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RURBAN ECONOMICS: ARE WE BUYING CHEAP FOOD AT A HUGE PRICE - AN EXPLORATORY STUDY OF EMERGING RETAIL MARKETS WITHIN THE EMERGING ECONOMICS

Dr. M.D.Saibaba*   Dr. Maruti Ram. R**

Professor, Dayananda Sagar Academy of Technology & Management, Bengaluru, India.
Professor & HOD, Dayananda Sagar Academy of Technology & Management,Bengaluru, India.

Abstract

Since the last decade, Indian economy has been registering an enviable growth rate and is expected to do so in future. One of the key factors for this growth rate is FDI flows into India.FDI into multi brand sector is being debated much from a farmer's perspective due to its greater impact on the inclusive growth. This paper is focusing on the implicit costs and social costs associated with this growth. Since we do not have mechanisms to compute these costs, particularly negative externalities, the focus seems to be lost in the debate. Besides the consumption economics is causing disruptions in the natural resource transfers, which needs to be properly addressed. Unless this is done many consumers would end up paying a huge price for seemingly apparent cheap food they buy.

Key Words: FDI, Multi brand, Negative Externalities.

INTRODUCTION

Economic reforms in India, since 1991, advocated a progressive liberalization of external capital flows especially in non-debt creating ones such as FDI and FII (Foreign Direct Investments and Foreign Institutional Investments). This had led into surge of capital inflows and strengthened BOP position. The GDP had a correlation with the FDI and FPI and this is proved through the financial reports from RBI of India. Asian countries are well represented among the 15 most favoured locations. In this list, five countries are from developing Asia (including China and India, ranked 1st and 3rd respectively, WIPS 2009-2011**)**

FDI IN MULTIBAND RETAIL

India's 300 million middle class base forms one of the largest economies in the world in terms of purchasing power. Around 200 million reside in the rural areas, where mostly traditional retail outlets, commonly called kirana stores exist. Recently, as government has changed its policy and the cabinet has allowed 51 per cent FDI in single-brand retail, the prospects of foreign players entering India became high. According to "*Network Magazine"*, an Indian business publication, retailing industry accounts for over 10% of the country's gross domestic product and around 8% of employment. The current estimates are that by 2015 the business in the retail industry would be around $650 billion. The changing structure and scale of retail can critically impact several industries in the short term– the retail industry itself, manufacturing, and real-estate, to name a few. And in the long term, spill-over effects can be felt in other industries (Nisa,2010).

ADVANTAGES OF FDI

Productivity Improvements

A study by Luis Guasch (2002), Clive Harris (2003), and the McKinsey Global Institute (2003) have shown that in almost all cases FDI had a largely positive impact on productivity and improvement of services. Each sector that has been opened to private investment, such as insurance, banking, civil aviation etc. has grown and the consumer has benefited every time. McKinsey Global Institute (2001) showed that the removal of FDI restrictions in the automotive sector unleashed competition and investments, resulting in a threefold increase in productivity that translated into a threefold increase in output due to falling prices. Financial reports from RBI of India show that the GDP has a positive correlation with the FDI. The growth of retailing has the potential to impact the performance of interlinked sectors such as manufacturing of consumer goods and agriculture-based industries. There are also other potential benefits of allowing entry by large foreign discount retail chains on lowering inflation, improving distribution and warehousing technologies. It is also expected to improve the supply chain in India, especially for agricultural produce. Farmers will be benefitted because of reduction of wastages in the supplychain and elimination of middle men. There is an extended scope for additional exports.

Lowering Inflation and Food Prices
Evidence from the United States suggests that FDI in organized retail could help tackle inflation, particularly with wholesale prices. Weight of food in the CPI is relatively high in India. Recent studies quantifying the price impact of entry by low cost entrants, such as Wal-Mart, suggest robust reduction in prices for several products (Basker, 2005b) with significant increases in consumer surplus especially for lower income households (Hausman and Ephraim, 2007).Wal-Mart sets grocery prices significantly lower than its competitors (Volpe and Lavoie,2008). This has an impact on both branded and private label products.

Improving Distribution and Warehousing Technologies
It is expected that technical knowhow from foreign firms, such as warehousing technologies and distribution systems, will improve the supply chain in India, especially for agricultural produce. In India there are multiple inefficiencies in the farm to the dinner table supply chain. While the Food Corporation of India and other agencies is the largest purchaser of food crops for many farmers, the consequence of a poor distribution system is that much of the stockpile fails to reach consumers, and ends up rotting or as waste. Similarly 25-30 per cent of the produce of fruits and vegetables go waste due to lack of adequate storage and distribution facilities. If fresh produce is collected efficiently at the farm-gate, and end-to-end cold-chain is maintained in storage and transportation until it reaches supermarket shelves, it can result in better prices for farmers.This could spur exports. DIPP's discussion paper points out that the farmers get just a third of the total price paid by the final consumer, as against two-thirds realized by farmers in nations with a higher share of organized retail. FDI in retail, therefore, could be an efficient way of addressing concerns of farmers and consumers (DIPP Report, 2010). Evidence from the United States also suggests that by connecting suppliers worldwide with downstream buyers, the retail sector as a whole benefits consumers (Basker, 2007).China has been benefited in a similar way (Head, Jing and Swenson, 2010). Wal-Mart can increase agricultural exports from India.

FLIP SIDE OF GDP GROWTH RATE
Increase in FDI will collapse the indigenous system of economic growth, because the competition will be on unequal playing field and the country's local economic system and sustenance will be under peril. There is a general agreement among the economists that the FDI and FII may cause herd behaviour and may lead to volatility in the economic system that may end in currency/ payment crisis. The real fear in bringing in FDI in the retail sectors will be that of endangering (a) local manufacturing and marketing industry, (b) small time traders, (c) indigenous marketing and retail system, (d) pricing, (e) employment structure etc. A number of concerns have been raised about opening up the retail sector for FDI in India such as fear of jacking up of prices once competitors are sacked: This will also cause an unemployment problem and give a violent blow to small-scale entrepreneurship, as the small traders would be forced to exit.(Devanathan,2009). The marketing system will also control advertising, retail selling, branding and ultimately the schedule of manufacturing industries and farmers. After some time the manufacturers and farmers will be at the mercy of the mall owners and their freedom to produce, fixation of price for their goods, bargaining power etc. will be curtailed. This will lead to biasing the production of goods favouring urban elite. This will also enable pricing policy, which will be decided by the marketers.

Employment
One major concern is the potential impact of large foreign firms on employment. Following agriculture, in 2007-2008, the retail sector is the second largest employer in India (National Sample Survey Organization). Retail trade employs 7.2% of the total workforce which translates to 33 million jobs (DIPP Report, 2010). With respect to the impact of entry by big-box stores such as Wal-Mart on retail employment and earnings, evidence from the United

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States is mixed. Using county-level data, a recent study finds that Wal-Mart entry increases retail employment in the year of entry (Basker, 2005a), while contrasting evidence indicates that each Wal-Mart worker replaces approximately 1.4 retail workers representing a 2.7 percent reduction in average retail employment (Neumark, Zhang and Ciccarella, 2008). Yet other work on Wal-Mart expansion suggests that store openings reduced both average earnings of retail workers (Dube, William and Eidlin, 2007). Research evidence also suggests that having a chain store in a market makes roughly 50% of the discount stores unprofitable and that Wal- Mart's expansion over the 1990s explains about 40–50% of the net reduction in the number of small discount stores (Jia, 2008).

Unfair Competition

A second related concern is that opening up FDI may lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business. Given the large unorganized component of the retail sector, this is a major concern. Kalhan’s (2007) study highlights how small shops in Mumbai are adversely affected, in terms of falling sales, by the growing influence of shopping malls in the city.

Experience of Thailand

The retail experience in Thailand furthers this concern. Sarma (2005) chronicles how traditional shopkeepers continued to suffer even when the Thai economy recovered, after the Asian crisis of the late 1990s. Foreign-owned retailers “grabbed a big share of the retail market, often through unethical means.” A similar story – of increased regulation of large retailers to prevent market capturing and uncontrolled proliferation – is told by Kalhan and Franz (2009).Our contribution to the literature is an informal snap shot survey among the students of Thailand studying in the Bangalore campus.

UK Experience

The UK Competition Commission found in a 2000 study of major retail chains including Marks & Spencer, Sainsbury and Tesco that “the burden of cost increases in the supply chain has fallen disproportionately heavily on small suppliers such as farmers.” Apart from prices, the report states that smaller farmers came under severe pressure from supermarkets due to the latter’s requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimise risk. “price-flexing” as the UK Competition Commission termed it, again working to the disadvantage of local mom-and-pop stores. Guruswamy et al (2005) argue that firms with deep pockets are able to bear sustained losses, eventually forcing higher cost businesses (“small and dispersed competition”) out of business. This has a large effect on employment too.

Biodiversity

Brussels sprouts may be perfectly formed, but at what cost to the country side. Biodiversity on the shelf is increasingly at the cost of biodiversity in the field. The retail industry in effect externalizes a large part of its costs .In several South-East Asian countries, such as Malaysia and Thailand, the trend has been to move from many smaller suppliers to a few larger ones. Moreover, the share of fresh produce retail in supermarkets, as opposed to from so-called ‘wet markets’ has also increased substantially. “The emerging role of modern retail chains in fresh produce sales is most evident in Malaysia's major cities, where they accounted for as much as 60 percent of fruit sales and 35 percent of vegetable sales. Close behind is Bangkok, where 40 percent of fruits and 30 percent of vegetables were sold through supermarkets and hypermarkets.The Food and Agriculture Organisation concluded in a report that such activities are observed in other countries and regions too. Organized retail increases pressure on farmers to produce standardized produce, pushes down prices and margins, and over time weeds out larger numbers of smaller suppliers in favour of fewer and larger “preferred suppliers”. In India few varieties such as spinach are given priority resulting in lower production of other vegetables (Amaranth and other vegetables).

Social impact

Since there are hardly any studies on the social impact of retail chains in Indian conditions our literature review is focused on studies in the west about Wal-Mart and impact of FDI on other sectors of the economy. The most visible and direct impact of Wal-Mart is usually the disappearance of small, locally- owned mom-and-pop type stores (Stone 1997). Although new retail activity may emerge in the vicinity of a Wal-Mart, benefiting from the additional traffic generated, the balance of evidence suggests a net loss in the types of home-grown stores that have long existed in the community. With the arrival of Wal-Mart, and the attendant reduction in the demand for their services, they leave the community to pursue opportunities elsewhere. In the process, the social capital they embody is destroyed, and their entrepreneurial skills and other forms of location-specific human capital are forever lost to the community. Wal-Mart ignores the local externalities it creates within communities. Research results indicate that the presence of Wal-Mart depresses social capital stocks in local communities. These externalities represent real costs for communities in the form of reduced economic growth. Results also indicate that community leaders should think carefully about providing infrastructure development subsidies to the chain. Given the measurable impact that social capital has on economic well-being the evaluation format has to be different. While it has long been recognized that the perceived benefits of the super markets are not evenly spread between social groups, even for the better off and mobile, the advantages of supermarkets are being outweighed by the drawbacks.

INDIA SPECIFIC CONCERNS ABOUT OPENING UP INDIAN RETAIL TO FDI

A concern raised by domestic incumbent firms in the organized retail sector is an infant industry argument: that this sector is under-developed and in a nascent stage. Domestic firms still lack the capital to build even average-sized Wal-Mart stores of 200,000 square feet—four times larger than the flagship Big Bazaar'' (''Wal-Mart Assault,'' India Daily, July 24, 2005). Supermarket practices too may work against the interests of incumbent retailers, even organized ones. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops. Supermarkets also tend to alter prices in different branches adjusting to local rivals resulting in small units being forced out of business.

CONCLUSION

India's retailing policies need a radical shake-up. We need more smaller shops ,buying locally and revitalizing street markets(systematized and regulated).We need better rules on out-of-town development and freight companies could pay the real cost of operations.

India's experience between 1990-2010, particularly in the telecommunications and IT industries, showcases the various benefits of opening the door to large-scale investments in these sectors. Arguably, it is now the turn of retail. However parallel comparisons are not relevant because of the background of the stakeholders being totally different (marginal farmers, low income consumers and small scale businessmen, hawkers and others will be at a disadvantageous position).

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