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Needless misgivings about reforms

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The scare over entry of foreign investment in retail is unwarranted. — Ramesh Sharma *Business Line*

Protests by political parties over moves to open retail to FDI and raise prices of diesel and cooking gas are not backed by sound reasoning. The general policy apprehension over FDI needs to be re-examined.

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The UPA-II government has finally summoned the courage to move ahead with the economic reforms process. One could term it as "better late than never" or "too little too late", depending on what further steps will follow.

The reasons to push now at this late stage could be many — such as the approach of elections, the deteriorating economic situation, and the non-functioning of Parliament. Though three years have been lost, much ground can still be recovered.

The reaction of various political parties has exposed their inability to analyse and understand the basic issues underlying the economic reforms. Several have reacted negatively, alleging that the Congress did not consult them, a charge that is patently false. After paralysing the Parliament, one can now hardly ask for discussion in that forum. Others have alleged a sell-out to foreign interests, or a clever move to divert attention away from scams such as "Coalgate". All this hardly amounts to an analytical and factual analysis of the reforms.

FDI IN RETAIL

Opening up organised retail trade to FDI was long overdue and had been approved even by the NDA government. Now, the UPA government has allowed limited opening circumscribed by numerous conditions, such as 51 per cent limit, 30 per cent sourcing from MSMEs, location restricted to large metros, and approval by State governments.

There is no evidence for a net loss in jobs in the retail sector as a direct consequence of FDI. The Indian retail market is challenging, and small retailers will be able to hold on to their traditional customer base. Even if large MNCs set up supermarkets, they will have to contend with high rents for space, power shortages, and parking and traffic problems for their potential customers, not to speak of irksome security arrangements.

Even at present, going to a supermarket for shopping is a major expedition more suitable for those with cars and drivers, and not convenient for users of public transport or senior citizens. A glaring example of the lack of customer-centric focus is the lack of feeder transport to shopping malls from public transport points.

To think that neighbourhood small retailers will be wiped out by large MNC supermarkets is to ignore the realities of urban India. What will happen is not clear, but it seems that both forms of retailing will co-exist with their own customer bases. Some small retailers may make franchise or marketing arrangements with large retailers, which could be a win-win situation. Therefore, it would be premature to assume that FDI in retail will automatically lead to job losses. In fact, there could be a net job addition due to new jobs being created in the retail sector.

FDI in retail could benefit farmers and consumers through better farm procurement prices, backward linkages and firm production contracts, higher quality and branding, less losses due to spoilage of products, and more reasonable prices for the consumer. However, it remains to be seen whether these positives will be actually realised in practice. The Government needs to keep a careful watch, report periodically on the situation and take appropriate corrective measures.

PETROLEUM REFORMS

Another concern is that large MNCs would tend to source products from China to the detriment of Indian made products. To address this concern, 30 per cent sourcing from MSMEs has been made a requirement. A look at the market even today shows that where Indian products are uncompetitive, Chinese-made products are available. Producers who feel that Chinese products are being dumped can avail of our anti-dumping provisions to get protection.

However, it is a fact that in general, India's manufacturing sector is severely handicapped by infrastructure and transport problems. The solution is not more protection, but measures that make our manufacturing more competitive.

The phasing out of subsidy on diesel and LPG is a welcome step towards rationalising the entire system of subsidies in the Indian economy, which has distorted our budgets and markets and led to numerous malpractices. The phasing out of all subsidies is a must, accompanied by direct cash transfers or a negative income tax for BPL citizens. This will allow markets to function normally and result in greater efficiency in use of subsidies. Future reforms must tackle the subsidies on kerosene, fertilisers, and foodgrains on an urgent basis.

LEVEL PLAYING FIELD

In general, India has viewed FDI with suspicion, and policy has sought to protect Indian business from foreign competition or takeover. FDI policy even today bears witness to this approach, with numerous sectoral caps and restrictions on business freedom in the name of protecting Indian business interests. It is time to do away with FDI caps and restrictions on business and allow foreign and domestic players to compete on equal terms. The move towards setting up an independent National Investment Board for large-scale infrastructure projects is welcome, but FDI policy badly needs to be further liberalised.

India is proud of its skilled manpower, which has so far enabled it to emerge as a major and dynamic services provider to the global economy. However, other countries are catching up. India needs to carry out major reforms in its higher education sector, and the Bills pending in Parliament need to be passed.

Today we have hardly any universities in the world's top 200 list. Huge improvement in quality and quantity is needed in our higher education sector, which could be achieved with the participation of foreign partners. If this is neglected, our services sector will fall behind in the global competition, and our youth will be forced to go abroad in search of better education and skills.

Other reforms, such as easier access to ECB and rationalisation of the tax regime, have already been welcomed by market indicators, and increase in investment flows. Given the international scenario, if India can move ahead with economic reforms which allow maximum of business freedom and minimum but effective regulation, it would reap good dividends in the form of investment and technology flows.

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