

To Checkout, Please!

The new propensity to consume and booming markets in India:
What can happen, if supermarket chains expand rapidly
after liberalization of the retail sector

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Summary*

In India, the IT revolution is set to be followed by a revolution in retailing. Since early 2000, the international retail conglomerates have set their sights on the Indian retail market. In 2005, the country, for the first time, reached top position in the ranking of the most attractive target markets.

The METRO Group had already recognised the potential of the Indian market earlier. It established itself with its Cash and Carry wholesale markets in 2003 as the first international retail corporation in the country. Following Britain's Spencer's and South Africa's Shoprite, Wal-Mart and Tesco are expected to enter the market in 2009. The Rewe Group is also eyeing the Indian market as part of its "vision for the future".

Huge Market Development Potential in Retail Food Trade

Food trade is by far the largest segment in the Indian retail market, with a share of 74 per cent. Food is almost exclusively sold in so-called "kiranas", small corner shops in India, and by street vendors. Only one per cent of food purchases are made in supermarkets. Thus, with a market development potential of 99 per cent, the food market is attracting the largest interest on the part of retail companies. The large supermarket chains are planning investments in the billions. Of this, 60 to 65 per cent are designated for the development of the delivery chain for food products.

Indian consumers devote around half of their expenditures to food purchases, of which 90 per cent are for non-processed products. This is one of the reasons why the development of supermarkets in India started with the sale of fresh fruit and vegetables.

* The complete report is available in German at www.oxfam.de. Original title: Zur Kasse bitte! Die neue Konsumfreudigkeit und boomende Märkte in Indien: Welche Folgen es haben kann, wenn Supermarktketten nach Liberalisierung des Einzelhandels rasch expandieren.

Target of the Big Supermarket Chains: The Indian Middle Class

The big supermarket chains and the retail sector place great hope in the development of a new, modern, Western-style consumer society. The primary focus of attention is the “middle class”, defined as having a real annual income of between 4,380 and 21,980 US dollars. In 2005, this “middle class” amounted to 13 million households, i.e. five per cent of the population. Its share of the population is predicted to grow to 41 per cent by 2025, amounting to 128 million households and 583 million people.

In the Sights of the European Union: The Indian Growth Market

The framework and pace of supermarket chains’ expansion of business in India are determined above all by Government regulations for foreign investors. The political room for action with respect to this expansion, that a government retains, is ultimately defined in trade and investment agreements. On April 23-24, 2007, during the German Presidency, the Council of the European Union gave the official starting signal for negotiations on a free trade agreement with India. India fulfils all key criteria: a market of substantial size, high growth rates, and significant trade barriers directed at the EU. If it were up to the EU, 90 per cent of all customs duties would be abolished within seven years, along with all limitations on European corporations setting up subsidiaries in India. In addition, the Indian procurement market would be opened to European exporters. The liberalisation of retail trade has yet to be resolved and remains a matter of dispute.

A Country Facing Enormous Challenges

Three-quarters of the Indian population have to survive on less than 2 US dollars a day. The casteless, ethnic minorities, Muslims, non-organised workers, and the uneducated are the particularly affected. 98 million small farms operate on less than two hectares of land; their economic situation poses a unique challenge. India has 340 times as many agricultural holdings as Germany. The Indian government estimates that around 200 million jobs (!) will have to be created by 2020 in order to provide enough employment for the currently unemployed and those who will by then have reached working age.

Per capita income in India is 950 US dollars (2007). This is somewhat lower than in Sudan. In the European Union, it is 38 times higher.

The Supermarkets’ Business Model

The potential consequences of an expansion of supermarket chains, resulting from a liberalisation of the investment regulations in the framework of an EU-India free trade agreement, depend very strongly on the business model practised by the leading supermarket chains. This is essentially based on profit maximisation, largest possible price efficiency, just-in-time delivery of food products in the desired quantity and quality, and comprehensive, strict supervision of the standards set by the supermarket chains. At the same time, special value is placed on short delivery chains and, increasingly, on contracted cultivation. The supermarket chains’ profit-enhancing, capital-intensive and job-reducing innovations (self-service, logistical technologies, etc.) impact negatively on employment.

Traditional Retail Trade Serves as a Social Safety Net

35 million people work in the Indian retail trade sector. In terms of employment, retail trade, with seven per cent of all jobholders, is in second place, behind agriculture. Millions of street vendors and shop owners sustain their livelihoods through the retail sector. The number of street vendors is

estimated at 3 to 4.3 million, and the number of small shops is thought to be around 12 million – and growing.

For the street vendors and shop owners, retail trade has the function of a social safety net. Many people who have lost their jobs or are unable to find work, who never had the chance to attend school or receive vocational training, end up making their living through the sale of food and other convenience goods. The chance that street vendors will be able to find employment in the big cities, perhaps even in one of the supermarkets, if they are squeezed out of the market, is very small indeed. A street vendor from Delhi explains: “There are enough educated people without jobs in this city. How can an illiterate person like myself expect to find work?”

The street vendors and shop owners would be the first group negatively affected by liberalisation of foreign direct investment and the consequential rapid expansion of international supermarket chains. It is precisely in the big cities, which the supermarket chains have set their sights on, that hundreds of thousands of traditional retail vendors make their living. Studies demonstrate that their earnings would be drastically reduced, particularly for those located in the direct vicinity of the shopping centres, major wholesale markets, and supermarkets.

“Get modern or get out” – Risks to Farmers

Of the 119 million agricultural enterprises in India, 81 per cent are operated by smallholders with less than two hectares of land. The average size of these farms decreased from 2.3 ha in 1970/71 to 1.33 ha in 200/01. Women make up 40 per cent of those working in agriculture. The agricultural sector has been neglected for many decades. The smallholders are hardly able to build up any investment capital, due to the meagre surpluses they produce. They have insufficient access to credit, means of production, and (appropriate) technology. They also lack up-to-date market information and government agricultural extension services. Government investment in agriculture fell from the 1980s onward and only began to rise again since early 2000.

The experiences of other developing countries indicate that the gap between the demands of the supermarket chains and the capacity of smallholder farming will continue to widen. The message to agriculture and the food industry is “Get modern or get out”.

Taking the announced strategy Reliance Industries Ltd., one of the large Indian supermarket chains, as a case in point, the development of the food sector will generate a few capital-intensive agro-industrial production facilities, well connected to the transport infrastructure, located in only a few Federal States. The big supermarket chains would probably follow the model of food and agriculture corporations like Unilever, Nestlé, Pepsi, and Cargill and rely on contracted cultivation. Medium-sized and large enterprises are their preferred partners, whereas small farmers are almost completely neglected. They would be increasingly excluded from “modern” marketing structures also in the milk sector, if the supermarket chains were to give procurement preference to private dairies rather than to milk cooperatives. Food supply corporations such as Unilever, on the other hand, are optimistic: “Unilever has had a great relationship with the Wal-Marts of the world. The company was the number two supplier to Wal-Mart globally and was among the top three suppliers to the rest of the global retail chains”.

The development of the milk sector – the “White Revolution” – is an unparalleled success story. India has become the world’s biggest milk producer. The comprehensive development programme “Operation Flood” (1970-96), supported by the European Union and the World Bank, made it possible to establish a marketing network for millions of small dairy farmers. They generate around 80 per cent of the milk produced in India. The consequences, that a market opening would have, shows in the experience of 1999/2000. At that time, India imported 130,000 tons of European skimmed milk powder, for which export subsidies amounting to around five million Euros were paid. The Indian milk sector was hit hard. The elimination of Indian import duties would further weaken the milk

cooperatives to the benefit of the private milk industry, and indeed seriously threaten their existence. The livelihoods of 13.4 million dairy farmers would be in danger.

No Liberalisation of Foreign Direct Investment

Precisely because the traditional retail trade sector serves as a social safety net for millions of people, because the gap between what the supermarket chains demand and what the small farmers can deliver is growing wider and wider, and because the food industry is underdeveloped, it is of essential importance for a country such as India to control the expansion of the international supermarket chains. After liberalisation of foreign direct investment, this would no longer be possible. The result would be a very rapid expansion of the supermarket chains. “Get modern or get out” could become bitter reality for many participants in the delivery chain.

Effective Regulation as the Key to an Economical, Social, and Sustainable Development

The issue of foreign direct investment in the retail trade sector reveals the necessity of effective regulation of investments to the benefit of small farmers, workers and small and medium-sized companies. A regulation, that limits the market power of supermarket chains and ensures that they meet certain requirements before establishing a subsidiary and guarantee fair wages and good working conditions for their employees and across the delivery chain. The development of the retail sector must be seen in close relation with the delivery chain. Without corresponding regulation, supermarket chains will implement their own concept of an efficient delivery chain in order to maximise their profits.

A Special Path for India

It is thus of decisive importance that India’s “special path” – in the positive sense – be defined and implemented in accordance with the country’s structural, social, and economic conditions and with the participation of those affected. A rapid liberalisation of foreign direct investment and the movement of services and goods would impede such development. Under the prevailing conditions, the Indian Government would have good reason not to conclude a free trade agreement with the European Union.