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India Halts Wal-Mart Entry Amid Protests

By Bibhudatta Pradhan and Andrew MacAskill – Dec 7, 2011

India suspended its decision to allow overseas retailers including [Wal-Mart Stores Inc. \(WMT\)](#) to open supermarkets, dealing a blow to Prime Minister [Manmohan Singh](#)'s efforts to boost foreign investment and end a policy paralysis.

The government reversed its decision amid protests by the opposition and its allies that forced repeated adjournments of parliament for the last two weeks. Both houses resumed today with 10 days left of a crucial session when the government is looking to pass laws including one setting up an anti-graft body.

"This is political suicide on the part of the Congress government," said Surjit Singh Bhalla, chairman of New Delhi-based Oxus Fund Management. "The only conclusion one can draw is that this government has lost any moral authority to lead. It is completely inexplicable."

The move underscores the failure of Singh's government to implement economic changes sought by business leaders halfway through its second term. The government faced resistance to its decision to allow foreign direct investment in multibrand retail from two coalition partners, opposition parties and traders, who say the move will wipe out the jobs of small shopkeepers.

Shares Drop

Shares of [Pantaloon Retail India Ltd. \(PF\)](#), the country's largest retailer, rose 6.3 percent to 198.1 rupees at close in Mumbai. They fell as much as 6.1 percent earlier. [Shoppers Stop Ltd. \(SHOP\)](#) declined 4.9 percent to 349.65 rupees. The benchmark BSE India Sensitive Index advanced 0.4 percent.

The major impact on stocks "happened on Monday because, over the weekend, everyone already knew this is going to be suspended," Gautam Duggad, a Mumbai-based analyst with Prabhudas Lilladher Pvt., said in a telephone interview.

Arti Singh, a spokeswoman for Wal-Mart in India, and Mohan Shukla, director of corporate affairs for Carrefour SA in India, did not answer calls to their mobile phones.

Finance Minister [Pranab Mukherjee](#) told parliament today the decision is suspended until a consensus is reached. Harsh Mariwala, president of the Federation of Indian Chambers of Commerce, said in a statement today the decision was “deeply disappointing” and “highly regressive.”

‘Confusion in Business’

“Uncertainty and confusion in business is a bad thing,” John Flannery, chief executive officer at General Electric Co.’s Indian unit, said in an interview today. “It was easier to operate in the country a year ago than it is today. It is frustrating to look at unresolved issues and know that they’re resolvable if you can get some leadership and orientation around them.”

In an attempt to kick start an [economy](#) that expanded at the slowest pace in two years in the quarter ended Sept. 30, Singh had approved overseas companies including [Carrefour \(CA\)](#) and [Tesco Plc \(TSCO\)](#) to own as much as 51 percent of retailers selling more than one brand, adding riders to benefit the local economy.

Singh and Commerce Minister [Anand Sharma](#) say the proposals to allow foreign investment in India’s retail sector would check inflation above 9 percent by reducing the amount of farm produce that currently rots before it can be sold and bring better prices for farmers.

The government changed course after Singh’s two biggest allies, Trinamool Congress and the Dravida Munnetra Kazhagam, opposed the policy arguing the move would lead to job losses and hurt small shopkeepers. The main federal opposition [Bharatiya Janata Party](#) was also against the steps for the same reasons.

‘Reform is Over’

“It is very clear now that the reform process is over until we have a new government, a new prime minister,” said Laveesh Bhandari, a director of Indicus Analytics, an economics research firm in [New Delhi](#). “The government is so weak they will give up on anything.”

Facing at least five regional elections next year, including one in [Uttar Pradesh](#), India's most populous state, the government may refrain from taking controversial decisions in the run up to the contests, Bhandari said. [Rahul Gandhi](#), widely expected to lead the ruling party into the 2014 election, may take on a more prominent role campaigning for these states.

The U-turn on retail may allow the government to pass legislation this parliamentary session that will create a new anti-graft agency with enhanced powers, a demand of activists behind nationwide protests that swept the country in August.

[Anna Hazare](#), a social activist who went on a 13-day hunger strike that month, has vowed to resume his rallies if the government fails to pass the bill in the parliamentary session that ends Dec. 22.

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