regularly as they do not want to share the risk of growers. Thus, the involvement of supermarket chains with producers is

low and there is no delivery of supply chain efficiency as many of them have already wound up e.g in Gujarat.

Supermarkets and malpractices

Though the move to open up Indian markets to foreign retailers is meant to benefit small farmers, the condition of having 10 hectares of land will leave most of them out. There are other problems too:

- Domestic supermarket performance so far does not give any hope that FDI-driven supermarkets will be any different in terms of benefits to small farmers
- Buying and selling power of supermarkets due to market concentration will come in the way of benefits to farmers and consumers.
- Traditional retailers will suffer a loss of livelihood due to competition from supermarkets
- Many malpractices by supermarkets will not let farmers benefit

- Supermarkets do not lead to lower food prices if we see global evidence.

Key policy initiatives

Until now only 51% FDI in single-brand retail and 100% FDI in wholesale cash and carry trade was allowed. The paper put up by the Department of Industrial Policy and Promotion (DIPP) for public discussion and comments in mid-2010 and the 2010-11 Economic Survey had argued for FDI in food retail trade in India. In mid-2011 an inter-ministerial group also recommended FDI in retail to control food inflation. The following policy initiatives can be taken to safeguard the interests of local stake-holders:

- Slow down food supermarket expansion through mechanisms like zoning, business licences and trading restrictions.
- Strengthen competition laws and regulation of supermarkets
- Give legal protection to farmers and suppliers as is

The noise about benefits to small-holders in high-value crops (read fruits and vegetables) due to supermarket linkages is exaggerated as these crops account for only 2% of the gross cropped area, and the direct linkage is either absent or pretty weak. This is not likely to change even with FDI in retail.

Further, due to the sheer size and buying power of foreign supermarkets, the producer prices may be depressed. In the UK there was a negative relation between the relative market share of a supermarket and the price paid to the suppliers in relation to the average price. The UK supermarket chain Tesco paid its suppliers 4% below the average price paid by retailers.

There have been a large number of supermarket malpractices across the globe which include payments to be on the supplier list (listing fees), threats of delisting if the supplier price is not low enough, payments and discounts from suppliers for promoting/opening 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 the supplier has no alternative, changing quantity/quality

- done in Japan
- Permit only formal contract farming, not ‘contact’ farming
- Set up an independent retail commission to supervise and regulate supermarkets to protect interests of suppliers, consumers and labour and support to local retailers and farmers
- Establish multi-stakeholder initiatives in food value chains and provide support to small producers and traditional food retailers.
- Producers’ organisations and the NGOs need to monitor and negotiate more equitable supply contracts with the supermarkets.
- Government should encourage producer companies and farmers’ co-operatives for collective bargaining with supermarkets

standards without notice, just-in-time systems to avoid storage/inventory costs, removing suppliers from the list without good reason, charging high interest on credit, using tough contracts and penalties for any failure to supply.

If it is not misreported, the limit of 10 hectares is laughable as there are hardly 1% farmers who have more than 10 hectares of land. Thus, putting this condition is no good as it is too broad and covers 99% of farmers and, therefore, does not differentiate among farmers at all. Even if it is assumed that it is 10 acres (4 hectares), it will be more than 94% of all farmers (2005-06). How does this conditionality help really small-holders in whose name the permission is being granted? The retail players may work with the top layer (5%) of these farmers and still meet the conditions.

Small retailers to be hit

The supermarket expansion also leads to employment loss in the value chain 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% reduction in the share of “mom and pop” stores in Thailand within four years of FDI permission. In India 33-60% of the traditional fruit and vegetable retailers reported 15-30% decline in footfalls, 10-30% decline in sales and 20-30% decline in incomes across the cities of Bangalore, Ahmedabad and Chandigarh, the largest impact being in Bangalore, which is one of the most supermarket penetrated cities in India.

Another proposed condition is that FDI in retail will be permitted in all cities with a population of more than one million. The question to be asked is: How many cities in India are really below one million

population and how long? 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.

Impact on food inflation

So far as the role of FDI-driven food supermarkets in containing food inflation is concerned, the evidence from Latin American (Mexico, Nicaragua, Argentina), African (Kenya, Madagascar) and Asian countries (Thailand, Vietnam, India) shows that the supermarket prices for fruits and vegetables and other basic foods were higher than those in traditional markets.

Also, the lower procurement prices through direct procurement from farmers need not lead to lower consumer prices in supermarket chains as procurement prices are more about the bargaining power of buyers and suppliers. Even if it is accepted that supermarkets are able to offer lower prices, the low-income households may face higher food prices because of reasons of distance from supermarkets, and higher prices charged by supermarkets in low-income 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 the 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.

Need for regulation

The biggest fear in India is not that FDI in retail per se is worse than domestic corporate investment for farmers or traditional retailers; it is

that there may not be adequate institutions and effective governance mechanisms to regulate and monitor operations of the global retailers.

If the monitoring of wholesale ‘cash n carry’ stores so far is anything to go by, there is no regulation and the norms are flouted openly at the store level by the existing players. They are found to do retail sales in the grab of wholesale as the size of a single purchase (minimum ticket size) was just Rs. 500 or Rs. 1,000 which does not seem to be governed by any regulation.

Given the global and Indian experience of supermarkets so far, it is important to slow down food supermarket expansion by mechanisms like zoning, business licences and trading restrictions. Further, there is need to limit buying power of the supermarkets by strengthening the competition laws like the legal protection given to subcontracting industries in Japan in their relations with large firms. These provisions are monitored by the Fair Trade Commission. If contract or “contact” 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.

Also, provisions for legally binding and clearly worded rules for a fair treatment of suppliers and an independent authority like a retail commission to supervise and regulate supermarkets are required. This authority should ban the buying of products below cost and selling below cost, improve local traditional markets for small growers, delay 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 NGOs need to monitor and negotiate more equitable contracts with supermarkets. The government should play an enabling role through legal provisions and institutional mechanisms like helping farmer co-operatives, producer companies and producer groups

to facilitate the smooth functioning of supermarket linkages and avoid ill-effects.

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POLITICS AND GOVERNMENT

Why India needs democracy

Markandey Katju

What is our national aim? To my mind, our national aim must be to make India a highly prosperous country for its citizens, and for that it is necessary to have a high degree of industrialization.

Even setting up and running a single [primary school](#) requires a lot of money, e.g. for buying land, erecting the school building and providing for the recurrent expenditure for salaries of teachers, staff, etc. We have to set up in our country not just one primary school, but hundreds of thousands of primary schools, tens of thousands of high schools and colleges and engineering colleges, technical institutes, medical colleges, scientific research centres, hospitals, libraries etc.

Where is the money for all these to come from? Money does not fall from the sky. It can only come from a highly developed industry, and it is [industrialization](#) alone which can generate the wealth we need for the welfare of our people.

Today India is a poor country. Nobody respects the poor. It is for this reason that we do not have much respect in the world community (whatever we may think of ourselves). One proof of this is that we are not given a permanent seat in the U.N. Security Council, although we have a population of 1200 million, whereas Britain and France with populations of 60 million each have permanent seats.

It is industrialization alone which can abolish poverty and [unemployment](#), which are the main causes of crime and terrorism, and

get us respect in the world community. Also, when there is rapid industrialization, which should be our national target, millions of jobs will be created which will solve the problem of unemployment.

For industrialization, development of science is absolutely necessary, and for that freedom is also absolutely necessary, freedom to think, freedom to write, freedom to discuss with others, freedom to explain, freedom to criticize and freedom to dissent.

The growth of science requires certain supportive values, particularly liberty. This is because the thought process cannot develop without freedom. The values of a scientific community viz., pluralism, tolerance, individual freedom and free flow of information are very similar to the values of a democratic society (see 'Science and the Making of the Modern World' by John Marks).

A democratic society permits freedom of speech and expression, freedom to practice one's own religion, which is based on tolerance, and freedom to dissent and criticize. These are precisely the values of a scientific community. In other words, in scientific matters authoritarianism and dogmatism are wholly out of place. Scientists must be largely left free to govern themselves, and have large amount of freedom which is necessary for innovation and creativity. Hence, [democracy](#) and liberty go hand in hand with the growth of science because both are based on tolerance, individual freedom and free flow of ideas. In democracy, as in a scientific community, there is freedom to speak, freedom to discuss, freedom to criticize and freedom to dissent.

Justice Louis D. Brandeis, of the U.S. Supreme Court in *Whitney vs. California* 274 U.S. 357, writing in 1927 observed:

"Those who won our independence believed that the final end of the State was to make men free to develop their faculties; and that in its government the deliberative forces should prevail over the arbitrary.

They valued liberty both as an end and as a means. They believed liberty to be the secret of happiness and courage to be the secret of liberty. They believed that freedom to think as you will and to speak as you think are means indispensable to the discovery and spread of political truth; that without free speech and assembly discussion would be futile; that with them, discussion affords ordinarily adequate protection against the dissemination of noxious doctrine; that the greatest menace to freedom is an inert people; that public discussion is a political duty; and that this should be a fundamental principle of the American government. They recognized the risks to which all human institutions are subject. But they knew that order cannot be secured merely through fear of punishment for its infraction; that it is hazardous to discourage thought, hope and imagination; that fear breeds repression; that repression breeds hate; that hate menaces stable government; that the path of safety lies in the opportunity to discuss freely supposed grievances and proposed remedies; and that the fitting remedy for evil counsels is good ones. Believing in the power of reason as applied through public discussion, they eschewed silence coerced by law - the argument of force in its worst form. Recognizing the occasional tyrannies of governing majorities, they amended the Constitution so that free speech and assembly should be guaranteed".

Similarly, [Justice William O. Douglas](#) in *Terminiello vs. Chicago* 337 US 1 (1949) observed: "...[A] function of free speech under our system of government is to invite dispute. It may indeed best serve its high purpose when it induces a condition of unrest, creates dissatisfaction with conditions as they are, or even stirs people to anger. Speech is often provocative and challenging. It may strike at prejudices and preconceptions and have profound unsettling effects as it presses for acceptance of an idea. That is why freedom of speech, though not absolute, is nevertheless protected against censorship or punishment, unless shown likely to produce a clear and present danger of a serious substantive evil that rises far above public inconvenience, annoyance or unrest... There is no room under our Constitution for a more restrictive

view. For the alternative would lead to standardization of ideas either by legislatures, courts, or dominant political or community groups".

In our own country, in ancient times the method of Shastrarthas had been developed. These were debates in which the thinkers of those times had full freedom to speak and to criticize their opponents in the opponent's presence, and also in the presence of a large assembly of people. There are hundreds of references to such Shastrarthas in our epics and other literature. It was this freedom to freely discuss and criticize in ancient India which resulted in tremendous growth of knowledge even in such ancient times, including not only in philosophy, grammar law, etc. but also scientific knowledge, e.g. mathematics, astronomy, medicines, etc. The names of Aryabhatt, Brahmagupta, Bhaskar, Sushrut and Charak are known to all. With the aid of science we had built mighty civilizations e.g. the Indus Valley Civilization when people in Europe were living in forests.

In this connection, we may also mention about modern European history. England was the first country in the world to industrialize and modernize. This economic process was accompanied with the political struggle for liberty and democracy in the 17th and 18th centuries, which was particularly a struggle between the King and Parliament. As we all know, Parliament won, and this laid the foundation of freedom and civil liberties in England, which was necessary to create the atmosphere which science requires to prosper.

Similarly, in France, before the French Revolution of 1789, the thinkers of the Enlightenment --- Rousseau, Voltaire, Diderot, Holbach, etc. who attacked feudalism and religious dogmatism paved the way for the Revolution of 1789 which destroyed feudalism, and led to scientific progress. On the other hand, in Italy, Spain and some other countries the Inquisition stifled free thinking and thereby scientific growth. All scientific ideas which were not consistent with the Bible were regarded as crimes e.g. the theory of Copernicus which stated that the earth

moved around the sun and not the sun around the earth. As a result, these countries were left far behind England and France, and remained in the feudal dark ages for centuries.

The struggle to establish the scientific outlook was not an easy one. Scientific ideas initially were condemned because they were regarded as opposed to religious dogma. Voltaire and Rousseau had to fly for their lives to other countries. The Church persecuted the greatest scientists with blind cruelty, burning them at the stake (e.g. Bruno), torturing them (e.g. Galileo), and forbidding or destroying their works. As recently as in 1925 the teaching of Darwin's theory of evolution was forbidden in the state of [Tennessee](#) in U.S.A., and a teacher John Scopes was tried in the famous 'Monkey Trial' for teaching that theory. For centuries the Church in Europe played an extremely reactionary role and fought pitilessly against the scientific conception of the world, and against the democratic movements. In India, if we are to progress and rise as a world power, we have to spread the scientific outlook to every nook and corner in our country, and destroy superstitions, e.g. the belief in astrology and palmistry, and the feudal ideas of casteism and communalism.

Science is that knowledge by which we can understand nature (and human society) and use this knowledge for our benefit. For doing so, the scientists rely on reason, observation and experiment. This obviously cannot be done on the dictates of anyone (though the government can certainly create the atmosphere where these can flourish). Science and democratic values go hand in hand.

In science, there is no final word, unlike in religion. Science questions everything and does not take anything for granted. Obviously, this approach is not permitted in an undemocratic society, e.g. feudal society (which is governed by religion) or fascist society (in which there is a dictator). Thus, [Hitler](#), with his Nazi racial philosophy, caused an enormous setback to science in Germany by persecuting Jewish scientists and banning their works (e.g. Einstein).

Indeed, in India, after the Constitution was adopted in 1950, there was an atmosphere of liberal freedom in view of the fundamental rights guaranteed by the Constitution e.g. the right to free speech (Article 19), liberty (Article 21), equality (Articles 14 to 17), religious freedom (Article 25), etc. This helped growth of science and technology in our country, because it created an atmosphere of freedom where people including the scientists, could freely discuss and dissent. If we compare our country with the neighbouring countries, there were no such freedoms in those countries and hence those countries lagged far behind in economic growth.

Apart from the above, the advanced sections of society who want to take the country forward, and have the knowledge to do so, must have a lot of freedom to discuss, debate and criticize each other. They are the pioneers and are often entering into a new field, much of which is unknown. Hence, they must have freedom to think, discuss and criticize.

As pointed out by [John Stuart Mill](#) in his celebrated essay 'On Liberty', all progress, advancement of knowledge and progressive change and improvement of old ways of thinking, and the consequent old behaviour-patterns, habits, customs and traditions can come about only from free individual dissents and dissensions, innovations, etc. which are at first usually resisted by inert or conservative people (who are usually the vast majority), and by a free competition between the old and new ideas. As pointed out by Mill, in any society ordinarily the majority shares old thoughts and traditions, and there is a strong tendency to insist on conformity and collective unity or solidarity, to repress dissents and innovations, and to tolerate only what the majority agree with. This inevitably works to prevent any progress and to thwart the creative impulses of the more creative and original minds. Extensive freedom to dissent and innovate, in all spheres of life, activity, culture and thought in all directions, including expressing ideas initially thought strange and often disliked by the conservative tradition-bound majority are

indispensable for progress. The intellectually advanced and creative individuals are often in the minority, and are regarded as non-conforming eccentrics and deviants, and there is often a tendency to suppress them. This is why liberal democracy, i.e. majority rule but qualified and limited by firm protection of minorities, and individual rights and liberties, even as against the governing majority, is essential for progress. The majority often consists of mediocre persons who wish to continue in the old ways of thinking and practices. Hence the liberties and rights have to be guaranteed to the often powerless tiny minorities and lone individuals so that scientific progress can take place.

As Justice Oliver Wendell Holmes of the U.S. Supreme Court in his dissenting judgment in *Abrams vs. [United States](#)*, (1919) observed :
"...The best test of truth is the power of the thought to get itself accepted in the competition of the market..."

The importance of the judiciary in India in this connection must also be highlighted in this country. In this connection reference may be made to two decisions of the Supreme Court delivered by me viz., *Govt of A.P. and others vs. P. Laxmi Devi* [2008 (4) SCC 720, JT 2008 (2) 639 and *Deepak Bajaj vs. State of Maharashtra and others* [JT 2008 (11) SC 609]. In these cases, I emphasized the importance of liberty for progress, and have observed that the judiciary must act as guardians of the liberties of the people, protecting them against executive, or even legislative arbitrariness or despotism. I have also in my judgments spoken out against honour killing, fake encounters, dowry deaths, etc. India needs democracy and scientific knowledge, and that means patiently spreading scientific ideas amongst the vast masses, raising their cultural level and involving them actively in the task of nation building.

To my mind, harsh and draconian laws will curb liberty, and that will not only violate the right to liberty granted by Article 21 of the Constitution, but will also lead to great evils e.g. increase in corruption in the police and other law enforcing agencies, which will have much

more opportunities to extort money from the citizens, apart from impeding scientific and economic growth, which is vital for our country.

I have gone into some detail on this subject because I wished to clarify that I am a strong votary for liberty and have been misunderstood. However, liberty cannot be equated with licence to do anything one wishes. Should one be given the liberty to spread superstitions, to fan caste/or communal hatred, or put over emphasis on film stars, pop music, fashion parades and cricket in a poor country like ours? I think not. All freedoms are coupled with responsibilities, and no freedom is absolute. It is for this reason that I believe that while ordinarily issues relating to the media should be resolved by the democratic method of discussion and dialogue, in rare and exceptional cases (which may not be more than 5 per cent) harsh measures may be required, but that too not by the government but by any independent statutory authority e.g. the Lokpal.

(Justice Markandey Katju is the Chairman of Press Council of India)

'Nitish Kumar has to ensure a Bihari model of capitalism'

Shaibal Gupta and Monobina Gupta

*As the Nitish Kumar-led NDA government begins the second year of its second consecutive term in office, it's time to take stock of development successes and stumbling blocks in Bihar. **Shaibal Gupta**, member-secretary of the Asian Development Research Institute, Patna, collaborating with the International Growth Centre on Bihar's development programmes, spoke with **Monobina Gupta** about the government's performance so far - and what remains to be done:*

How has governance in Bihar changed from the times of Lalu Prasad?

Governance has been one of the principal priorities of the [Nitish Kumar](#) government. Historically afflicted with a governance deficit, Bihar was not only economically a laggard state but also known as a non-functioning, failed state. During Lalu Prasad's time, the subaltern did get a voice. This changed the state's power structure - but in the process, the ramshackle state nearly collapsed. Nitish Kumar not only resurrected the state structure and made it functional, he also brought substantial subaltern sections within the ambit of governance.

What about his performance in key areas like structural transformation and resource mobilisation?

India's structural transformation has been mainly in industrial and financial sectors. Since the former is practically absent in Bihar, industrial structural change does not arise. The financial sector's structural changes are driven by central policies, with hardly any state

government role. By increasing the tax-gross state domestic product ratio, the state government has improved its resource mobilisation. Additionally, adherence to fiscal responsibility and budget management norms led to better state finance management, corroborated by the higher share of development expenditure .

Is there greater investment in critical social sectors like health and education ?

Thanks to [the National](#) Rural Health Mission programme, Bihar's health infrastructure has expanded recently. But more importantly, close monitoring of the state health department ensured some accountability of health functionaries. Health service delivery has greatly improved. The state government has been most active in improving the state's elementary education system. There has been substantial expansion in the number of primary and upper primary schools alongside an enhanced number of teachers. For the first time in Bihar, the Gross Enrolment Ratio for children in the 6-14 age group stands close to 100.

How is the present Bihar model so different from [the rest](#) of the country?

Politically, the Bihar government is headed by a 'coalition of extremes' - but it is coherent and stable. This is possibly Nitish Kumar's biggest political achievement. One outcome has been ensuring people's faith in the state and assigning supremacy to development. For the sake of development, people are ready to ignore social cleavages for some time. Today, Bihar's major development pillars include prioritising agriculture, ensuring adequate educational and health services, improving the delivery systems of a large number of state programmes and ensuring connectivity to the market economy through roads and other linkages.

What challenges remain?

Besides ensuring economic resurgence, Bihar's development strategy should be inclusive. Nitish Kumar has succeeded in ensuring substantial public investment. His challenge now is to garner private investment. Authentic [indigenous](#) capital has to emerge to trigger growth. Nitish Kumar has to ensure a Bihari model of capitalism. Based on land management and associated reforms, the agricultural economy has to attain a high growth rate. Secondly, the education sector has to improve qualitatively for Bihar to become a knowledge hub.