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EDITORIAL

Beware ! Wall-Mart Is Coming

- Piyush Pant

Foreign Direct Investment (FDI) in retail in India is not new. But it had been confined to single brand only. Now that the Union government has decided to open the retail sector for multi-brands as well, the government is facing flake. There has already been a successful nationwide bundh called jointly by all the political parties, including those in alliance with the congress party. Thus the opposition to government's move is building up. But the government seems adamant to bring in the FDI in multi-brand retail. It is showing the kind of obtrusion shown at the time of entering into Indo-US nuclear deal in 2005.Prime Minister Manmohan Singh has been shamelessly vouching for it. So has been the deputy chairman of the Planning Commission Montek Singh Ahluwalia who, on 8th June, said-"I am in favour of allowing the FDI in retail. It shouldn't be the case that the modernisation of retail is beyond the capability of Indian enterprise. Personally I think that the great value of FDI in retail is that it will stimulate a lot of our own entrepreneurs." Here one would perhaps like to recall the great amount of pressure exerted by American nuclear reactor manufacturers' lobby on the then President George Bush to enter into a nuclear deal with India, which was subsequently done by the US administration and to which the UPA-I government of Manmohan Singh succumbed easily, to an extent that it even put its very survival on stake, to get the deal passed by Indian parliament.

Now look at this news-'India suspended plans to open its 450 billion supermarket sector to foreign firms such as Wal-Mart Stores in face of huge political backlash. 'In fact Wal-Mart has been lobbying among the US lawmakers since 2007 to garner support for its plans to enter India and its lobby issue earlier included "enhanced market access for investment" in India. Between 2007 and 2009 it spent Rs.52 crores on lobbying. One of America's top revenue grosser with over 400 billion dollars of total annual sales and spread in 15 countries, it has been lobbying hard both in US and India. As PTI report from Washington says- According to the latest lobbying disclosure reports filed with House of Representatives and the Senate, the US based companies and industry groups spent millions of dollars since the beginning of 2012 towards lobbying on issues including FDI in India, changes in Indian taxation framework and various other trade related matters. It says that Wal-Mart Stores spent nearly 1.5 million dollars on lobbying in the last quarter ended June 30, 2012 on various issues including matters "related to FDI in India". The disclosure statement also said that the company had spent Rs. Six crore in the first three months of 2010 for "discussions related to India's Foreign Direct Investment (FDI)" .

Lobbying is not the only ploy which big corporate use to get entry into foreign markets. They also employ political bigwigs of their respective countries into their Boards who ashamedly put pressure on governments to serve the interests of the corporate. Look how US Secretary of State Hillary Clinton poses these questions (in a hidden reference to promote Wal-Mart's entry) in a cable to her Embassy in New Delhi in September 2009, sometimes after Prime minister Manmohan Singh began his second term(As per Hindu-Wikileaks India cable series: March 18, 2011)- "How does (Commerce Minister) Sharma view India's current Foreign Direct Investment guidelines? Which sectors does he plan to open further? Why is he reluctant to open multi-brand retail?" Those who may like to dismiss any connection between Hillary's queries and the interests of Wal-Mart should take note of the ABC News report dated 31st January 2008 titled 'Clinton remained silent as Wal-Mart fought unions' which says there's the tens of thousands of dollars Hillary earned from serving as director on Walmart's board and the other thousands of dollars contributed to her 2007-08 campaign by Walmart executives and lobbyists. It also observed that as a director, Hillary Clinton remained "a loyal company woman".

Thus it can be said that it is not the need of Indian economy but a "Foreign hand" which is guiding Manmohan Singh government's eagerness to open up retail as well as other sectors for 100 per cent foreign direct investment. Besides retail sector, the US companies are also lobbying for market access in a host of other businesses. Among these Dow Chemicals had 'Trans Pacific Partnership Market Access-India' as one of its lobbying issues in the last quarter, when it spent more than 3.6 million US dollars on various lobby issues. Other major entities having spent big bucks in the last quarter on issues related to trade with India include Dell Inc., Morgan Stanely, Xerox, Cargill Inc., Aerospace industries Association of America and Chamber of Commerce of the US. The coffee shop giant Starbucks, which runs a global chain of coffee shops, has been lobbying in India seeking 100 per cent FDI in single brand retail. As per a disclosure statement it made before the American Senate, the company had spent more than Rs. One crore in the first six months of 2011, for "market opening initiatives in India." This is to be noted that Starbucks' lobbying did succeed since the Indian Government succumbed to the 'foreign pressure' and approved

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100 per cent FDI in single brand retail.

Now why this intense lobbying by foreign corporates for the Indian Retail Pie? To understand this we will have to assess the retail market in India. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. In fact, the retail industry in India is hailed as sunrise sector and is estimated to double in value from330 billion American dollars in 2007 to 640 billion dollars by 2015. The Indian Council for Research and International Economic Relations'(ICRIER) report estimated the total annual business of unorganized retail in India to be 408.8 billion dollars in 2006-07 and total number of traditional retail outlets as 13 million (1.3 crore). According to a study, the size of the Indian retail market is currently estimated at Rs. 704 crores, which accounts for a meager 3% of the total retail market. A report says that from the year 2003 to 2008 retail sales have been growing at a rate of 8.3 % per annum. Analysts expect the sector to show a significant growth of over 9% p.a. over the next ten years and also a rapid development in organized retail formats. They are expecting organized retail to jump from currently 4% to 25% by 2018. They believe that there is a great potential for the organized retail industry to prosper in India, since the market for the final consumption in India is very large. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

But opening up of huge retail sector in India is in whose interests? Will it benefit the Indian consumers or for that matter the Indian farmers or end up serving the mercenary interests of the foreign corporates ? There are a few who, buying the government argument, declare that FDI in multi-brand retailing will immensely benefit the country by bringing in foreign capital thus reducing the fiscal deficit which will lead to economic growth. Their oft-repeated argument is that allowing FDI in retail will eliminate the middlemen thereby benefitting not only the farmers but also the consumers. But their arguments hold no ground if we look at the actual working of organized retail sector. And the reality is that the middlemen cannot be removed from the operation. The present middlemen certainly will be replaced by bigger, more organized, more prosperous middlemen. The only difference will be that the retailer will have his own middle men in the system. This is also to be remembered that direct sale from farmer to retail does not take place unless it is self-owned farm by the retailer.

As far as the argument of farmers getting benefitted is concerned, the proponents' thinking again appears flawed. Those who argue that FDI in retail will give better prices to farmers and reduce prices for consumers should answer why to go for larger format when there already are home grown large format retailers and their operations have not brought much succour to the farmers. Moreover, business model of big multinational retailers work on the philosophy "buy lowest, sell highest". These multinational work for size and scale to gain the power to dictate terms in the retail markets. As their philosophy is to earn maximum profit, they will offer the minimum price to the Indian farmers. Since foods and vegetables are highly perishable items and refrigeration infrastructure is very poor in the country , farmers will have to sell their products at the price demanded by big retailers. Hence it will be wiser for Indian ruling establishment to look at the plight of farmers in many developed countries of the West where the multinationals have been dominating the retail chains before opening up the Indian market for multi-brand retailing. There are reports galore telling of farmers in the West paying heavy price, with hundreds of thousands forced to shut down their farms due to the corporatisation of the farming sector, along with the corporate concentration on the purchasing side among processors and retailers. Reports have also come in that the breed of the small farmers in US is under threat as they go out of business in large numbers year after year. Things have come to such a pass that in England the Royal association of British Dairy Farmers have complained vociferously that prices paid to farmers for fresh milk are simply unsustainable, with the average farmer losing money on each litre of milk produced, while the supermarket's margin on fresh milk has increased steadily over the years. Whereas in India dairy farmers receive as much as 75 per cent of what the consumer pays for a litre of milk. Once FDI is allowed in multi-brand retail, the Indian dairy farmers will also be at the receiving end. The government proposal of making compulsory for the multinationls to purchase 30 per cent of their requirement locally does not hold good in the light of the operational practices adopted by these multinationals. They have been found importing goods from their own countries or from countries where labour is much cheaper(as in China). Moreover, Article III of GATT mandates each contracting party to accord 'national treatment' to the products of other contracting parties. It explicitly forbids regulations like specific sourcing requirement from domestic industries. Since India has joined the WTO on these terms, the government can not implement a 30% sourcing requirement only from Indian MSEs without being challenged by other countries. Besides India has signed Bilateral Investment Promotion and Protection Agreements with 71 countries which clearly provide 'national treatment' for the investors of these countries. Obviously these countries will demand sourcing from their countries' Middle and Small Entrepreneurs (MSEs). Hence the 30 % sourcing requirement would in effect mean MNC retailers sourcing cheap products from MSEs across the world bypassing tariff protection and dumping them in the Indian market thereby hurting the interests of Indian farmers. Coming of Big Retail in agriculture sector will result in a radical restructuring of whole agro-supply chain and will result in farmers confronting stronger structures than they were used to. The farmers in US are already having problems with such structure. As a report titled 'U.S. Farm Crisis' published by The Kerr Centre for Sustainable Agriculture, Poteau, Oklahoma says-"large corporations in recent years have moved to curtail farmer independence through production contracts and other forms of vertical integration. These moves have included establishment of huge corporate owned Confined Animal Feeding Operations, where animals are raised without farmers." Hence in Indian context these words uttered by renowned agricultural scientist Dr M S Swaminathan led National Commission for Farmers should not be forgotten-' Rushing into contract farming without ensuring the needs, safety and bargaining power of the farmer would result in major displacement in the sector.'

One should also not overlook the observations made by the Parliamentary Standing Committee on Commerce in its report on FDI in Retail in May 2009. After studying all the aspects and consulting the relevant stakeholders, the Committee recommended that FDI in Retail should not be permitted. But when the foreign corporate are ruling the roost in the UPA Government, a concern for the plight of Indian farmers can hardly be expected.

So here goes the verdict in favour of Big multinationals like Wal-Mart who have been lobbying hard for many years. See what Wal-Mart International Division chief John Menzer tells his company's annual meeting in 2005-" In our six government meetings, we created a very positive image[of Wal-Mart]..." And: "We've energized the FDI lobby and pre-empted the anti-FDI lobby in India." (Wal-Mart's hot in India, CNNMONEY.COM, June 6, 2005).

The Congress led UPA Government has decided to allow FDI upto 51% in retail trade through a cabinet decision. This will pave the way for MNC retailers to enter India and grab the Indian market, leading to loss of jobs and livelihood for crores of Indians.

FDI in retail has always been opposed by a large section of Indian society and polity. Coming at a time when the parliament was in session, the cabinet decision naturally met with protests in parliament. Parties across the political spectrum demanded a roll back of the decision. The government, however, insisted that this executive decision did not require any parliamentary sanction. It was this adamant stand of the government, which created a deadlock and stalled the functioning of the parliament.

The attitude of the government is undemocratic and deplorable. It is willing to oblige western governments lobbying for the MNC retailers based in the their countries but not willing to listen to the elected representatives of the Indian people.

The Parliamentary Standing Committee on Commerce had submitted a report on FDI in Retail in May 2009. After studying all the aspects and consulting relevant stakeholders, the standing committee recommended that FDI in retail should not be permitted. Members of Parliament belonging to various political parties, including the Congress party, were members of the standing committee. There was not a single dissent note. Yet the government went ahead with its decision, displaying its contempt towards the unanimous recommendation of the standing committee.

Not so long ago the government was itself arguing for the Lokpal Bill to be studied by the relevant parliamentary standing committee, in order to evolve a broad based national consensus. Anna Hazare and his team were accused of showing contempt for parliamentary procedures because they wanted to bypass the standing committee. Today, the government itself is disregarding a unanimous report by a parliamentary standing committee on FDI in retail.

Central governments have tried to push for FDI in retail in the past. The BJP led NDA government had initiated the move in 2002 but dropped it under opposition pressure. Not only did the Left Parties oppose the move during that time, but also the Congress chief whip in the Loksabha, who termed it anti-national". Later the NDA's vision document released during the 2004 elections advocated FDI in retail.

During the tenure of the UPA-I Government, there was once again an attempt to allow FDI in retail. The Left Parties had strongly opposed the move and had submitted a note to the UPA government in October 2005, following which it was shelved. The BJP mocked the Congress for not being able to pursue "reforms" because of the Left. Today, when the UPA-II government has once again initiated this anti-people step, the opposition to this move has come not only from the entire opposition but also from Congress' own allies.

Faced with opposition from across the spectrum, the government has been arguing that the state governments are free to accept or reject FDI in retail and that the MNC retailers would not open outlets in states where the state governments are opposed to the move. This is a specious argument because the impact of giant retail chains established in some states will be felt in other states too. The entry of giant MNC retailers in any segment of the market will impact mall retailers, farmers and small producers across the country. Moreover, once FDI is allowed by the centre, the prohibition by the state governments can be challenged in the courts. FDI in retail is therefore a national issue, on which the parliament must have its say.

Questions and Answers

Q: What would be the impact of FDI in Retail on the domestic retail sector?

A: The Indian retail sector is the second largest employer in India after agriculture, employing over 4 crore (40 million) persons as per the latest National Sample Survey (NSS) 2009-10. Most of these are small unorganised or self-employed retailers, who are unable to find gainful employment in other sectors of the economy.

Despite the hype over the high GDP growth in India, NSS 2009-10 has confirmed the trend of jobless growth in the country. Total employment growth has slowed down from an annual rate of around 2.7% during 2000-2005 to only 0.8% during 2005-2010. Growth in non-agricultural employment fell from 4.65% to 2.53%. Among all the workers at the national level, about 51% were 'self-employed', about 33.5% were 'casual labour' and only 15.6% were 'regular wage/salaried' employees.

In this backdrop, the entry of MNC supermarket and hypermarket chains would cause severe displacement of the small and unorganised retailers. The sample survey of unorganised retailers done by the ICRIER in 2008 estimated the average size of an unorganised outlet to be around 217 sq.ft, excluding the pushcarts and kiosks operated by the hawkers (Impact of Organised Retailing on the Unorganised Sector,

ICRIER, May 2008). The total annual business of unorganised retail in India was estimated in the ICRIER report to be $ 408.8 billion in 2006-07 and the total number of traditional retail outlets as 13 million (1.3 crore). The average total business per store per year for an Indian unorganised retail store therefore comes to around $31446 (Rs. 15 lakh). The survey found an average retail outlet employing 2 to 3 persons.

The average size of a Walmart supermarket in the US is 108000 sq.ft employing around 225 persons. In 2010, Walmart sold $405 billion amount of goods through its 9800 odd outlets located across 28 countries, employing around 2.1 million (21 lakh) persons.

This implies that one Walmart supermarket can displace over 1300 Indian small retail stores and thereby render around 3900 persons jobless. The employment created against this in that supermarket will be 214 (or maximum 225, which is the average in the US). Clearly, there will be severe job losses if giant MNC supermarkets are allowed entry into the Indian market.

Q: Can FDI in Retail create 10 million jobs in 3 years?

The Commerce Minister has claimed that FDI in retail will create 10 million (1 crore) jobs in 3 years with 4 million (40 lakhs) jobs created directly and the rest in the backend logistics. The number of stores worldwide and employee strength of the top 4 MNC retailers are given below.

Source: Group websites

	Number of Stores Worldwide	Total Number of Employees	Average Employees per Store
Walmart	9826	21,00,000	214
Carrefour	15937	4,71,755	30
Metro	2131	2,83,280	133
Tesco	5380	4,92,714	92

If 4 million jobs are to be created in India in 3 years, even the Walmart, which has the largest average employee per store, will need to open over 18600 supermarkets in India! If the average of the 4 top global retailers is considered, i.e. 117 employees per store, over 34180 supermarkets have to open in 3 years to employ 4 million people – i.e. 644 supermarkets in each of the 53 cities!! Can these absurd claims made by the Commerce Minister be taken seriously?

Moreover, our earlier estimate suggests that for every job created in the supermarkets, around 17 jobs will be lost in the Indian unorganised retail sector. Therefore, in case 4 million jobs are created in the supermarkets over the next 3 years, the entire domestic retail sector in India (40 million plus) will get completely wiped out!

Q: Would the restrictions imposed by the government protect Indian retailers?

A: The restriction that MNC supermarkets will be initially allowed in only 53 cities with over 10 lakh population is meaningless, since most small and unorganised retailers are concentrated in these urban areas. These 53 metropolitan areas and cities account for almost 17 crore (169.54 million) people. The number of persons employed in retail and wholesale trade in these 53 cities is over 2 crore. This is where the maximum displacement would occur. Moreover, MNC retailers are most interested in tapping the metropolitan and urban segment of the market, where people have higher purchasing power. They are hardly interested in catering to semi-urban or rural areas.

The condition that the minimum foreign investment in retail should be $100 million (i.e. around Rs. 500 crore) is also inconsequential, because the MNCs interested in entering the Indian retail market are global giants – the largest global retailer Walmart's annual revenue is currently over $400 billion and others like Carrefour, Metro and Tesco also have annual revenues worth around $100 billion. These MNCs are facing slow growth in their countries of origin, i.e. the US, France, Germany and UK etc., and desperately want to expand their operations abroad, especially in growing markets like India. They have sufficient financial resources as well as operational knowhow to simultaneously open a vast number of outlets of various sizes and nature to outcompete the domestic retailers.

The existing big private sector retailers in India can also be bought over by the MNCs. This is how the global retailers have expanded their operations in many developing countries in Latin America and Asia. For instance, the Walmart entered Mexico in 1991-92 with a 50-50 joint venture with local firm CIFRA. By 1997 it had acquired majority stake in the venture and increased its stake to 60% in 2000. By 2004, Walmart alone accounted for over 25% of all retail sales in Mexico and 43% of all sales by the big box retailers.

Q: Would the Indian micro and small enterprises (MSEs) benefit from the entry of global retailers?

A: The mandatory 30% sourcing by the global retailers from the micro and small enterprises (MSEs) stipulated by the government has also created confusion. While

the Commerce Minister insists that this is meant for Indian MSEs, the press note issued by the Commerce Ministry clearly states: "Thirty per cent sourcing is to be done from micro and small enterprises (MSEs) which can be done from anywhere in the world and is not India specific. However, in this case, it has been stipulated that 30% sourcing will be done from micro and small enterprises having plant and capital machinery worth $1 million."

Article III of the GATT clearly mandates each contracting party to accord 'national treatment' to products of other contracting parties and explicitly forbids regulations like a specific sourcing requirement from domestic industries. Having joined the WTO on these terms, the Indian government cannot implement a 30% sourcing requirement only from Indian MSEs without being challenged by other countries.

Moreover, India has signed Bilateral Investment Promotion and Protection Agreements (BIPAs) with 71 countries till date, which explicitly provides 'national treatment' for the investors of these countries. These 71 countries, which include most major countries of Western and Eastern Europe as well as South East Asia and some West Asian, Latin American and African countries, will demand sourcing from their MSEs. Therefore, the 30% sourcing requirement would in effect mean MNC retailers sourcing cheap products from MSEs across the world bypassing tariff protection and dumping them in the Indian market, hurting the interests of the Indian MSEs. The government does not have any monitoring mechanism to prevent this from happening.

Q: Would the MNC retailers modernize our food supply chain?

A: The Commerce Ministry claims that at least 50% of the investment by the MNC retailers will go towards developing backend infrastructure, which will modernize the supply chain and help in increasing efficiency and reducing wastage. If the global retailers are to sell fresh fruits, vegetables, milk products and meat in large quantities through their retail chains, they will naturally have to set up backend infrastructure in their own interest. But the handful of cold storages, refrigerated transport and other logistics introduced by them would be strictly meant for their own business operations and not for the farmers and consumers at large. The claim that MNCs would dramatically transform and modernize the food supply chain in India is nothing but propaganda.

In the US, out of the 1578 refrigerated warehouses, 839 are in the public sector and 739 are private or semi-private. The public warehouses are much larger, accounting for 76% of the general storage capacity, with private and semi-private accounting for only 24%. India, by contrast, has 5381 cold storages (much smaller in size), with 4885 being in the private sector, 356 in the cooperative sector and only 140 in the public sector. Over 95% of India's cold storage capacity is in the private sector whereas only 0.44% is in the public sector. Moreover, 75% of the cold storage capacity is being used for potato only. As a result, the average capacity utilisation of the cold storages in India is only around 48%.

China, which produces over 500 million tons of foodgrains each year, has been able to build storage and warehousing capacity of 390 million tons, mainly under the state run Sinograin. This state run corporation has not only driven the modernisation of China's grain and edible oil storage and transportation systems but has also expanded into food and oil processing. By contrast, India's foodgrains production is currently around 230 million tons and its total grain storage and warehousing capacity is only around 50 million tons. FCI and the Central Warehousing Corporation together has around has 40 million tons capacity and the rest is provided by the state warehousing corporations. This lack of adequate storage infrastructure constrains public procurement and contributes to huge wastage of foodgrains.

The upshot is that broad based modernisation of the food supply chain in a country of India's size cannot be brought about by MNC retailers, who are driven by their narrow business interests. There is a massive scope for expanding storage, warehousing and cold chain infrastructure in the public and cooperative sectors in India and improving their management. Allowing FDI in retail cannot be a substitute for proactive public intervention and undertaking the desired level of public investment in this crucial area.

Q: Would Indian farmers benefit from FDI in retail?

A: It is being claimed by the advocates of FDI in retail that the elimination of intermediaries and direct procurement by the MNCs would secure better prices for the farmers. The fact is that the giant retailers would have far greater buyer power vis-à-vis the farmers compared to the existing intermediaries.

There is a strong case for modernizing and effectively regulating the existing mandis, because traders' cartels are prevalent, which squeeze the small farmers, corner bigger margins and indulge in hoarding and black marketing. **However, the entry of giant MNCs into agricultural procurement would make the problems worse for the farmers. As against the mandis that operate today, where several**

traders have to compete with each other in order to buy the farmers' produce, there will be a single buyer in the case of the MNCs. This will make the farmers dependent on the MNCs and vulnerable to exploitation.

This is confirmed by international experience. A large number of members of the EU parliament adopted a declaration in February 2008 stating: "throughout the EU, retailing is increasingly dominated by a small number of supermarket chains…evidence from across the EU suggests large supermarkets are abusing their buying power to force down prices paid to suppliers (based both within and outside the EU) to unsustainable levels and impose unfair conditions upon them". **This declaration came in the backdrop of protests by farmers against supermarkets across European countries like France, Italy, Netherlands, Belgium, Ireland and Hungary. The nature of the complaints were similar: the giant retailers were squeezing the prices paid to the farmers for products like milk, meat, poultry and wine, in some instances forcing them to sell at below cost prices. The US Justice and Agriculture departments have also jointly conducted workshops and public hearings on corporate concentration and competition in the domestic food and agriculture markets in 2010.**

The South East Asian experience also shows how the small farmers derive no benefit from the expansion of the supermarkets. In Malaysia and Thailand, the supermarkets progressively reduced the number of fruit and vegetable suppliers over time and started procuring increasing shares from the wholesalers and other intermediaries rather than farmers. Moreover, several malpractices by supermarkets have been documented in a number of studies, like delayed payments, lowering prices at the last minute when supplier has no alternative, changing quantity and quality standards without notice and support, removing suppliers from list without good reason, charging high interest on credit etc.

The overwhelming majority of farmers in India are small and marginal farmers, who operate less than 2 hectares of land. The severe problems faced by them today mainly relate to rising input costs, unremunerative prices and lack of access to institutional credit, technology and markets. What they need is enhanced state support and intervention. Procurement by MNCs, far from solving their problems would only worsen their situation.

Q: Can inflation be tamed by allowing MNCs to run supermarkets?

A: The worst myth being propagated by the government to push FDI in retail is that it will help in bringing down inflation. Entry of giant retail chains invariably leads to the elimination of competition and the concentration of monopoly power in the retail market. Greater concentration in the market can only worsen the inflationary trend in the long run.

The share of big organised retailers has continuously increased in markets across the world, especially over the past two decades. This, however, has not helped in containing inflation. In fact, the sharp rise in global food prices since 2007 is attributable to a great extent to the increasing control of MNCs over the food chain and speculative trading. The FAO global food prices once again attained a record high in mid-2011, despite the global economic slowdown.

The role of the largest global retailers clearly shows how supermarkets are ineffective in checking inflation. Walmart dropped its famous slogan of "Always Low Prices, Always" in 2007 and replaced it with a more innocuous "Save Money, Live Better". In 2011, Walmart has been found to be raising prices for a whole range of food items including bread, milk, coffee, cheese etc. much faster than all its competitors in the US. Carrefour has also raised food prices in France this year. Tesco in Ireland raised the prices of 8000 products in early 2011 in order to boost its profits before the end of the financial year in February, and then announced price cuts in March to promote sales.

The giant retailers earn profits by selling huge volumes at small margins. Whenever their sales drop, they are forced to raise prices in order to maintain their profits. It is their bottomline, which drives their business and not any commitment to check inflation. Retail sales of the 250 top global retailers had increased by only 1.3% in the recession year of 2009, with 90 retailers witnessing a fall in sales volume. However, the composite net profit margin of the 250 top retailers rose to 3.1% in 2009 from 2.4% in 2008, which would not have been possible without raising prices alongside cost-cutting measures.

Q: If MNCs can run supermarkets in other countries, why not in India?

A: The experiences of the developed countries show that the proliferation of hypermarkets and supermarkets lead to a high degree of concentration in the retail market. The share of top 5 retailers in total retail sales has reached as high as 97% in Australia, and remains over 50% for the UK and most European countries. In the developing world too, the market share of the top 5 retailers is over 80% in South Africa, over 25% in Brazil and around 10% in Russia. **Such concentration has resulted in displacement of small retail stores, squeezing**

of suppliers and elimination of consumer choices. A lot of debate has erupted across the world in recent times over the negative role of the global retail chains.

In South East Asia, modern format retail has grown rapidly over the past decade. This has been driven by MNCs as well as large domestic retailers. Data provided by a Nielsen Company report named 'Retail and Shoppers Trend: Asia Pacific, the latest in retailing and shopper trends for the FMCG industry, August 2010' shows that wherever the modern format stores' share has expanded significantly between 2000 and 2009 (as in Republic of Korea, Singapore, Taiwan, China, Malaysia and Hongkong), the number of traditional stores has fallen in absolute numbers. The number of traditional stores has continued to grow in those countries where modern format stores have expanded at a slower pace.

China is often cited by the proponents of FDI in retail as a success story of retail modernisation. However, what is often not mentioned is that the largest modern format retail chain in China is the state-run Shanghai Bailian group which runs over 5500 supermarkets across the country. Several other smaller state run stores have been merged with this entity. The market share of the Bailian group has remained ahead of the MNCs Walmart and Carrefour and the market share of top 5 retailers in China has also remained below 10%. Even so, China has not been able to avoid a decline in traditional retail stores.

South East Asian countries like Malaysia, Indonesia and Thailand have several regulations for modern format stores. Zoning regulations ensure that hypermarkets can come up only within a certain distance from city centres and traditional markets. There are restrictions on minimum size of the markets and as well as timing of operations. These regulations were imposed a decade earlier following protests by small retailers against the opening of hypermarkets. Malaysia had prohibited the opening of new hypermarkets in 2002, but this ban was lifted later in 2007. Despite regulations, however, the market share of top 5 retailers in Malaysia, Indonesia and Thailand has reached 29%, 24% and 36% respectively. Several protests against the opening of outlets by Tesco in Thailand and Carrefour in Indonesia have occurred in the past few years.

In contrast to these cases, the market share of modern format retail in India is around 5% and the market share of the top 5 retailers amounts to less than 1% of retail sales. This shows that despite the expansion of modern format retail by domestic corporates, small retailers have been able to compete so far. However, several studies including the ICRIER survey have observed fall in sales for small retail shops in the vicinity of large modern format stores in India. In order to protect small retailers and prevent concentration in the retail market, there is an urgent need to put in place an effective regulatory framework. The number of large format retail stores should be restricted through a licensing system with regulation on floor area as well as zone regulations. Norms for procurement also needs to be laid down. It is noteworthy that the government has not initiated any discussion on such a regulatory framework for the retail sector so far. Nor has any initiative been taken to encourage the modernization of the existing retail stores in the unorganized, co-operative and the public sector.

What allowing FDI in retail would do is to render any such regulation impossible. The MNC retailers with their deep pockets will aggressively expand their operations in order to reap hefty profits from India, which is one of the fastest growing FMCG markets in the world today. Indian corporates can aid this by selling off their businesses to the MNCs, particularly those who have expanded their chains by incurring heavy debt. A sharp increase in the share of organised retail driven by the global retailers will displace a large number of small retailers, causing massive job losses. Given the already grim employment scenario, this will cause social distress and turmoil.

It is being argued from certain quarters that the growth of the Indian market is high enough to allow for a simultaneous growth of MNC supermarkets and unorganised retail. However, the assumption that the spending growth witnessed in the Indian economy in the past will perpetuate is a misplaced one. Already, the signs of economic slowdown are evident in India. The 'double dip' recession in the developed countries and the steep interest rate hikes effected by the RBI are adversely affecting investment and growth. Allowing the MNC retailers to enter the Indian market in this backdrop, far from contributing to growth and job creation, will amount to courting disaster.

(Courtesy: CPM documnt 'Oppose FDI in Retail 2011')

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The retail scenario is one of the fastest growing industries in India over the last couple of years. India retail sector comprises of organized retail and unorganized retail sector. Traditionally the retail market in India was largely unorganized; however with changing consumer preferences, organized retail is gradually becoming popular.

Unorganized retailing consists of small and medium grocery store, medicine stores, subzi mandi, kirana stores, paan shops etc. More than 90% of retailing in India fall into the unorganized sector, the organized sector is largely concentrated in big cities. Organized retail in India is expected to grow 25-30 per cent yearly and was expected to increase from 35, 000 crore in 2004-05 to 109, 000 crore ($24 billion) by 2010.

Quick facts on Indian Retail sector

- Indian Retail sector is the fifth largest global retail destination.
- India retail market is dominated by the unorganized sector.
- The top five companies in retail hold a combined market share of less than 2%.
- The Indian retail market has been ranked by AT Kearney's eighth annual Global Retail Development Index (GRDI), in 2009 as the most attractive emerging market for investment in the retail sector.
- According to Government of India estimate the retail sector is likely to grow to a value of 2,00,000 crore (US$45 billion) and could yield 10 to 15 million retail jobs in the coming five years; currently this industry employs 8% of the working population.
- India continues to be among the most attractive countries for global retailers. According to the Department of Industrial Policy and Promotion, approximately US$ 47.43 million was the amount of Foreign Direct Investment (FDI) inflow as on September 2009, in single-brand retail trading.

  More than 80% of the retail sector in the country is concentrated in the large cities. A study reveals that among the more than 20 locations, for organized retail in India, Mumbai was found to be the most preferred location followed closely by Bengaluru in the second position.

Key Players in Indian Retail Sector

- AV Birla Group has a strong presence in apparel retail and owns renowned brands like Allen Solly, Louis Phillipe, Trouser Town, Van Heusen and Peter England. The company had investment plans to the tune of 8000 – 9000 crores till 2010.
- Trent is a subsidiary of the Tata group; it operates lifestyle retail chain, book and music retail chain, consumer electronic chain etc. Westside, the lifestyle retail chain registered a turnover of 3.58 mn in 2006.
- Landmark Group invested 300 crores to expand Max chain, and ` 100 crores on Citymax 3 star hotel chain. Lifestyle International is their international brand business.
- K Raheja Corp Group has a turnover of 6.75 billion which was expected to cross US$100 million mark by 2010. Segments include books, music and gifts, apparel, entertainment etc.
- Reliance has more than 300 Reliance Fresh stores; they have multiple formats and their sale was expected to be 90,000 crores ($20 billion) by 2009-10.
- Pantaloon Retail around 500 stores across the country and its revenue was expected to touch 30 million by 2010. Segments include Food & grocery, e-tailing, home solutions, consumer electronics, entertainment, shoes, books, music & gifts, health & beauty care services.

Retail and recession

The global economic slump has had its impact on the India retail sector. One of the earliest players in the Indian retail scenario Subhiksha's operations came to a near standstill and required liquidity injection. Vishal Retail secured corporate debt restructuring (CDR) plan from its lenders while other players like the Reliance Retail run by Mukesh Ambani and Pantaloon led by Kishore Biyani went slow on expansion plans and even scaled down operations. However, recently a bit of confidence was restored as the economy showed signs of growth.

Future Trends

- Lifestyle International, a division of Landmark Group, plans to have more than 50 stores across India by 2012–13.
- Shoppers Stop has plans to invest 250 crore to open 15 new supermarkets in the coming three years.
- Pantaloon Retail India (PRIL) intends to set up 155 Big Bazaar stores by 2014, raising its total network to 275 stores.
- Timex India was to open another 52 stores by March 2011 at an investment of US$ 1.3 million taking its total store count to 120. In the first six months of the fiscal ending September 30, 2009, the company had recorded a net profit of US$ 1.2 million.

The Road Ahead

Industry experts predict that the next phase of growth in the retail sector will emerge from the rural markets. By 2012 the rural retail market is projected to have a total of more than 50 per cent market share. The total number of shopping malls is expected to expand at a compound annual growth rate of over 18.9 per cent by 2015.

The Pitfalls of FDI in Multi-Brand Retailing in India

By: Shekar Swamy

There is a growing pressure on policymakers from foreign governments and big retailers to permit foreign direct investment (FDI) in multi-brand retail in India. At present, India allows 51 percent FDI in single-brand stores (e.g., Apple) and 100 percent FDI in cash & carry and wholesale trading. The retail trading by foreign multi-brand retailers (e.g., Wal-Mart Stores) is prohibited under the current regulatory regime.

The Committee of Secretaries has recommended that the sector be opened, with some riders that are easy to meet. Understandably, big domestic players in the retail business would welcome such a step, as they will be direct beneficiaries of investments into the sector. The government is yet to issue its formal notification, presumably evaluating the implications.

It is imperative that policy making with respect to FDI in multi-brand retail must take into account the unique situation of India, and not blindly follow Western practices. No other country (except China) faces the challenge of meeting the needs of 1.2 billion people. No other country has close to 400 million people below the poverty level, to be given some basic livelihood. No other country has the social complexity coupled with a fractious polity, which can erupt into social unrest with ease, when inherent balance is disturbed. In such a scenario, policymakers must serve the needs of the broadest base of the population, not just those at the top of the economic pyramid.

To begin with, one should assess the pros and cons of FDI in multi-brand retail over the next 10 to 20 years, not in immediate terms. In the short term, there is no denying that foreign capital will flow into the country and the government can claim that its economic reform agenda is intact. However, the adverse implications will be felt over long time in terms of job loss and the displacement of small retailers and traditional supply chains.

A large number of countries (rich and poor) have experienced negative impacts of multinational retail chains. Therefore, it is important for Indian policymakers to learn lessons from such experiences and adopt a cautious approach towards opening up the multi-brand retail sector.

The Indian Scenario

The oft-repeated argument that "As China has done, so India should do" is flawed, and does not take into account the key differences between the two conomies. Unlike India, China enjoys a huge trade surplus with US and other major trading partners. China's manufacturing base is very strong. Because of its globally competitive manufacturing sector, China can afford to open its retail sector to foreign investment. In contrast, Indian economy is services-led, with services outpacing industry and agriculture. The services sector accounts for 55 percent of India's GDP.

According to the A.T. Kearney Global Retail Development Index (2011), Indian retail sector accounts for 22 percent of the country's GDP and contributes to 8 per cent of the total employment. India's retail sector is highly fragmented, with selforganized retailing accounting for as much as 96 percent of the total retail trade.

India's low-cost retail trade exists in various forms (small stores to pavement vendors) and acts as a social security valve. Millions of small retailers make a living by serving small communities and neighbourhoods.

The Big Players

Once the multi-brand retail sector is opened up, multinational retail giants with turnovers of tens of billions of dollars will be lining up for a share in the Indian market. Some of the prominent big players keen to enter into India include Walmart from US (sales last year of over $400 billion (bn) from 9,000 stores), Carrefour from France (sales $130 bn from 9,500 stores), Tesco from UK (sales $100 bn from 5,400 stores), and Metro from Germany (sales $96 bn from 2,100 stores).

The predatory practices adopted by several multinational retail chains are well documented. Given their financial strength, big multinational players have the capacity to invest and sustain losses for years in order to wipe out competition. In the process, however, a large number of small and local retailers could be wiped out. For instance, take the case of Thailand where three foreign retailers took over 38 percent of the market within 13 years, thereby throwing thousands of local retailers out of business. Thailand is now struggling to contain the expansion of big retailers, and prevent monopolistic practices.

The big multinational retailers will not be content with setting up a few stores in India. Rather they will collectively set up thousands of shops all over the country over a period of time. Their business model demands that they build large volumes, which they would use to buy at lower prices, and this will help them to

build larger volumes (leading to more concentration) till it becomes very difficult for small and local retailers to compete with them.

Good for Consumers and Farmers?

Is it good for the consumer then, if prices are lowered initially? Up to a point, the consumer will benefit. But once big multinational players establish domination, the consumer becomes captive to them. That is when their mark ups will go up, and the consumer will have no choice but to pay the higher price. In essence, big retail business is a game of concentration and domination. In almost every market in the world, big multinational chains have edged out other players, leading to unfair concentration. In the grocery business, for instance, market shares range from 20 percent to as high as 80 percent. In Table 1, the market share of top retailers in several developed and developing countries is given. What is alarming to note is that market share in Brazil (38 percent) and Thailand (32 percent) has been achieved in just over a decade.

Table 1: Grocery Retail: Market Share by Country (2010) (in percent)

Country	Top Retailers	Market Share	Combined Market Share of Top Retailers
Sweden[a]	ICA Stores	50	
	Coop	20	
	Axfood AB	16	86
Belgium[b]	Carrefour	29	
	Delhaize	25	
	Colruyt	25	79
Australia[b]	Woolworth	46	
	Coles	32	78
Germany[b]	Metro, Edeka, Rewe, Schwarz, Tegelmann		75
Mexico[a]	Walmart	47	
	Soriana	14	
	Commerical Mexicana	9	70
Uk[b]	Tesco	30	
	Asda	17	
	Sainsbury	16	63
France[b]	Carrefour	25	
	Le Clerc	17	
	Mosquetaries	13	55
Brazil[b]	Carrefour	14	
	Cia. Brasileira de Distribuicao	13	
	Walmart	10	38
Thailand[a]	CP-All (part of 7-Eleven	11	
	Tesco Lotus	9	
	SHV Makro	5	
	Big C-Casino Group	5	
	Cenral Retails	2	32

a. 2010 b. 2009

Source: Compiled by author from various official and business publications. The complete list of publications is available with the author

The usual business model of big multinational retailers is "buy lowest, sell highest." They aim for size and scale to gain the power to dictate terms in the retail markets. There are several reasons to believe that they will not give Indian farmers a better price. In the US, for instance, farmers received over 40 cents for every food dollar spent at supermarkets in 1950s. Presently, they merely receive just 19 cents.

Since foods and vegetables are highly perishable items and refrigeration infrastructure is poor in India, producers will have no option but to sell their products at the price demanded by big retailers. No big foreign or domestic private retailer is going to invest huge amount of money in building rural infrastructure. This major problem can only be solved by undertaking massive public investments in the rural infrastructure such as roads, power supply and cold storages. It requires a different set of policy measures by both central and state governments.

Employment Creation or Displacement?

Presently, retail market structure in India is just the opposite of West, with no single player dominating any segment of the market. This structure tends to benefit both consumers and suppliers. The multinational players can superimpose their retail model on the Indian markets due to strong financial muscle and global sourcing. In the process, millions of jobs will be displaced not merely in the self-organized sector but also in the corporate retail sector as they will find it difficult to survive the onslaught of big retailers such as Walmart.

Unlike developed countries, 51 percent of the India's total workforce are self-employed. One of the biggest avenues of self employment is in retail trade due to very little entry barriers. For a vast majority of unskilled and poor people, retailing offers an excellent safety valve. Given the lack of alternative employment opportunities available, it is highly unlikely that the displaced unemployed (post foreign investment in the retail sector) will be absorbed in agriculture or manufacturing sector. Therefore, the

resultant social pressure and strife cannot be overlooked.

The US provides one of the most poignant examples of reduction in number of stores and employment. The unfettered growth of big retail in the US has put small retailers out of business. Between 1951 and 2011, the population of the US doubled from 155 million (mn) to 312 mn. Yet the number of stores actually declined from 1.77 mn in 1951 to 1.5 mn in 2011. The number of independent stores (with less than ten employees) also declined from 1.6 mn to 1.1 mn during the same period. Imagine if such a process takes place in India, it would pose a serious unemployment problem.

The argument that the entry of big foreign retailers will result in major employment opportunities is misleading. Undeniably, multinational retailers will employ some people to manage stores but, at the same time, they will be knocking off employment in large numbers in the overall economy. It is the net numbers that should be the concern of the policy makers.

If allowed unfettered access to the Indian market, big foreign retailers are likely to source manufactured products from outside (particularly China, Taiwan and other East Asian countries where manufactured goods are much cheaper than India). This would also have negative ramifications on Indian manufacturing. In such a scenario, how can India increase the share of manufacturing from the current 16 percent to 25 percent of GDP by 2025, as outlined under the proposed National Manufacturing Policy (NMP)?

Concerns over Food Security

Another concern relates to the entry of big foreign retailers on nation's food supply chain. Food security is not merely about food but has strong linkages with economic security, national security and sovereignty. The situation should remind us of the times when the British exercised control over the supply of salt to the Indian consumer for more than 180 years. In the recent past, the US has stopped oil companies and port facilities from passing into foreign hands on grounds of national security. In France, there was a proposal in 2006 by Pepsico to acquire Danone but the French government declared Yogurt as a strategic industry and blocked the bid by Pepsico. The simple policy lesson is that one should not risk overseas entities gaining any sort of control or even influence over the nation's food supply chain. Therefore, the Indian policy makers should assess the implications of opening up food supply chain to overseas corporate bodies and structures.

Taming Inflation

There is no empirical evidence to prove that the entry of big multinational retailers will help control inflation. The claim that they reduce consumer prices may be only applicable on "On Sale" merchandise, which is a part of well-known "loss leader1" pricing strategy.

What is important is to look at retail mark-ups (the extent to which selling price is increased vis-à-vis sourcing price). The mark-ups across four categories of products are shown in Graphic (page 5). The retail mark-ups in the West range from 2x more than India to 3x more, and for some categories of goods is as high as 9x. By rapid expansion and market concentration over time, the retailers can easily increase their mark-ups and margin. Thus, it is in the interests of consumers to have a fragmented retail environment where no one retailer can command excessive mark-ups due to abuse of market power.

There is no denying that there are several shortcomings in the Indian retail sector which could be addressed through a slew of policy initiatives by central and state governments.

The arguments supportive of the entry of foreign investment in multi-brand retail in India are highly overstated and backed by little evidence. On the contrary, real world experiences and empirical studies show that the benefits of FDI in retail sector are much fewer in comparison with the economic and social costs. In these circumstances, the opening up of multi-brand retail sector to big foreign players may prove counterproductive and catastrophic.

(Courtesy: Madhyam's Briefing Papers)

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How FDI in Retail Will Hurt Farmers

By: Shekar Swamy

With the government stating that its FDI policy on multi-brand retail will be on hold till after the UP elections, the publicity assault to prepare the ground for it to be brought back is palpable. The strategy employed is the classic "divide and rule".

"If the trader groups are against FDI, then let farmer groups be set up to fight the trader groups" seems to be the ploy. We now see repeated stories in the media about how FDI in retail will benefit the farmers of India. We could have taken this seriously, but unfortunately the global evidence points in the other direction. Farmers in the West have paid a big price, with hundreds of thousands forced to shut down their farms, due to corporatisation of the farming sector, along with corporate concentration on the purchasing side among processors and retailers.

Big retailers' biz model

Big retail in the West and elsewhere functions on a simple business model.

Grow bigger and bigger till the market becomes an "oligopsony" — a situation where a small number of buyers exert power over a large number of sellers. The UK food retailing industry, for example, is now dominated by just four supermarket chains who together account for over two-thirds of retail food sales. Likewise, the top five chains in the US account for over 60 per cent of food sales.

This results in the retailer exercising enormous control over their suppliers, which includes the farmers.

Punjab example is wrong

A prominent TV channel featured the story of a few farmers in Punjab highlighting how direct purchases of produce by a retailer had given them a higher yield. This is a type of faulty reasoning described in college textbooks as "the fallacy of composition". The fallacy of composition arises when one infers that something is true of the whole from the fact that it is true of some part of the whole.

The channel had obviously hand-picked a few farmers who suited its conclusion. The only way to assess the impact on farmers is to look at countries where big retailers dominate the market, and see how the entire farming community has fared.

Lower prices to farmers

A good way to measure the effect of retail power on farmers and farm workers is to look at the portion of each dollar spent on food at the supermarket — referred to as the retail food dollar — that goes back to the farm.

By this measure, virtually all food producers in the US have seen their share of the retail food dollar decline over time, at points dropping so low that farmers have been forced out of business in droves. Here are just a few examples:

In 1970, hog producers (those who raise pigs) in the US derived 48 cents of the retail dollar spent on pork. Three decades later, they received only 12 cents out of every retail dollar, causing loss to the farmers. While this happened, consumers didn't benefit from the low farm prices at all: retail pork prices stayed stable. (Source: Agribusiness Accountability Initiative)

According to the US Department of Agriculture's Economic Research Service, in 1990, ranchers and farmers received 60 cents of the retail dollar spent on beef, retailers received 32.5 cents and meat companies 7.5 cents. In 2009, the numbers were reversed — retailers took 49 cents share of each dollar (up 16.5 cents) consumers spent on beef, while ranchers and farmers got 42.5 cents (reduction of 17.5 cents) and meat packers 8.5 cents.

The breed of the small rancher/farmer in the US is under threat as they go out of business in large numbers year on year. (Source: http://bloom.bg/et4eLU) In the UK, the Royal Association of British Dairy Farmers has complained vociferously that prices paid to farmers for fresh milk are simply unsustainable, with the average farmer losing money on each litre of milk produced.

This has happened even as the supermarkets' margin on fresh milk has increased steadily over the years.

While it costs the consumer £1.45 to buy four pints of milk at a supermarket such as Tesco, the farmer receives just 58 pence (40 per cent) of this, causing a loss of 3 pence for every four pints. Small farmers have closed their dairy operations as a result.

In India, dairy farmers receive as much as 75 per cent of what the consumer pays for a litre of milk.

Subsidies prop farming

If big foreign retailers are expected to shore up our farmers as claimed by the publicity reports, there is no evidence of this in the countries where these retailers have spread their wings the widest.

In the US, farmers received direct commodity subsidies of over $167 billion in the period 1995-2010 (Source: http://farm.ewg.org/region.php?fips=00000)

The European Union paid direct farmer subsidies of •39 billion ($51 billion) in 2010 alone. Why these subsidies if the big retailers are paying the best prices to the farmers as claimed?

Sorry example of Mexico

Mexico (population 112 million) signed the North American Free Trade Agreement in 1994. It has since witnessed a virtual takeover by Walmart which has gained nearly a 50 per cent share of the country's retail market.

Mexico can now be described economically as a vassal state. A combination of big retail and imports under NAFTA has driven over 1.25 million small Mexican farmers — 25 per cent of the country's farmers — off their farms. Consequently, the illegal immigration to the US, which was to have been reduced because of NAFTA, has more than doubled to nearly 6 million Mexicans.

Even a fraction of such a displacement in India, arising out of misguided policies, will cause social disruption on a vast scale.

India has more than 58 million small farmers, 12 million small retailers and 26 million small and micro enterprises representing over 450 million people.

The 300 MPs of the parties who opposed FDI in retail are right. Disturbing this mass of people is not politically sustainable.

(Courtesy: Business Line)

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FDI in retail: Positive and Negative Arguments

Positive Arguments:

- Because of the investment of foreign companies, job opportunities in areas like marketing, agro-processing, packaging, transportation, etc. will be created. According to the Government, 10 million new jobs will be created.
- Because of FDI, the post of middlemen in India will be removed. Because of that, farmers will get a good price for their crops and their exploitation will stop (which is going on for the last 150 years).
- Foreign companies will invest around $100 million in India. Because of that, infrastructure facilities, refrigeration technology, transportation, etc. will be renovated. That will lead to low-inflation rate.
- According to the Indian Government's conditions, foreign companies have to source a minimum of 30% of their goods from Indian micro and small industries. This will provide the scales to encourage domestic manufacturing, by creating a big effect for employment and to upgrade the technology.
- Countries like China, Indonesia, and Thailand already have 100% FDI in retail. After allowing FDI in retail, these countries have experienced tremendous growth in the agro processing industry, refrigeration technology and infrastructure.
- Foreign companies will also create a supply-chain in Indian market. Because of that, food which perishes due to bad infrastructure facilities and refrigeration, will not be wasted.

Negative Arguments :

- FDI will lead to job losses. Small retailers and other small 'Kirana store owners' will suffer a large loss. Giant retailers and Supermarkets like Walmart, Carrefour, etc. will displace small retailers.
- Supermarkets will establish their monopoly in the Indian market. Because of supermarket's fine tuning, they will get goods on low price and they will sell it on low price than small retailers, it will decrease the sale of small retailers.
- Jobs in the manufacturing sector will be lost because foreign giants will purchase their goods from the international market and not from domestic sources. This has been the experience of most countries which have allowed FDI in retail. Although, our country had made a condition that they must source a minimum of 30% of their goods from Indian micro and small industries, we can't stop them from purchasing goods from international markets as per WTO law. So after coming to India, they can reduce this 30% by litigating at the WTO.

Last December, Prime Minister Manmohan Singh pledged to open India's retail industry to foreign giants such as Walmart Stores Inc and Carrefour SA.

But the foreigners are still waiting, stalled by populist politicians who say their arrival would threaten the survival of India's legions of small shop owners. The delay has done little to change the perceived threat to mom and pop shops, though, as local conglomerates controlled by India's richest families have been busy shoring up their position in retail.

The Birla, Ambani, Tata and Raheja business houses — which already dominate sectors such as energy and automobiles —have spent the past several months opening new outlets or taking over existing retailers to gain an edge in an industry that Technopak Advisors Pvt estimates will expand more than 40 per cent to $725 billion by 2017.

"The attraction of the retail segment for most Indian corporate houses is they see consumer-oriented industries as the next logical platform for growth," said Hemant Kalbag, head of the consumer and retail practice for Asia at consultancy A T Kearney.

Stores and supermarkets are a switch from the traditional businesses of India's billionaires, most of whom got their start in steel, oil, cotton, spices, and other commodities. Today, the country's wealthiest families are betting that they can prosper by catering to a growing middle class seeking higher quality goods in cleaner stores.

Highest earnings potential

A unit of billionaire Kumar Mangalam Birla's Aditya Birla Group, which produces aluminum and copper, in April agreed to buy part of Pantaloon Retail India Ltd by purchasing Rs 800 crore ($146 million) worth of debentures and taking on another Rs 800 crore in debt.

Reliance Industries Ltd (RIL), primarily an oil-refining business run by India's richest man, Mukesh Ambani, has already announced a joint venture with Brooks Brothers to sell suits, sportswear and accessories in India. That adds to the more than 1,300 Reliance stores offering products from groceries to Apple computers.

Ambani, who ranks 22nd on the Bloomberg Billionaires Index with a net worth of $21 billion, pledged to boost revenue from his retail operations at least fivefold from the current Rs 7,600 crore ($1.38 billion) within four years. Reliance Retail will have some of the company's "highest growth rates and earnings potential," Ambani told a June annual meeting.

Political opposition

DLF Ltd, India's largest real estate developer based in Gurgaon and run by billionaire Kushal Pal Singh, in May, opened its first retail outlet selling multiple brands. The company's retail unit, DLF Brands, plans to expand to as many as 500 stores in the next four or five years, said Dipak Agarwal, chief executive for operations and strategy at DLF Brands.

Shoppers Stop Ltd, a unit of billionaire Chandru Raheja's K Raheja Corp, added 54 new stores in the financial year ended March 31, the most openings the company has ever made in a year. Trent Ltd, a publicly traded unit of the Tata Group that operates supermarkets and clothing stores, added 17 outlets in the year ended March 2012.

India's government on November 24 agreed to allow overseas companies to own as much as 51 per cent of supermarkets. Two weeks later it reversed that decision because of political opposition from critics who said the multinationals would destroy mom-and-pop businesses.

In a December interview with Bloomberg, Prime Minister Singh pledged to overcome that opposition, possibly after March state government elections. That hasn't materialised as his Congress party faced a setback in the regional voting and contended with surging inflation and a plunging rupee.

"I don't sense any consensus has been built," said Sonal Varma, India economist at Nomura Holdings Inc.

Indian partners

An opening of the retail sector wouldn't necessarily hurt India's big business houses. Overseas retailers will likely be required to have local partners, giving Indian companies room to negotiate tie ups. India allows global retailers with multiple brands to have wholesale operations, although they can't sell directly to consumers. Existing partnerships in the wholesale industry could extend into retail if the market opens.

Walmart has 17 wholesale outlets in India, set up in partnership with billionaire Sunil Mittal's Bharti Enterprises Pvt Ltd. Bharti, which owns India's largest mobile phone operator, Bharti Airtel Ltd, runs its own chain of over 170 Easyday supermarkets.

"Even if foreign companies are allowed they would like to have a tie with somebody who is local," said Arun Kejriwal, director of Kejriwal Research. "It gives them access to the Indian market, logistics, everything else at one shot."

Indian conglomerates have said they support foreign

investment in retail. When the government in November said it would allow the overseas brands in, Bharti issued a statement praising the decision.

The conglomerates' immediate payouts have been limited as they invest in new stores. Reliance Industries's Rs 7,600 crore in retail revenue is a fraction of the conglomerate's total sales of Rs 3.4 lakh crore. Tata's Trent had a loss of Rs 37.76 crore in the fiscal year ended March, according to data compiled by Bloomberg.

Small neighbourhood stores still dominate Indian retail. Foreign investment "is not going to really eradicate the nearby shopowner," said Kumar Rajagopalan, chief executive officer for the Retailers Association of India. "If it had to happen it would have happened even with the large business houses in the country opening up more stores." Organised retail, where conglomerates such as Tata and Reliance operate, accounts for just 6.5 per cent of the retail sector, Technopak estimates.

"There is huge potential," said Pranab Barua, head of retail and apparel at Aditya Birla Nuvo Ltd. "Penetration is very low even now for modern retail."

(Courtesy: Business-standard.com)

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No Walmart Please

By: Rajindar Sachar

Retail business in India is estimated to be a 400 billion dollars but the share of the corporate sector is only 5%. There are 50 million retailers in India including hawkers and pavement sellers. This comes to one retailer serving 8 Indians. In China it is 1 for 100 Chinese. Food is 63% of the retail trade, according to the information given out even by FICCI.

The claim by the Government that Walmart intrusion will not result in the closure of small retailers is a deliberate mis-statement. IOWA State University study in USA has shown that in the first decade after Walmart arrived in IOWA the state lost 555 grocery stores, 298 hardware stores, 293 building supply stores, 161 variety stores, 158 women apparels stores and 153 shoe stores, 116 drug stores and 111 men and boys apparels stores. Why would it be different in India with lesser capacity for resilience by the small traders?

The fact is that during 15 years of Walmart entering the market, 31 super market chains sought bankruptcy in 15 years. Of the 1.6 million employees of Walmart only 1.2% makes a living above the poverty level. The Bureau of Labour Statistics, USA is on record with its conclusion that Walmart's prices are not lower than anyone else when compared to typical families' weekly purchases.

In Thailand supermarkets led to 14% reduction in the share of 'mom and pop' stores within four years of FDI permission. In India, 33-60 percent of the traditional fruit and vegetable retailers reported 15-30 percent decline in footfalls, 10-30 percent decline in sales and 20-30 percent decline in incomes across cities of Bangalore, Ahmedabad and Chandigarh, the largest impact being in Bangalore, which is one of the most supermarket-penetrated cities in India.

The average size of the Walmart stores in the United States is about 10,800 sq. feet employing only 225 people. In that view is not the Government's claim of increase in employment a canard.

Governments attempt to soften the blow by emphasizing that Walmart is being allowed only 51% in investment upto US$ 100 million. Prima facie the argument may seem attractive. But is Walmart management so stupid that when its present turns over of retails is 400 Billion Dollars it would settle for such small gain. No, obviously, Walmart is proceeding on a maxim of the camel being allowed to put its head inside a tent and the occupant finding thereafter that he is being driven out of it by the camel occupying the whole of the tent space. One may substitute Walmart to the camel in order to understand the danger to our millions of retailers.

The tongue in the cheek arguments by the Government that allowing Walmart to set up its business in India would lead to fall in prices and increase in employment is unproven. **A 2004 Report of a Committee of US House of Representatives concluded that "Walmart's success has meant downward pressures on wages and benefits, rampant violations of basic workers' rights and threats to the standard of living in communities across the country." By what logic does the Government say that in India the effect will be the opposite? The only explanation could be that it is a deliberate mis-statement to help the multinationals.**

Similar anti consumer effects have happened by the working of another Super Market enterprise namely Tesco of Britain.

A study carried out by Sunday Times shows that Tesco has almost total control of the food market of 108 of Britain's coastal areas i.e. 7.4% of the country. The Super Markets like Walmart and Tesco have a compulsion to move from the territory from England

and USA because their markets are saturated and they are looking for countries with larger population and low super market presence according to David Hogues, Professor of Agri Business at the Centre for Food Chain Research at Imperial Collage, London, because they have got nowhere else to go and their home markets are already full. Similarly a Professor of Michigan State University has pointed out that retail revolution causes serious risks for developing country farmers who traditionally supply to the local street market.

In Thailand, Tesco the foreign owned super market controls more than half the Thai market. Though Tesco when it moved into Thailand promised to employ local people but it is openly being accused of unfair trading practices and conflict with local businesses. As for the claim that these super market dealers will buy local products is belied because in a case filed against Tesco in July 2002 the Court found them charging slotting fees to carry manufacturers products, charging entry fee of suppliers. In Bangkok, Grocery Stores' sales declined by more than half since Tesco opened a store only four years earlier.

In Malaysia seeing the damage done by the super market Tesco since January 2004 a freeze on the building of any new super markets was imposed in three major cities and this when Tesco had only gone to Malaysia in 2002.

It is worth noting that 92% of everything Walmart sells comes from Chinese owned companies. Indian market is already flooded with Chinese goods which are capturing the Indian market with cheap goods and traders are already crying foul because of the deplorable labour practices adopted by China. Can in all fairness, Indian Government still persist in keeping retail market open to foreign enterprises and thus endangering the earnings and occupation of millions of our countrymen and women.

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Banking on Debt

By: C.P. Chandrasekhar and Jayati Ghosh

Besides inflation, which has been an issue of concern for sometime now, the main problem in macroeconomic management confronting the government is the depreciation of the rupee. The currency has lost a fifth or more of its value vis-à-vis the dollar over the last year, and the bets are that it would move further downwards.

Needless to say, underlying that tendency must be changes in the balance of payments that increase the demand for foreign exchange relative to supply in India's liberalised foreign exchange markets. Signalling that change is a decline in India's still comfortable foreign exchange reserves, with Reserve Assets recorded in the country's international investment position having declined from $315.7 billion at the end of June last year to $294.4 billion at the end of March this year.

The principal factor for decline in reserves is the sharp increase in the current account deficit from a negative $45.9 billion to as much as $78.2 billion. This $22 billion-plus increase in the current account deficit has been only partly matched by the smaller $16 billion plus increase in inflows on the capital account. In addition, while in 2010-11 the dollar was depreciating vis-à-vis many other international currencies, the reverse was true in 2011-12. Hence valuation changes resulted in a much larger $12.4 billion "accretion" to reserves in 2010-11 as compared with $2.4 billion in 2011-12. The net result is that reserves increased by $25.8 billion in 2010-11, while they declined by $10.4 billion in 2011-12.

In sum, three factors underlie India's dwindling reserves. First, a sharp rise in the current account deficit. Second, the inability of capital inflows to fully finance this deficit, despite a significant rise in the volume of those flows. And, third, valuation changes that contributed to a smaller 'increase' in reserves during the last financial year, as compared with the year before. India's government and central bank can do little about the last of these, so the problem of declining reserves is the result principally of the widening of the current account deficit which was far too large to be covered by an increase in the inflow of capital.

What is noteworthy is that one factor seems largely responsible for the widening of the current account deficit. The only element contributing to the increase in the deficit is an increase in the import bill from $381 billion to almost $500 million. Exports in 2011-12 actually increased, and so did net income from services and net transfers. Thus, a rise in the import bill seems to be solely responsible for the deterioration in the current account. The RBI notes in its press release of June 29 on developments in India's balance of payment: "In 2011-12, the CAD rose to US$ 78.2 billion (4.2 per cent of GDP) from US$ 46.0 billion (2.7 per cent of GDP) in 2010-11, largely reflecting higher trade deficit on account of subdued external demand and relatively inelastic imports of POL and gold & silver." While "subdued external demand" may

be true of the fourth quarter of 2011-12, it is hardly true of the year as a whole. So what seems to explain the essential problem on the external front is the high oil import bill resulting from the prevailing high prices of oil in global markets and the high foeign exchange outlays on gold, which has become the target of speculative investment for rich Indians.

It should be expected that matters may have improved since the end of March because of the decline in global oil prices in recent weeks. But unfortunately for India, this is precisely the time when the effects of the global recession on India's exports are beginning to be felt. There were signs of weakness even by the fourth quarter of last financial year, with growth in merchandise exports decelerating to 3.4 per cent as compared with 46.9 per cent during Quarter 4 of 2010-11. Subsequently, in May 2012, India's exports fell by 4.2 per cent. So, even though imports fell by 7.4 per cent, the trade deficit remained high at $16.3 billion, though lower than the $18.4 billion recorded in May 2011.

It should be clear from the evidence above that when attempting to address balance of payments difficulties and shore up the rupee, the government should focus on the import bill, since stimulating exports in the midst of a global recession would be difficult. Interestingly, however, the government's focus seems to be on attracting more capital flows. In its policy response, the government recently announced a set of measures aimed at increasing the space for and improving conditions for foreign financial investors in the debt market in India. The ceiling on FII investment in government securities has been increased from $15 billion to $20 billion and the residual maturity required for investments in excess of $10 billion has been reduced from 5 to 3 years. Quicker exit has been allowed even for FII investors in long-term infrastructure bonds (with a reduction in the lock-in and residual maturity requirement from 15 months to one year) and the Infrastructure Development Fund (with lock-in reduced from three years to one year and residual maturity fixed at 15 months). Finally, the government has now allowed new entities such as sovereign wealth funds, multilateral agencies, insurance companies, pension funds, endowments and foreign central banks to invest in government debt.

Thus, it is not only the focus on capital inflows that distinguishes the government's response, but the fact that when doing so it seems to be favouring the debt market in particular. One reason is of course that rules and regulations with regard to FII investments in equity have been liberalised substantially in the past. The other possibility is that the slack in debt inflows is perceived to be greater, making debt flows more responsive to government policy shift.

The evidence seems to support that perception. If we consider 2011-12 as a whole and examine the composition of capital inflows, we find that though there was a change in the composition of investment flows away from portfolio flows to direct investment flows, the aggregate private investment flow into equity remained more or less the same at $39-40 billion in both 2010-11 and 2011-12. Not much should be made of the shift from portfolio to direct investment, since the difference between the two merely consists of the fact that direct investors are identified as those who have cumulatively brought in capital equal to 10 per cent or more of the equity in the target firm. Further, with the stock market weak and volatile, investors may have preferred to stay out of the FII route.

What is remarkable about the capital account is that inflows into NRI deposits had risen from $3.2 billion in 2010-11 to as much as $11.9 billion in 2011-12. This $8.7 billion increase in these inflows exceeds the $6.4 billion increase in aggregate capital flows, suggesting that they contributed to neutralising part of the outflow under other heads. The increase in NRI deposits is all the more noteworthy because that increase has largely been in the non-resident external (NRE) rupee accounts, where remittances from abroad are converted into and maintained in rupees in the account. This implies that the foreign exchange risk is borne by the depositor and not the bank. On the other hand, in the case of foreign currency non-resident (FCNR) accounts, the deposit is held in dollars and the bank carries the exchange rate risk.

Given the weakness and volatility of the rupee, one would have expected that fear of the depreciation risk would have kept investors away from NRE accounts. The reason why they have rushed into such accounts is the decision of the RBI to deregulate interest rates on non-resident accounts of maturity of one year and above in the second half of the last financial year. Following the deregulation, many banks have chosen to increase the interest rates on NRE and NRO (ordinary non-resident) deposits, with some going in for extremely large hikes. The State Bank of India, for example, raised the interest rates on NRI fixed deposits of less than Rs. 1 crore with a maturity of one to two years to 9.25 per cent from 3.82 per cent.

The net result is that despite the nil or extremely low interest rates on premature withdrawal, non-residents have rushed into these accounts. They are clearly speculating that the depreciation cannot be as much as to wipe out the high differential between these rates and international interest rates. The banks on

the other hand are betting that after taking depreciation into account they would be paying a lower interest rate on these accounts than on comparable domestic accounts. Matters went so far that the RBI had to issue a circular cautioning banks against offering such high interest rates. Reminding banks that the interest rates offered on NRE and NRO deposits cannot be higher than those offered on comparable domestic rupee deposits, the RBI also recommended that "banks should closely monitor their external liability arising out of such deregulation and ensure asset-liability compatibility from systemic risk point of view."

In sum, there are two aspects to recent developments on the external account. First there has been a significant increase in the reliance on debt to finance a persisting current account deficit. As the RBI recognised in a June 29 release, "India's external debt, as at end-March 2012, was placed at US $ 345.8 billion (20.0 per cent of GDP) recording an increase of US $ 39.9 billion or 13.0 per cent over the end-March 2011 level on account of significant increase in commercial borrowings, short-term trade credits, and rupee denominated Non-resident Indian deposits." The second is that this increase in debt has associated with it a significant speculative component, which would increase the volatility of those flows. This is to add another element of vulnerability to the problems created by a high import bill, especially on account of gold imports. The government may do well addressing the latter vulnerability rather than encouraging further inflows of speculative debt capital. However, its recent manoeuvres opening up the debt market to foreign investors suggest that it is acting to the contrary. Since government securities are tradable, foreign investors could invest in them to speculate on expected movements in the rupee's value. This could increase external vulnerability and may explain why the rupee remains weak despite the comfortable absolute (even if declining) levels of India's foreign reserves.

(Courtesy: Macroscan.org)

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Here Is Why GAAR Jarrs

By: Gaurav Choudhury

Prime Minister Manmohan Singh has set up an expert panel, under economist Parthasarathi Shome, to examine the controversial General Anti Avoidance Rules (GAAR). An explainer on the issues involved:

What's GAAR?

GAAR or General Anti-Avoidance Rule is aimed at preventing deals or incomes that are structured only to avoid paying taxes.

Why is GAAR required? Isn't tax planning and tax saving legitimate?

In India, the courts have ruled that saving of taxes through permissible instruments of tax planning is legitimate. But tax avoidance is illegal.

Why are anti-avoidance measures necessary?

According to some experts, in an environment of moderate rates of tax, it is necessary that the correct tax base be used for calculating taxes in the face of aggressive planning and use of opaque low tax jurisdictions for residence as well as for sourcing capital.

Whom does GAAR affect?

Almost anybody and everybody. Corporations may be forced to restructure salaries of employees if taxmen conclude that these were structured only to avoid taxes. Foreign institutional investors (FIIs) who invest through countries such as Mauritius to exploit bilateral tax treaties will be affected after GAAR comes into force. It's feared that once GAAR is invoked FIIs will have to pay capital gains tax for their investment in Indian equities.

How can an individual be affected by GAAR?

In many ways. For example, if you have taken a loan from your spouse for which you are paying an interest, the tax department can conclude that you have structured the loan from a family member only to claim a tax deduction on the interest paid. Your spouse, on the other hand, will pay a lower tax on the interest earned. This may be seen as violating GAAR.

Why was GAAR proposed?

Former finance minister Pranab Mukherjee while presenting the Union Budget for the current fiscal had proposed implementation of GAAR to check tax avoidance. It was proposed with a view to bar companies from aggressive tax planning by use of opaque low tax jurisdictions for residence as well as for sourcing capital.

What is the basic criticism against GAAR?

The basic criticism of against GAAR is that it provides a wide discretion and authority to the tax administration, which at times is prone to be misused. This vital aspect, therefore, needs to be kept in mind while formulating any GAAR regime.

What are the other fears?

It also sparked fears among global and domestic investors, who said the move would choke foreign investment into India

How do people use tax havens to avoid paying taxes?

The most obvious is to move to the tax haven country and become a resident for the purpose of paying taxes. The problem has arisen because of 'round tripping' or 'treaty shopping'.

Round tripping refers to routing of investments by a resident of one country through the other country back to his own country.

The finance ministry had set up a committee to look into it. What's the status on that?

Last month, the committee headed by director general of the income tax (international taxation) had published draft rules for GAAR recommending a host of measures. It has recommended that GAAR should be made applicable only from April 1, 2013.

Only income or transactions beyond a certain threshold limit will come under the provisions of GAAR. The threshold limit, however, has not yet been stipulated, but the committee made it clear that GAAR should not be applied retrospectively.

Foreign institutional investors (FIIs) who invest through countries such as Mauritius to exploit bilateral tax treaties, however, will be affected after GAAR comes into force. The committee is of the view that GAAR should not be invoked on participatory notes or P-Notes.

What is the mandate of the new committee set up by the PMO?

The Prime Minister's Office (PMO) had clarified, a day after the finance ministry published draft guidelines, that it will look into the matter. The panel, headed by Shome, head of think-thank ICRIER, includes former insurance regulator N Rangachari, economist Ajay Shah and bureaucrat Sunil Gupta. It will submit its norms and implementation roadmap on GAAR by September 30.

(Courtesy: The Hindustan Times)

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The Dangers of Providing Speculators a Bigger Playground

By: Sunanda Sen and Mahua Paul

A commodity 'futures' contract is an agreement contracted in the commodity exchanges to buy or sell a particular quantity of a commodity at a specified date in the future at a price determined in advance between the two parties (the 'futures' price). The party agreeing to buy the commodity in the future is the buyer of the futures contract, and the party agreeing to sell the commodity in the future is the seller. Futures commodity contracts are for standardised quantities and standardised qualities of particular commodities. Unlike forward contracts,these are always traded in commodity futures exchanges. (By contrast, 'spot' markets (and accordingly, 'spot' prices) are those for immediate payment and delivery.)

Both 'hedgers' and speculators participate in commodity futures markets. 'Hedgers' are those who have actual dealings with the underlying commodities, and wish to mitigate the risk of prices declining (if they are producers) or rising (if they are consumers) by the time the actual sale is to take place. Let us say an oilseeds grower anticipates a good crop nationwide and plentiful supply. He may sell three-month oilseeds futures in order to protect himself against a decline in prices by the time he brings his crop to the market. Conversely, a fried foods manufacturer may buy oilseeds futures for fear that prices might rise by the time she/he requires more oil.

Speculators, on the other hand, gamble on the movement of prices: they buy futures if they think spot prices will rise, and sell them if they think spot prices will fall, by the date of the expiry of the contract. They make a profit on the difference between the spot price and the price at which they have bought the futures. In theory, the objective role of speculators is to bring enough liquidity into the market for it to function smoothly, as their operation ensures that there are enough buyers and sellers for the hedgers to be able to pass on their risk. However, it is well known that the overwhelming bulk of trade is carried on by speculators, and is many times the value of the underlying commodities. Unlike in spot purchases, the buyer of a futures contract does not pay its full value at the time of buying it, but rather a small percentage of the value, known as a 'margin' payment. The eventual settlement of the contract generally does not take place by means of physical delivery, but by settling in cash the difference between the contract price and the spot price prevailing on the date of expiry of the contract.

Futures trading is not new in India. However, divergent positions on futures trading have of late been a topic of public debate, especially in the context of rising prices of essential foodgrains, farmer-distress, and the failure of State policies to combat the above. A particular target of criticism is the operation of futures markets in agricultural commodities, and especially in cereals, pulses and other essential food items, especially with regard to re-opening futures markets for essential food items which earlier had been de-listed. In India, trade in agricultural commodity futures has taken off since 2003, rising from Rs 0.67 lakh crores (Rs 670 billion) in 2002-03 to Rs 9.02 lakh crore (Rs 9.02 trillion) in 2009-10,1 a more than 13-fold increase.

Arguments that forward and futures trading can be beneficial centre around a process known as 'price discovery', whereby the price of a commodity is efficiently determined through interaction of buyers and sellers in the marketplace, subject to competitive markets and full information. Futures trading is supposed to reduce risks for buyers and sellers by minimising uncertainty: Risks are also supposed to get reduced with prices pre-set, thus helping participants in the market to know how much they will need to buy or sell. It is also claimed that the ultimate cost to the retail buyer will be less, because, with less risk, there is a smaller chance that suppliers will jack up prices to make up for losses in the cash market.

Proponents of futures trading further claim it allows risk sharing among various market participants. For example, farmers can ensure remunerative prices by selling their produce with futures contracts. Similarly, the trader can buy futures to hedge against volatile prices, thus hedging the carrying risk to ensure the smoothing of prices for seasonal commodities round the year.

However, those who question the virtues of unbridled trade in commodities in the futures market argue as follows: (a) Futures trading can lead to a rise in spot prices and inflation. Critics point out that when there is bad news about future supply, speculators start hoarding commodities and hence artificially drive up the prices.2 (b) They also point out that futures trading drives up volatility. (c) Thirdly, futures markets are not necessarily either transparent or costless. Opportunities for trading are thus monopolized by large traders/large farmers, leaving little space for others in the market.

Echoing the differences in the current views on futures trading in commodity markets, the official position in India on futures markets has been subject to frequent reversals, with the opening of futures trade in specific items often followed by their de-listing, or vice-versa. However, one can notice a consistent pattern in the official policy to open such markets since the beginning of the major economic reform in the country in the year 1991.

The first of these moves in the post-reform period was in 1993, with the appointment of an official committee on futures trading in commodity markets headed by K.N. Kabra. The report, submitted in 1994, recommended the opening up of futures trading in 17 major commodities. But it did not favour the opening of futures markets in wheat, pulses, non-basmati rice, tea, coffee, maize, vanaspati and sugar (essential food items of daily consumption), unless the market in the respective commodity was found stable in terms of a case by case study.

In response to the policy changes following the majority recommendations of the Kabra Committee, several Nation-wide Multi-Commodity Exchanges (NMCE) have been set up, especially since 2002, using modern practices such as electronic trading and clearing. The Government has now allowed national commodity exchanges, similar to the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), to come up and deal in commodity futures in an electronic trading environment. These exchanges are regulated by the Forward Markets Commission (FMC). In 1996 a joint mission of UNCTAD and World Bank recommended an opening up of futures trading in India's commodity market and a minimization of government controls on such trade. And in 2000, the official National Agricultural Policy, pronounced a similar view.

Notwithstanding this, in 2001, a new committee on the futures market (the Guru Committee) recommended against allowing an unbridled opening of futures in all commodities, many of which, it held, were not fit for futures trading. It suggested a case-by-case approach, a decision on which could be left to individual commodity exchanges, provided the specific case fulfilled all of the five pre-conditions laid down by the committee. These conditions included the availability of a large marketable surplus, storability and standardization of the commodity, volatility of price and absence of controls. More recently, an Estimates Committee of the Parliament in November 2009 also pointed out that futures trade in essential commodities for consumption "may spawn excessive speculation and cause artificial price increase."

The surge in food prices, continuing unabated, in spite of the slow rise or almost a stationary level of the Wholesale Price Index (WPI), led the Government to appoint a new committee on commodity futures markets. Contrary to the notion that futures trading

helps in managing risks and discovering prices, the committee in its final report of 20085 doubted that futures can provide hedging facilities to all in the market (and especially for the small traders). It suggested that a case for futures trade should rest in providing benefits to farmers who produce the traded commodities.

However,in a supplementary note, the committee drew attention to rising international commodity prices as a factor behind the rising spot market prices for agricultural products in different countries, including India.It may be noticed that this argument weakens the case against future trade as a factor causing price rise in commodities. Stressing the need to insulate the prices of essential food items in the country, the note emphasized the need for revamping the public distribution system (PDS) and hiking the Minimum Support Price (MSP) in order to ensure supply from farmers.

International evidence points to the link between commodity futures and inflation. The international think-tank International Food Policy Research Institute (IFPRI) found that for India "rising expectations, hoarding and hysteria played a role in increasing the level and volatility of food prices, as did the flow of speculative capital from financial investors."6 A similar view was held by the Washington-based Institute of Agriculture and Trade Policy.7 UNCTAD in its 2009 Trade and Development Report stated that "…a major new element in commodity trading over the past few years is the greater presence on commodity future exchanges of financial investors that treat commodities as an asset class. The fact that these market participants do not trade on the basis of fundamental supply and demand relationships and that they hold, on average, very large positions in commodity markets, implies that they can exert considerable influence on commodity price developments." The report points at the sharp rise in commodity prices between 2002 and mid-2008, which has been followed by a reversal. Both of those, as pointed out by UNCTAD, were related to the financial market boom, which was recently followed by a crash.8 As pointed out, 'financialisation' also increases price volatility and "…hedging becomes more expensive and perhaps unaffordable for developing country users, as they no longer are able to finance margin calls".9 The same argument probably also holds for intra-country futures trade, where use of high margins can deter small traders.

Official policies in India on futures trading in commodities since 1991

To recount the changes in official policies relating to commodity futures in India during the liberalisation years (post-1991): The first major move was the opening of commodity futures for 17 commodities, as recommended by the Kabra Committee in 1994 with suggestions for further opening for several items. Another 7 were added to the list in 1999. The futures market in commodities got a boost in 2003 with the opening of the futures market for 54 commodities, including those sensitive items (wheat, rice, sugar and potato) in which trading was earlier banned. With rising prices (the WPI at 206.2, index for wheat at 210.5 and urad dal at 403.8 with base at 2003–04), the functioning of futures markets came under scrutiny during 2006–07 and the government ordered a delisting of futures contracts in February 2007 for commodities like urad, tur, wheat and rice with the suspicion that futures trading in these commodities had been contributing to the rise in their domestic spot prices. Reversing the mood, sugar, oil, rice and potato were added to the list in 2007. These four were subsequently delisted in 2008. In a similar vein, Government of India banned future trading in chana, potato and soya oil in May 2008 in an attempt to contain the price rise in essential commodities and curb the spiralling inflation rate in the country. The year 2009 began with the revocation of the suspension of futures trading in four of the eight commodities, namely, chana, soy oil, rubber and potato, in December 2008. This was followed by the revocation of suspension of trading in wheat in May 2009. All in all, over a length of time, a process of opening futures market for agricultural commodities has been witnessed over the last several years, with 95 commodities (including some food articles) continuing with futures trade in 2008–09.

The Economic Survey 2009-10 argues that "if we cannot establish a connection between the existence of futures trading and inflation in spot prices, we should allow futures trade."10 ." The benefit of the doubt, according to the authors of the Survey, should be given to commodity futures trading. The direction of official policy is clear.

Food items which in recent years have been traded in futures markets include, among others, coffee, barley, ground nuts, desi tur, urad and rice till January 2007; castor< seed, guargum, gur, jeera, maize, masoor gram, mustard seed, pepper, oil cake and soya oil till January 2008; sugar till January 2009; and finally, chilli, castor seed, coriander, dhania and wheat till now.

What do the data tell us?

Against this background, we carried out a study on the impact of agricultural commodity futures markets.11 We examined the data for several agricultural commodities for which futures are, or have been, traded. Over the period January 2007-

December 2009, we observed a consistent rise in spot prices for urad, potato, onion and soya, and moderate increases in prices of rice and wheat. It may be recalled here that future markets prevailed in rice (till January 2007), wheat (now), urad (till January 2007), potato (till now) and soya (till January 2008).

Agricultural commodities have a low weight in the country's Wholesale Price Index (WPI). Thus the weight of 87 agricultural goods in the WPI is 25.65 per cent of the total. Of these, 21 goods which control 70 per cent of future trading had a weight as low as 11.7 per cent in the WPI index.12 Therefore, the all-commodities WPI may not reveal much about the impact of futures trade on price rise. When we compare the price movements for potatoes and pulses, which are major staples for the poor, with the all-commodities WPI, we find that prices of the two commodities rose much more steeply than the WPI. Given that essential food items experienced a steeper price rise in this period than the WPI, and that some of these food items have also been open to futures trading, we have done Granger tests13 on the causality between spot and future prices of chana, soya, potato and wheat (for which data was available). From these tests we can check if the causality in terms of rising prices was from future to spot prices or vice versa. For all of these, the Granger test indeed shows a causality, with changes in futures prices leading those in spot prices.14 Moreover, the opening of futures markets has matched the rising spot prices for the majority of goods. Accordingly the uptrend in the latter can be interpreted as a fall-out of trading of these commodities in the futures markets. For futures to provide 'price discovery', spot prices should follow movements in futures prices. In this case the spot price rise was obviously the answer to the lead by future prices, which are subject to speculation. Thus the uptrend in futures prices generates an upward spurt in spot prices too.

One other aspect of the impact of futures trading is considered to be the volatility it imparts, both in the spot market and in the futures. Of course the impact, if any, implies a causal link between the two set of prices. Comparing the monthly variations in spot prices, we found a distinct rise in volatility for five out of the six sensitive items (rice, wheat, potato, onion, urad and soya) during the period January 2003-December 2006, which also happens to be the period when futures market in these (and other) commodities were operating. This provides an indirect evidence that the opening of futures trade was responsible for wider fluctuations in spot prices of these commodities.

On the whole it can be observed that while futures trading in commodities has led the path for further rise in spot prices, the latter also has been subject to an wider range of volatility with the successive opening of futures markets.

Impact of trading in financial markets on commodity futures

UNCTAD had pointed to the links between commodity futures and financial asset futures in the international stock markets. Taking this cue, we can investigate the implications of futures markets on commodity prices in India. This also tallies with the argument that, with liberalisation of markets, commodity prices in India have been pushed up as a result of the rise in international prices.

We compared the spurts in the monthly total turnover in stock markets (between the National and Bombay Stock Exchanges) with those for spot and future prices of specific commodities like wheat, rice, potato, urad and soyabean. We tried to find the relation, if any, between movements in the total stock exchange (TSE) turnover and individual spot price indices. Our tests of a regression analysis indicated a strong negative relation between the two for urad, wheat and rice, if we consider the period between May 2008 to May 2009. It may be mentioned here that this also covers the period when global stock markets collapsed, affecting the Indian market as well.

Redoing the exercise over a longer period from May 2003 to May 2009, when the stock market was at its boom till the crash began in mid 2008, we found a positive link between the TSE and individual spot prices of the same five commodities, with TSE regressed on the latter.

The difference can be related to the observations above relating to the 'financialisation' of the commodity market. Thus speculation and portfolio adjustments (i.e., when investors adjust the mix of assets they hold to make up for a fall in the price of particular holdings) on the part of agents across markets of financial assets (stocks) and commodities led to a boom in the commodity market as a contagion when the financial market was at its boom. Thereafter the crash in financial asset prices and in the turnover of these assets led the same agents to look for alternative sources of returns on their funds. They turned to investments in commodity futures which, as we observed, also affect the spot prices. The negative relation between the monthly prices of commodities and the monthly values of TSEs over May 2008 to May 2009, reflect the above tendency.15

Stock markets in India, subject to an uptrend as well as volatility, experienced the contagion effects of the recent global financial crisis, as can be witnessed from the dip in stock indices since January 2008. We also notice parallel downslides across countries in commodity futures markets, both for the multi-

commodity futures exchange in India and for the international commodity futures exchanges. This confirms the findings of UNCTAD on the financialisation of commodity markets, at a global level. The phenomenon seems to have pervaded the Indian commodity market as well, both by pushing up prices and by linking the commodity market to the market for financial stocks, via the portfolio decision of those who speculate on both.

Conclusion

On the whole futures trading in agricultural goods, and especially in food items, has neither resulted in 'price discovery' nor less of volatility in food prices. No benefits are visible for farmers in the form of their securing higher prices in the market for their produce. Instead futures markets in commodities in India seem to have provided new avenues of speculation to traders in equity markets, as has happened elsewhere. We observe steep increases in spot prices for major food items along with a statistical correlation indicating that a rise in futures prices led to a rise in spot prices. Statistical tests also indicate the links between investments in the stock market and those in the commodity market. A boom in stock prices was matched by parallel increases in commodity prices, possibly with futures prices pushing up the spot prices (and also with stock piling financed by financiers in either market). However, the slump which came by the fall of 2008 in the stock market initiated a portfolio adjustment in which investors moved funds to the commodity market. The pattern bears out the UNCTAD argument that commodity markets have become 'financialised'. Moreover, with the opening of cross-border trade, commodity prices have also been guided by the upward movements in prices in international markets.

For India, further opening of the future market in commodities, and especially in food items, needs to be dispensed with, in order not to let speculators have a wider playground to play with at the expense of the common people!

(Courtesy: Aspects of India's Economy)

INDIA

India: NLC Contract Workers Oppose Union Sell-Out (*By: Arun Kumar and Moses Rajkumar*)

Hundreds of angry contract workers from the central government-owned Neyveli Lignite Corporation (NLC) in the south Indian state of Tamil Nadu, confronted All India Trade Union Congress (AITUC) local officials yesterday over the union's sell-out agreement to end their protracted strike.

About 14,000 NLC contract workers have been on strike since April 21 demanding equal pay with NLC permanent workers and "regularisation" of their employment. According to the agreement signed late Sunday, the AITUC agreed to end all strike action without meeting any of those demands.

NLC management has only agreed to regularise all contract workers "soon", make 4,250 of them members of the Industrial Cooperative Society (the gateway for regularisation) after five months, and withdraw legal action against striking workers. No timeframe has been agreed for the regularisation of any contract workers and the union has completely dropped the equal pay demand.

NLC contract workers and families at Wednesday's meetingThe company will give a "consolation" payment of 2,500 rupees ($US45) for each striking worker and monthly washing and rental allowances of 25 and 50 rupees respectively. There is no guarantee, however, that the NLC will even honour these meagre pledges. The company failed to meet "promises" made in previous union deals to end strike action in 2008 and 2010.

There is a widespread anger and opposition among contract workers over union-management deal. On Monday morning hundreds of workers mobilised at the AITUC's local office in Neyveli denouncing the agreement.

Although contract workers were directed to resume work on Monday only a third have done so, one worker told the WSWS. Those who returned to work left the factory by noon and marched to the AITUC office, ransacked it and confronted Jeeva Contract Labourers Workers Union General Secretary K.Venkatesan over the backroom settlement.

Workers were furious that they had not been consulted before the deal was signed. One of them told the WSWS: "They are in a mood of not returning until their demands are met."

The long-running NLC contract workers' strike, which defied management threats, police repression and court orders declaring their walkout "illegal", was a direct challenge to the contract labour scheme. Workers employed under this cheap labour system, which is maintained by public and private sector companies throughout India, only receive a fraction of the wages paid to permanent employees.

NLC contract workers demonstrated their determination to fight. But the dominant AITUC, the union federation of the Stalinist Communist Party of India (CPI), did everything to isolate and discourage workers as it prepared its latest betrayal. The AITUC made no call for NLC permanent workers to join the walkout and promoted the illusion that the Tamil Nadu state government of Chief Minister J. Jayalalithaa would intervene in support of the striking workers.

Addressing a rally of striking NLC workers and their family members on May 30, CPI Tamil Nadu state secretary T. Pandian issued a pathetic appeal to "Amma" ("mother"—i.e., Jayalalithaa) to help settle the dispute. He slavishly insisted that the chief minister had instituted "various good schemes for the people of Tamil Nadu" and could intervene to meet workers' demands.

Pandian's claims are bogus. Jayalalithaa's government, in fact, has "intervened" in the dispute, mobilising the police to arrest protesting NLC strikers. Her administration is notorious for its attacks on workers and the rural poor, including the mass sacking of 13,000 state welfare workers, the brutal suppression of anti-nuclear protesters at Kudankulam and prices hikes for bus fares, milk and other necessities. In 2003, Jayalalithaa's administration sacked nearly 200,000 striking public sector workers and hired strike-breakers to replace them.

Unless the strike is resolved in the next few days, Pandian rhetorically, declared: "We will change this dispute into a state-wide struggle. We will join hands with all trade unions and make it a struggle of the people of Tamil Nadu." Four days later, the AITUC, his party's union federation, went behind the backs of workers and signed a deal to shut down the dispute.

The Communist Party of India (Marxist) or CPM, the other Indian Stalinist party, and its Centre of Indian Trade Unions (CITU), collaborated with the AITUC bureaucrats in the betrayal.

Now posturing as opponents of the agreement, the CITU and several other unions, including the Labour Progressive Front, which is affiliated to the DMK (Dravida Munnetra Kazhagam) party of former Tamil Nadu Chief Minister M. Karunanidhi, organised a meeting of contract workers on Monday evening.

Having tacitly supported for the CPI/AITUC's isolation of the striking workers, the CITU is attempting to contain and stifle anger over the sell-

out.

WSWS supporters in India have intervened throughout the NLC strike to expose the exposed the treacherous role of the AITUC. The WSWS has insisted that workers had to break from the unions, form their own rank-and-file committees and turn out to other sections of workers on the basis of the fight for socialist policies and a workers' and peasants' government.

One worker told the WSWS: "The general mood among workers is high disappointment and anger, not only against the NLC management but also against the AITUC leaders.

"Housewives who also participated in recent agitation along with contract workers are very upset and annoyed about the settlement. They think it's like throwing dust in our eyes. They want to know why was there such a rush to wind up the strike without winning their main demands, a strike that continued for 44 days despite the economic hardship suffered by contract workers and their families.

"There's not even a pittance of a wage hike in this settlement," he said, also rejecting the so-called "promise" to regularise contract workers. "We heard these promises in 2008 only to be forgotten and ignored in the following four years. Should we go on strike again after five months to demand the implementation of this promise?"

USA

Massachusetts: Locked-Out Nuclear Power Plant Workers Reject Contract (*By: Kate Randall)*

Workers locked out by Entergy Corporation at the Pilgrim Nuclear Power Station in Plymouth, Massachusetts voted down a contract proposal delivering a rebuke to their union leadership. The tentative pact, which had been unanimously recommended by the bargaining committee of Utility Workers Union of America (UWUA) Local 369, was rejected in 137-89 vote.

More than 240 UWUA members have been locked out by Louisiana-based Entergy for two and a half weeks. The workers are highly skilled with many years experience operating the 40-year-old nuclear power plant 40 miles southeast of Boston. Workers had previously voted 174 to 32 to reject a contract that included a below-inflation wage offer over four years as well as increased cost-sharing for health insurance.

At midnight June 5, management escorted workers out of the plant and barred others from entering for the morning shift the following day. Entergy implemented a "contingency plan" with replacement workers, including management personnel and contractors with minimal experience, claiming that the union members had put the public at risk because the workers "reserved the right to walk off the job at any time, without any notice."

Although neither Entergy nor the union released details of the newly rejected agreement, workers indicated the pact represented little improvement on Entergy's previous offer. As one worker described it, Entergy is "like a cobra" that continues to strike at workers' wages and benefits.

In a press release Pilgrim plant spokesperson Carol Wightman reiterated the intransigent position of management, stating: "We continue to believe the contract rejected by the Local 369 Union membership represents an exceptional wage and benefits package and reflects the realities of today's economy in an increasingly competitive electric power business." In "today's economy," the utility giant is hauling in an estimated $1 million a day in profits during the lockout.

UWUA Local 369 President Dan Hurley, who claimed that the tentative pact contained "important protections" for workers, said following the solid rejection of the agreement Wednesday: "The hardworking men and women who keep Pilgrim Nuclear Power Plant operating profitably and safely have spoken loud and clear: They will not accept cuts to their pay or health care from a company making record profits and paying executives in the tens of millions."

Boston union officials, however, have made no effort to mobilize support for the locked-out workers, despite widespread pubic backing for the workers' demands for a decent contract and concerns for safety. The Local 369 union leadership agreed to two extensions to the contract when it expired May 15 and the union bargaining team was reportedly sitting at the negotiating table when Entergy personnel marched workers out of the plant June 5.

A rally scheduled by the Greater Boston Labor Council in support of the locked-out workers was abruptly canceled after Local 369 negotiators reached a tentative agreement with Entergy at 4 a.m. that morning. The only action Local 369 leaders have initiated is a toothless complaint filed with the National Labor Relations Board, claiming Entergy management personnel made a series of "coercive, threatening statements" to workers prior to the first contract vote.

Even within its own ranks, UWUA Local 369 has refused to mobilize action in solidarity with the locked-out nuclear power plant workers. The local represents more than 3,000 utility workers in Massachusetts, including about 1,850 workers at NSTAR, a company delivering electricity and natural gas to 1.4 million customers in the eastern and central parts of the state.

NSTAR workers voted 98 percent in favor of strike action if the union did not reach a new contract agreement. Union negotiators reached an agreement on June 1, the day the previous contract expired. On June 11, less than a week into the Entergy lockout, Local 369 leaders averted a strike, pushing through a vote for a contract at NSTAR that management boasted is "consistent with industry changes." The pact provides annual wages increases of only 3 percent, 2.75 percent and 2.5 percent over three years, respectively, and eliminates defined retirement benefits for new hires.

On its web site, Local 369 describes the contract at NSTAR as "an agreement that provides security for our members, wage increases each year, great benefits and working conditions." The union touted as a great victory the fact that NSTAR was prevented from moving 250 call center jobs from Westwood, Mass. to a neighboring state. "We wanted to protect those jobs," Local 369 President Hurley commented at the time. "They are good Massachusetts jobs. We were afraid they were going to shift them to Connecticut."

In the face of efforts by the union leadership to isolate the locked-out workers and impose a concessions contract, workers have taken an important stand against Entergy's aggressive and arrogant posture with rejection vote. Any advance of this fight, however, will require taking the contract negotiations out of the hands of the union leadership and mobilizing the strength of other workers—including the thousands who work for the utility companies—behind the locked-out workers.

CHINA

Chinese Workers Storm Local Government Office (*By: John Chan)*

Thousands of workers clashed with riot police in Rui'an city, in the eastern Chinese province of Zhejiang, in another sign of mounting social tensions produced by the slowing Chinese economy. The protest coincided with strikes earlier across a range of industries—from toy production to auto manufacturing—as part of ongoing labour unrest since late last year.

The protest followed the death of Yang Zhi, a 19-year-old migrant worker, who was killed by his employer Xu Qiyin during a dispute over 1,070 yuan ($US168) in unpaid wages. The packaging factory employer is alleged to have struck Yang with an iron bar. Yang died in hospital two weeks later on May 27 from serious head injuries.

The official Xinhua news agency reported: "Around 1,000 migrant workers rushed the government office building, turning over an iron fence gate and damaging over a dozen cars with stones and bricks." Unofficial accounts, however, claim that up to 10,000 people participated as the relatives of the dead worker demanded justice from the local authorities.

Hong Kong's Apple Daily explained that local officials laughed at the demonstrators' demands and called the police to quell a crowd of what had initially been just a few hundred people. Thousands, however, quickly mobilised to support the protest. Hundreds of anti-riot police were sent to defend the office building. They fired tear gas while officials fled the area. The police were unable to contain the angry demonstration until Yang's family was offered 300,000 yuan in compensation.

The eruption of thousands of workers is a result of the widespread pent-up anger over unpaid wages, especially to rural migrant labourers who are often treated as expendable cheap labour by employers.

A 2010 report in the Nanfang Daily revealed that the total unpaid wages bill in China was 100 billion yuan or some $15 billion. Protected by local government authorities attempting to attract investment into their "fiefdoms", sweatshop owners use all kinds of excuses to withhold or reduce wages as a means of keeping their payroll costs down.

Acutely nervous that unpaid wages often trigger violent protests, the National People's Congress (NPC) last year amended Chinese law to make it a crime, with a seven-year jail term, to deliberately withhold wages. But with the global financial crisis intensifying and Chinese manufacturing contracting for the seventh consecutive month, employers are escalating their cost cutting including of wages and conditions. This is provoking strikes and protests throughout the country.

In late April, 1,000 workers at Powerwave, an American-owned telecommunication manufacturer in Suzhou, struck for over a week in protest against the plant's sale to Tagfook, a Chinese technology group, without compensating the workforce. A worker told the China Labour Bulletin on May 4 that management refused to negotiate and police were sent to detain strikers. Female employees were assaulted.

On May 8, 1,000 shoe manufacturing workers at a Taiwanese-owned, Pou Chen group plant in the Yueyuan Industrial Park struck over cuts to their monthly bonus—from 400-600 yuan to just 100 yuan—due to falling orders. Even with overtime, the factory workers earn just 2,000 yuan a month and depend on bonuses to live. The plant produces shoes for the US-based Crocs brand. Last November, 7,000 workers at the Yue Cheng shoe plant in the Yueyuan Industrial Park walked out over wages. Yue Cheng is also owned by the Pou Chen group.

On May 15, 1,000 mainly female workers at the Japanese-owned Sanyo Optical Components in Huizhou City, struck for a wage rise to compensate for rising prices for food and other necessities. They rejected a 100-yuan monthly bonus offer from the management who claimed it had been hit by falling revenue. Police were deployed to prevent any further escalation of the strike action.

On May 15, 1,000 truck drivers employed by a logistics company in Nanchang walked out because they had no work contract and the company had failed to pay workers' insurance contributions. Five days into the strike, the police intervened and arrested six drivers. On May 19, angry workers blocked a main road in the city to demand the release of their colleagues.

Other industrial disputes included a strike by 1,000 workers against low wages and unacceptable conditions at Sofima, a Shanghai auto-parts manufacturer owned by the Italian UFI corporation.

The labour unrest is not limited to the private sector but extends to major state-owned corporations. In early May, 3,000 workers at FAW-GM Light Commercial Vehicle Co. (Hongta) in Yuan province's Qujing city struck for a week. The plant, which is one of the three joint-venture facilities involving FAW, China's state-owned auto company, and General Motors, is capable of producing 100,000 light trucks a year. Workers complained that their wage rates had stagnated for over a decade at about 1,000 yuan a month and accused company officials of corruptly transferring assets and property to other more profitable FAW affiliates. Workers demanded an investigation into the alleged corruption and all the missing company assets.

The Hongta strike is only a symptom of broader stress in what is now the world's largest auto market. In the last quarter, auto sales in China fell 1.3 percent from the same period last year—the worst since 1998. In 2011, auto sales rose by just 2.5 percent—compared to 32.4 percent in 2010.

Su Hui, vice president of China Automobile Dealers Association, told Bloomberg on May 17: "Unsold cars are crowding dealer lots in cities from Guangzhou in the south to Xi'an to the west. It's like a contagious disease that will spread."

The slowing Chinese economy will inevitably translate to losses and further attacks on workers' wages, conditions and jobs. The angry protest in Rui'an last week is another sign that Chinese workers are confronting the same assault on their social position as their counterparts in Europe, the US and across the world.

AUSTRALIA

Australia: Bowen Basin Coal Miners Resume Strike Action (*By: Richard Phillips)*

More than 3,500 miners walked off the job, beginning a seven-day strike at six BHP Billiton Mitsubishi (BMA) pits in Queensland's Bowen Basin. The dispute began 18 months ago and has involved work bans, rolling strikes and other industrial action by members of the Construction, Forestry, Mining and Energy Union (CFMEU), the Communications, Electrical and Plumbing Union, and the Australian Manufacturing Workers Union.

The strike follows a company secret ballot in which over 82 percent of miners rejected the latest enterprise bargaining agreement proposed by the giant mining consortium. It is the second ballot in the past seven months of Bowen Basin miners, who produce almost 20 percent of world's coking coal.

While BMA has agreed to annual pay rises of 5 percent over three years and a $15,000 bonus, its offer is tied to various cost-cutting trade-offs and health and safety demands that have been progressively ramped up by management during the past 18 months. The unions want equal pay for labour-hire employees, protections for permanent workers displaced by contractors, three breaks for workers on 12-hour shifts rather than the present two, increased superannuation and improved housing.

BHP-Billiton, which made a $23 billion profit last year, has categorically rejected the union demands, claiming that they are "productivity-destroying". Earlier, mine management declared that it wanted the right to modify mine rosters at any time. This demand tears up previous agreements requiring that any shift or roster changes be trialled first and introduced only if endorsed by a majority of employees.

The mining consortium also wants management, not the union, to appoint health and safety officers in the notoriously accident-prone industry. The company has brushed aside miners' safety concerns, claiming that they have "absolutely no basis" and are "mired in the past".

Illinois Caterpillar Workers Reject "Revised" Offer, Continue Strike (By a WSWS Reporting Team)

Workers said the supposedly "revised" offer was worse than the one originally offered and rejected by workers leading to their walkout on May 1. The six-year contract would freeze wages for workers hired before May 2005 and set pay for those hired afterwards according to "market rates." The share of health care costs workers would pay would rise from 10 to 20 percent by the end of the contract, and

the company's defined benefit pension plan would be replaced with a worker-contributed 401(k) plan.

In addition, the company wants unlimited "flexibility" to shift workers from job to job. The contract would allow management to send workers to a new position or a new shift for a year at a time as long as they spend at least one day on their original job.

New hires at the plant, which makes hydraulic pumps for Caterpillar machinery, make as little as $13 an hour. Caterpillar has increased the use of even lower paid "supplemental" workers who can be laid off at any time without severance pay.

The only change from the original offer was a derisory signing bonus, most of which is pegged to performance targets that have rarely been met.

Lee EskridgeSo deep was the opposition from the rank and file that the general committee of the International Association of Machinists Local Lodge 851 felt compelled to oppose ratification of the deal. The contract was defeated by a margin of 504 to 116, or 82 percent.

"The company is boasting about record sales and bragging about their profits but they won't pay the ones who made it for them," said Lee Eskridge, a worker with 39 years at the plant. "The way they see it they have to keep us where we belong. We don't have to worry about a foreign invasion—it's companies like Caterpillar that are destroying this country.

"It's not a problem of being globally competitive. These big companies just want to keep taking away. In the 1980s we went 12 years without a pay raise. Now they are forcing us to pay more of health insurance and taking away everything from the younger workers. What are my kids going to have?"

Gregg CiatkoGregg Ciastko, a younger worker with two years at the plant, said, "They say they want the newer workers to accept 'market' wages. But they have us competing with guys working at 7-Eleven stores and McDonalds. At most the work in this area pays $12 an hour. When they talk about 'competitive' wages they mean working for nothing.

"They want to freeze wages and increase our out-of-pocket health care expenses. They say they are not cutting wages, but that is exactly what is happening."

"Somebody has to take a stand," said another worker who said he has worked "on and off" at Caterpillar for 37 years, including 11 years of layoffs and strikes. "I would hate to be in the next generation. How can you live on $13 or $14 an hour when the lowest one bedroom apartment costs $750 a month, and gas is over $4 a gallon?

"It's like we're going back to the days of the kings and serfs. Barack Obama and Romney won't change a thing. They both get their money from Wall Street. It's going to take a revolution."

Several workers denounced Caterpillar for locking out workers and then shutting down its locomotive plant in London, Ontario earlier this year after workers opposed its demands for a fifty percent wage cut. The company is moving locomotive production to Muncie, Indiana where it is going to pay $12.50 an hour for work previously done by Canadian workers for $28 an hour.

An ironworker whose wife has been working at the Joliet plant for a year said that what happened in the strike would determine wages and conditions for workers throughout Illinois. "If you can separate these people and beat them, they will also beat everyone else. It's already real bad. Out of the 2,000 members of the Ironworkers Local 1, only 700 are working 40 hours a week. This is no different than 1,000 years ago when the serfs stood in front of a castle and asked 'Let us kill a deer. We can't afford cake.'

Referring to the IAM, he said, "Years ago I heard this was called the Caterpillar Union."

Another worker denounced the six-digit salaries of IAM staff members while the union was only paying out $150 a week in strike benefits. IAM International President Tom Buffenbarger took home $292,000 in compensation in 2011. The IAM has a strike fund of well over $100 million.

Socialist Equality Party US presidential candidate Jerry White and SEP supporters distributed a statement calling for a rejection of the contract and the fullest mobilization of the working class to defend the Joliet workers. Before going into the meeting strikers came up to ask for multiple leaflets to hand out to their fellow workers.

In defying the blackmail of Caterpillar, the Illinois workers have taken a courageous stand that deserves the support of all workers.

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