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# Impact of India's Economic Growth and the Changes Within Its Food Retail Landscape

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***Impact of India's Economic Growth***  
and the Changes within its Food Retail Landscape

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Pace University – May 2006

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## Introduction

In order for countries to be granted the title of a global market, they are examined at from an economic and financial perspective in terms of opportunities and threats as they operate in an external environment. It is up to an individual country to assume control of the opportunities offered by the increasing prevalence of globalization as it is manifested in the investiture of multi-national corporations and trade-governing bodies such as the World Trade Organization. “Many countries in the Asian market have shown remarkably rapid economic growth with the expansion of business methods and companies across national boundaries, leading to immense changes particularly in the food retail landscape” (A budget, 2003).

India, representing the world market with a population that is second only to China, offers a complicated picture as to which both opportunities and threats are assessed to the changing global market. This paper will examine India from a global perspective to see what are perceived as the positive and negative effects of globalization on the country’s fiscal and trade sectors, and draw specific concentration on how the food retail industry in India is rapidly changing with the effects of globalization.

Population Distribution in India	
Population (millions)	Number of Towns
More than 10	3
5-10	4
1-5	4
0.1-0.5	178
Less than 0.1	3,543
Villages	570,000

The perceived gap between India's potential and reality will be explained through the through sources that have been observing the nation's Gross Domestic Product for many years, and have seen India lag behind other Asian countries which have shown comparatively unparalleled economic growth. Changing economic policies that lifted many Indian trade restrictions in the early 1990's will be assessed in terms of both the increased opportunities they make for many individuals in the nation as well as, internally, the increased weaknesses that are represented by political interference and what is seen by many to be an increasing gap between rich and poor in the nation.

The increased gap of wealth amongst individuals of the nation will be explained through the progression of the retail industries, giving preference to the rich, while the poor are kept in deprivation of economic changes.

## Structural Adjustment, Stabilization, and Globalization of India

When looking at structural adjustments of a country, terms such as meanings, aims, problems, context, and positive and negative results play a great role as to where changes need to be executed. In general terms, the aim of becoming a global market is to increase the quality of productive resources, human and physical and to increase productivity of physical and human resources through global trading and technological advances.

For India, we can use a model presented by Kuznets, the Nobel Prize recipient for economics. This model discusses specific structural adjustments, which explains his theory that economic growth in developed nations includes six factors, four of which are particularly relevant here:

1. High growth rate per capita output and population.
2. High increase in labor productivity.
3. High rate of structural transformation.
4. High rate of social and ideological transformation.

These terms play a role of reference in the international comparison of a country. India is often judged by the standards of similar nations that have large populations and are seen to be developing. "India is often compared to China in terms of economic growth and development, and is as often seen to lag behind the standards set by China in terms of annual increase in Gross Domestic Product" (A budget, 2003). Both countries present to the world what is potentially

a huge market of consumers, but both countries also have internal problems with infrastructure and issues with power-supply and telecommunications dissemination.

India's market remains closed in many ways, though, and the country is seen to lag behind China in the relative speed of its economic development and openness to trade. This is perhaps a result of India's past, before the early 1990's and the institution of the New Economic Policy (NEP), when the nation was outwardly socialist. As one source states, "India has shed its socialist pretensions, especially after free market restructuring carried out under the tutelage of the International Monetary Fund and the World Bank in 1991. All this has meant an upward swing in the fortunes of India's upper classes" (Pal, 2001).

There is definitely a contrast that is perceived between the old, socialist India, and the new, global-capitalist India. But this change is so recent that many sources wonder if it is not still in stages that could be said to be superficial. Since acquiring independence from Britain in 1947, the Indian economy has been primarily ruled by central planners with little interest in international trade expansion, and more interest in imposing government controls on what was seen to be a subsidized domestic market with a notoriously unproductive public sector. "Before the restructuring of the early '90s, restrictions on the operation of multinationals and tight regulation of the indigenous private sector meant that good jobs often were available only in the public sector, which occupied the 'commanding heights' of the economy" (Pal, 2001).

The Indian market, the second largest national market in the world, was essentially closed off from the outside world by the strictures of a quasi-socialist control system. Imports were limited and foreign firms were not encouraged to enter the domestic sphere at all, as if they did so, the bureaucratic repercussions were often seen to be extremely prohibitive (Pal, 2001). At the same time, this bureaucratic government structure incurred its own costs and labor issues, which were not alleviated by the flow of multi-national capital. The public sector became a sort of economic monolith within the country, and increases in bureaucracy made this structure increasingly inscrutable, even to those within its sphere of operation. At the same time, the private sector was being virtually ignored in terms of economic opportunity.

This situation culminated in the early 1990's with the introduction of non-national capitalism in the form of the Indian NEP, under which national government control, unable to provide either clear parameters of operation or adequate health care for India's huge population, was dampened to encourage the development of unrestrained, privatized trade dependent on exports (Gupta, 1993). Although the NEP produced many successful capitalists, some of whom undoubtedly had philanthropist tendencies, it did not assure any downscale of the widening gap between the rich and poor, prevent poverty, or check environmental destruction. The rules of the new economy were not humanitarian: open trade, specialized education for an information economy, and the attraction of capital were considered to be paramount, as it was, after all, an economic policy (Pal, 2001).



In the new national atmosphere encouraged by the NEP, many multi-national corporations flourished in the subcontinent. These corporations did not, nor, arguably, could they be expected to, improve the nation's human-rights situation generally, but they did create new opportunities for India's wealthier citizens to take advantage of the new economic climate, and resulted in a new flurry of consumerism among the country's expanding middle-class. Despite this increase, "The past decade has been harsh for the roughly 300 million people living below the poverty line. And the divide between the haves and the have-nots has widened" (Pal, 2001).

Many people who left India to emigrate abroad before the 1990s returned to find what they could only describe as an entirely different country; one in which conspicuous consumption was much more widespread and the economy was more out in the open. "The change that brought about the NEP ushered in a new era in the nation of India's economy" (Pal, 2001).

This new, global economic structure can be seen from the perspective of its positive and negative effects on the nation. Generally, the situation is complicated by what appears to be a vast split in opinion regarding the nature of multi-national corporate finance within India's domestic sphere. While some embrace the changes as the wave of the future, others are prone to point out the potentially exploitative nature of MNC outsourcing in areas of development. Others may oppose from a more nationalistic standpoint. The focus of this paper, however, will remain on economic and financial viability, without involving political concerns.

Although India's economy underwent great changes fairly recently, government deficit has remained fairly high, and just last year, reached a percentage of the Gross Domestic Product (10%) that was greater than even 1991 levels (A budget, 2003). India's transition into a global economy has shown on the surface level in terms of expanded consumer opportunities in metropolitan areas, but the deficit level within the government is indicative of what may be a continuing problem that is based on India's past.

Despite potential internal threats, the Indian economy has been growing steadily since the sweeping changes of the early 1990s. Foreign companies are being given incentives to invest, and largely, with a few exceptions, the liberalization of public sectors is seen to be proceeding accordingly. The private sector has grown with improved fiscal opportunities in terms of independently operating companies within previously state-run sectors. Restrictions on foreign investment have been discontinued, and although deficit levels made many ventures into India rather tentative at first, the economy has been seen by both internal and external sources to be expanding and strengthening as more and more of the market is opened up. "Industry and services are both growing faster than before (at annual rates of 6.1% and 7.1% respectively), exports are up by a fifth, and the current account, after 24 years in the red, entered surplus in 2001" (A budget, 2003).

At the same time, India's vast population is comprised of many hundreds of millions of individuals who are living below the poverty line, especially in the south of the country, and reactions to the NEP and other economic issues in the

forefront of the nation, such as India's membership in the WTO, are often not as widespread as they could be in terms of assimilation and wealth distribution. As stated, the gap between the rich and the poor in India, which has always been a social-class-conscious society, is seen to have widened, despite general good returns that are offered in the form of governmental trade statistics.

<b>Indian Income Dispersion (Households in millions)</b>		
<b>Income Group</b>	<b>Urban Households</b>	<b>Rural Households</b>
Low	16	75
Lower-middle	14	27
Middle	7	9
Upper-middle	3	3
High	2	2

The new India is part of the World Trade Organization, which is a stark change from the old, quasi-socialist India of most of the latter half of the twentieth century. The nation's relationships within the WTO are seen to be based on encouraging foreign investment and expenditure in a decentralized atmosphere that has resulted in India's reducing trade barriers and opening up the doors of its country to the world market.

In terms of spending, India has shown revitalization since the economic reforms of the early 1990s, but with that, has also shown a down side. "In a country of a billion people, a quarter of whom live below the poverty line, interest payments are the biggest single expense, accounting, with defense spending and subsidies, for 60% of recurrent expenditure" (A budget, 2003). At the same time, the government is optimistic in its prognosis for future growth. One source states that future indicators point towards an annual growth of up to nine percent in the Gross Domestic Product. "If the 9 per cent growth is achieved, it will

quadruple the real per capita income and reduce poverty levels to almost zero, the report says, adding that India will then attain a higher level of development than China, and will be on a par with upper-middle income countries like Argentina, Hungary and Malaysia” (Mamata Singh, 2002). Many of India’s citizens are already seeing changes in the commodities available to them, and if this prediction is correct, can expect further expansion.

Some of these expansions are concentrated upon the networked atmosphere of the global community in terms of providing as many Indians as possible with access to computers and internet services. Companies and the government have merged to put up “eSeva’ centers in Hyderabad, where citizens can pay utility bills, register births and deaths, and conduct many other dealings with the government” (Government, 2003). Internet kiosks are also increasingly prevalent, and are marketed in a way that “speaks to the earnings-conscious manager by arguing that bringing goods and services to the masses will also bring wealth to shareholders” (Murphy, 2002) while targeting poorer Indians as its market.

With a background provided of the economic growth of India, the next section will explain the immense growth of the food retail industry. The increasing gap in wealth amongst individuals will be shown as reasoning to why food retailers are expanding in sections where future growth is foreseen through individual spending.

## Changes in the Food Retail Landscape

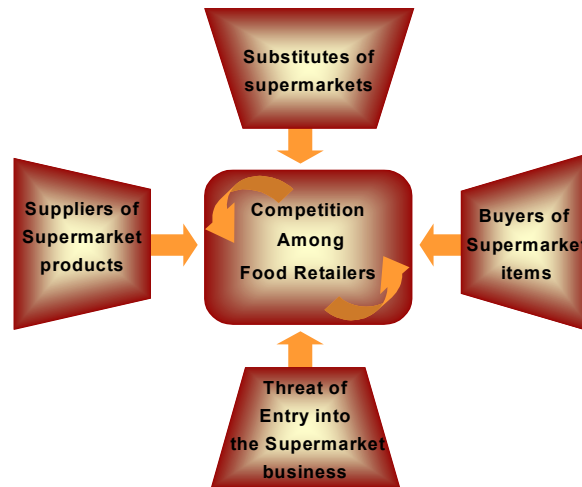
India's food retail industry has been of main focus to MNC's looking to grow in accordance with the economic growth of the country. India has the scale and the potential to transform itself into a food retail powerhouse. It has been rated as the fifth most attractive emerging market for retail by the International Council of Shopping Centers (ICSC), where over the next five years, the market is certain to evolve significantly and the growth of a certain few retailers beyond the Rs.10 billion turnover (USD 230 million), with significant expansion in network size, is expected to occur.

According to a consumer study conducted by RPG, owners of FoodMart supermarkets, key findings for the food retail industry in India include factors such as the emerging sense of dissatisfaction with small range of products currently available at traditional food retailing stores, and consequently, the need for a broader selection of different brands, and a growing demand for hands-on-comparison shopping style. The concentration of two cities, Bangalore and Madras, in this growing landscape has brought great attention as to where global retail companies will expand to.

In addition, the scope of packaging and branding of commodity-like products is an issue for further research that will affect the pace of growth in this industry. Major opportunities for imported food products within the Indian market will only advance once India moves from its restricted lists onto the Open General license. As compared to the total size of the Indian population, the

market for consumer-ready food products is relatively small but is growing steadily.

### Five Forces Model – Indian Food Retail industry



1. Rivalry: Small grocery stores tend to dominate the industry, while supermarket outlets are booming across India.
2. Bargaining Power of Buyers: The growing purchasing power of the middle-class calls for better products, services, and attractions rendered in this industry. Emerging low switching costs are due to a South Indian variety of food retailers.
3. Bargaining Power of Suppliers: Supermarkets purchase its supplies directly from producers/wholesalers to offer savings; retailers could possess a great bargaining power with manufacturers due to recent consolidations in the industry.
4. Threat of Substitutes: Supermarkets are the newest substitutes of traditional food retail stores. A risk might be not developing strategic

alliances with foreign investors, of who can start to invade India and offer consumers more advances.

5. Threat of New Entrants: The entry of organized players will help build better efficiencies in the supply chain management. However, barriers to enter are high.

Consumers in India are serviced by a highly fragmented trade system consisting of over three million retail and wholesale outlets, as well as millions of market and roadside vendors expanded over both urban and rural sectors. The following is a detail classification for the general retail industry and the newly means of shopping patterns by upper-middle-class consumers:

Shopping Patterns (Upper-middle-class consumers)	
Outlet Type	Percent Who Named Outlet as Most Frequently Used
Big grocery store	30
Supermarket	16
Small grocery store	11
General merchant	11
Wholesale dealer	8
Others/no fixed shop	24

For several generations the family grocery business dominated the food market. However, there are main indications in findings and studies of consumer

behavior that this could change soon. There are major factors influencing food shopping that has shaped the industry's desired attributes. These include a growing dissatisfaction with limited selection of products and services, currently available in principal stores, daily shopping and freshness, which is associated with the concept of convenience, and an upward demand for hands-on comparison shopping, where only a small percentage of consumers were familiar with unconventional store formats, and the notion that price would win over quality during the purchase decision process.

Furthermore, specific consumer behavior and purchasing attitudes were established along with their socio-economic status:

- The Wealthy: Mostly relied on domestic help for grocery shopping; bought all kinds of staples, and preferred to buy fresh vegetables and foods from local small grocers and vendors, and other products from general merchants.
- The Poor: Purchased basic staples the first day of each month, any other staples they could afford daily, and later purchased more merchandise on credit. Single-use packages sales were frequent.



- The Middle-class: Divided purchasing habits; majority shopped on their own at their favorite local shop where concerns about the quality of low-priced products were critical.

The following table summarizes the latter choice of food retail stores (usage frequency):

Number of Retail Outlets in India	
Grocery Stores	1,575,000
General merchandise stores	531,000
Convenience stores/tobacconists	276,000
Chemists	212,000
Confectioners	141,000
Supermarkets	30
Other retail	805,000

Monthly Household Expenditures		
Food Category	Rupees per Month	Percent of Total Purchases
Cereals and breads	779	43.2%
Oils and oilseeds	244	13.6
Sugar	191	10.6
Meat, egg, and fish	189	10.5
Pulses (lentils)	106	5.9
Coffee, tea, spices	104	5.8
Tobacco	104	5.8
Beverages (including alcohol)	83	4.6
<b>Total (Rs/month)</b>	<b>1,800</b>	<b>100.0%</b>

The concerns of the increasing gap between the rich and the poor is shown in the shopping habits presented by through these charts. The outlook for the food retail landscape is increasing daily, but restricts people of low class to afford and accept the changes brought about through globalization.

## Conclusion

There are positive and negative aspects to India's economic and trade policy in a global market. The gap between the rich and the poor in the nation is seen to have expanded significantly since new economic initiatives opened the country up to new global markets, specifically within the food retail industry. At the same time, political changes have hampered some international corporate efforts within a domestic sphere that has traditionally been protected from foreign interests. India is seen to be realizing its potential in the global economy in terms of growth, but there is still some gap between this potential and reality.

The outlook for international food retailers is immeasurable, but to the extent that currently, only the rich of India, which also the smallest population size, can make a difference in allowing companies to grow. The country's political infrastructure has been very progressive in instituting an environment in which multi-national corporations have been able to invest in India, but it has perhaps not responded to the dynamic environment which it has created with the same spirit of change, as is shown by constant deficit statistics.

Still, many people within and out of the Indian government predict that the rates of economic and financial growth will continue to improve into the foreseeable future and eventually rise the number of individuals who can be considered as potentials to help feed the growth the food retail landscape of India.

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