

India suspends plan to open up retail market to foreign chains

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NEW DELHI — In a setback to economic reforms, India's government on Wednesday suspended a plan to allow foreign supermarket chains such as Wal-Mart and Britain's Tesco to operate in its burgeoning retail market.

The announcement is expected not only to deter foreign investment in Asia's third-largest economy but also to further weaken the image of a government already under fire for its inability to follow through on tough policy revisions aimed at boosting growth.

Finance Minister Pranab Mukherjee said that the plan to let in foreign megastores would be "suspended until a consensus is developed through consultations amongst various stakeholders," including all political parties. The proposal, announced 12 days ago, sparked nationwide protests by small, neighborhood store owners.

Mukherjee's statement came after a meeting with representatives of the political parties, which was called to break a 10-day impasse in Parliament and coax the opposition into cooperating with the government in the chamber.

Analysts described the move as an embarrassment to Prime Minister Manmohan Singh's coalition government, which has been beset in the past year by corruption scandals and rising prices and criticized for "policy paralysis" with respect to the slowing economy.

But when the government decided to open up India's \$450 billion retail market last month — in a bid to help curb spiraling inflation, stabilize the value of the rupee against the U.S. dollar

and improve the nation's image among foreign investors — the move was contested not only by the opposition, but also by members of Singh's own Congress party.

Thousands of small retailers, who feared the decision would wipe out their businesses, took to the streets in protests, unnerving lawmakers ahead of elections in five states.

The government finally bowed to the pressure Wednesday.

"I cannot find any parallel to this kind of a political suicide. If the government's credibility could go to below zero, it just did," said Surjit Bhalla, chairman of Oxus Investments. "This shows how Prime Minister Manmohan Singh has been undercut not just by the opposition parties, but his own party colleagues."

The decision to allow foreign companies into the Indian retail market did not require a vote in Parliament, but members of various parties opposed to the plan disrupted legislative business in noisy protests. Singh also had promised to introduce a tough anti-corruption bill in Parliament this month but has not been able to bring it up.

That led Farooq Abdullah, a minister in the government, to say Saturday, "Our democracy is so much that it destroys ourselves."

Opening up India's retail market to foreign companies has been bitterly debated for more than a decade. The Singh government had anticipated the opposition and added cautionary riders in its policy proposal, requiring foreign companies to invest at least \$100 million over five years and buy 30 percent of their goods from small and mid-size businesses and restricting supermarkets to cities with more than 1 million people.

Officials tried to convince opponents that the policy had the potential to create more than 3 million jobs and might not wipe out the mom-and-pop stores.

"The government was planning to go about it gradually and cautiously anyway. But today's decision sends out mixed signals to foreign investors," said Raghav Gupta, a principal at the consulting firm Booz & Co. who looks after the consumer and retail sectors. "It will create uncertainty about India in their minds."

Other analysts said the announcement also casts a shadow on other crucial reform measures, including allowing foreign investment in pension funds and the aviation sector.

But for small shopkeepers, the decision came as a relief.

"In a democracy, the government has to listen to the voices of the people. It cannot bring in foreign companies and ignore the demands of Indian people," said Praveen Khandelwal, secretary general of the Confederation of All India Traders, adding that the policy reversal "shows that the government has a big heart and will not kick our stomachs and snatch away our livelihoods."

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