India 'opens' supermarket sector in reform blitz

NEW DELHI, INDIA: India gave the green light on Friday for foreign supermarket chains to ente the country as part of a blitz of economic reforms intended to spur growth and revitalise the government.

Global leaders such as Walmart, Tesco or Carrefour will be able to own up to 51% in Indian subsidiaries, allowing them into a previously protected but potentially lucrative sector, Commerce Minister Anand Sharr said.

Last December, the administration of Prime Minister Manmohan Singh, reeling from a string of corruption scandals, was forced to withdraw the retail reform proposal due to fierce resistance.

The government on Friday also relaxed investment rules in the aviation sector, allowing in foreign airlines f the first time, and approved the sale of stakes in four state-owned companies in the oil, copper and aluminium sectors among others.

The announcements follow a bold 12% hike in the price of heavily subsidised diesel on Thursday, which analysts saw as the government looking to shake off its reputation for inaction and revive its reform agend: "The government, the cabinet and the Prime Minister Manmohan Singh have sent a clear message," Sharr told a press conference.

"That this government thinks of India's interests, its growth, its development, job creation, wealth generatic and infrastructure building."

Shopkeepers, opposition parties and even an ally in the national coalition have opposed the change in the law on the grounds that it would destroy the livelihoods of the small business owners who dominate the ret sector.

Coalition partner Trinamool Congress, a regional party from the state of West Bengal, immediately issued 72-hour deadline for the government to withdraw the reforms, setting up a tense political drama for the coming weeks. The next task for Singh, 79, the architect of India's first wave of market-oriented reforms in the 1990s, will be to keep the fragile coalition together and avoid early elections.

A recent poll by the US-based Pew Research Center showed that just 38% of Indians thought the country was heading in the right direction.

The government sees foreign supermarkets as a way to improve the food supply chain, particularly with investments in refrigerated facilities, as well as a means to create an estimated 10 million jobs and bring down food prices.

Sharma said India was the second-biggest producer of fruit and vegetables in the world, but losses after harvest were estimated at 35-40%, meaning more than a third of the fresh produce never reaches consumers' plates.

Conditions imposed on foreign supermarkets mean they will have to invest a minimum of $100m, open stores only in towns with a population of more than one million and source 30% of produce from India.

"Furthermore, the implementation has been left entirely to the discretion of the states of the union," Sharm explained, meaning states opposed to the reform can opt out. The sale of stakes in the state-run compani and the increased diesel price are aimed at repairing the government's finances, which are under strain frc slowing economic growth and an increasing burden of subsidies.

Trucking unions are threatening to go on strike over diesel prices, however, and there are fears that higher fuel costs will spur India's inflation, which new data on Friday showed had accelerated to 7.55% in August. Sharma said the decision to open up the retail sector had broad support and that he had consulted state governments, business federations, consumer groups and farmers in a bid to build consensus.

Business groups, which have been calling for decisive action to turn around the slowing economy, welcomed the decision. "This reflects the resolve of the government to usher in a retail revolution in the country and also signals to the investor community that India is committed to furthering reforms," said R.V. Kanoria, president of the Federation of Indian Chambers of Commerce and Industry.

The reform of the aviation sector will potentially throw a lifeline to companies such as debt-laden Kingfishe which is in desperate need of funds to implement a turnaround plan. Foreign airlines are currently barred from taking stakes in Indian airlines, but other overseas investors can hold up to 49%.

Under the reform, airlines would be able to purchase up to 49%.

Source: *AFP* via I-NET Bridge