

Retail FDI : The Last Nail in the Coffin

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Govt. of India has finally allowed Foreign Direct Investment (FDI) in Multi Brand Retail (MBR). The Indian Govt. does possess right to frame such trade policies but this particular trade policy decision does not auger well for the so-called largest democracy of the world. It is so because it seems at the outset that the decision to allow FDI in MBR lack sanction of the majority in the parliament.

Despite the fact that the Indian economy is now largely service driven, two third of its billion plus population still survives on farming.

The Mahatma's saying that India is a country of villages still holds ground. Even today, one can safely say that India is a country of small producers. Small-holder farmers comprise close to 80 per cent of the country's farmers. Amidst the robust growth rate of 6 to 8 percent India is home to one-fourth of the world's total of under-nourished people.

Moreover, the intensity of the hunger among those undernourished is also high. Child malnutrition is here the world's highest: one in four Indian children is seriously under-nourished. Anaemia affects more than half of the pre-school children and more than half of the pregnant women.

In such precarious condition, food security must be of highest priority and the task of feeding India reside with small farmers who produce 41 percent of the country's food-grains from only 33 percent of

the total cultivated land. Their productivity is somewhat higher than that of medium- and large-size farms.

Studies reveal negative impact of corporatization of agriculture on small farmers particularly with respect to market access and prices. A study of farmers in US finds that farmers suffered from severely depressed prices while the corporations booked high profits.

Another study of Mexico finds that small-scale producers generally have not benefited from the reconfiguration of food retailing supply networks.

The Indian experience of corporate procurement channels already indicates that corporations would deal with large and efficient growers rather than small ones. Studies reveal that the procurement practices of corporate retailers have threatened traditional wholesale markets and do not

include small and medium farmers.

It is believed that corporatization of agriculture could be much more devastating for small farmers of India as majority of them are already operating at the subsistence level. Along with small farmers agricultural labourers constitute the majority of India's population.

It also does not seem that the process of corporatization of agriculture will benefit agricultural labourers in India. A recent study confirms that Wal-Mart was reducing wages in agriculture in Mexico. With its all round impact on



employment and wages corporate retailers contribute to poverty in areas where they operate. A study of counties in the USA finds that family poverty increases in areas where Wal-Marts are located.

Another study by a UK team finds that the connection between agriculture and poverty alleviation is weakened as concentration of 'buyer-driven' supermarket chains rises. The requirements for 'entering' such a chain put small and marginal farmers in disadvantaged position and they lose out in the race.

Apprehensions have been expressed about the anti producer strategy of Supermarket chains as they try not to overlap the operating area and compelling farmers to sell at uncompetitive prices.

Recounting the experiences in Africa and Latin America, the study further states that for Cocoa farmers of Ghana the farm-gate price is just 3.9% of the retail price while the retail margin hovers around 34.1%, and for banana farmers of Latin America the figures are 5% and 34%.

In a study on E-choupal initiative by ITC Ltd and its long term prospect and dangers, it is suggested how strategic move and designs may dislodge 16 million small and marginal farmers from their distorted exploitative equilibrium without any alternative structure to support them.

No doubt, there is ample of scope to reduce the difference between farm-gate and retail prices. Models of marketing cooperatives like HOPCOMS may offer some solutions of the problem.

Prosperity to farmers and benefit of contract farming are almost taken as a priori assumptions without any substantial base. There are conflicting results on the efficacy of contract farming in the economic betterment of farmers.

In Punjab the state Government was forced to intervene at several times in the resolution of conflicts between farmers and contracting companies. In Maharashtra the exploitation of

grape farmers by the wineries owners hit the media headlines in 2009-10. The issue of direct marketing also needs further analysis and regulations. In Uttar Pradesh private companies including ITC purchased the wheat below the Minimum Support Price (MSP) in 2010.

No doubt, there is need to strengthen the wholesale markets governed by APMC Act to further make it in favour of farmers but attempts to replace the APMC markets with international and giant cartels look myopic so far containing inflation is concerned.

It is indeed an irony that state regulated democratic marketing bodies are termed as cartels and superstores are being projected as saviours. Superstores never provide farmers an open space to bargain for better returns of their produce as is available in APMC markets.

It is also to be noted that India is simultaneously negotiating free trade agreements at multiple levels to completely eliminate tariffs on processed food and all kinds of export restrictions including export taxes on agricultural raw materials.

Small farmers hardly benefit from export based policies. It is unfounded to think that small farmers would benefit from restructuring of the food supply chain given high agricultural subsidy in other parts of the world.

In fact, superstores and tariff free trade may put our small farmers to compete with industrialized world's heavily subsidized products such as dairy, poultry, coffee, fruits and vegetables.

India had already liberalized almost every sector to facilitate corporations in the food supply chain including wholesale cash-n-carry, export trade, warehousing, construction, real estate, agriculture, food processing, horticulture, cold chains, and food parks.

Allowing FDI in MBR may prove last nail in the coffin.

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