FDI IN MULTI-BRAND RETAILING-A POLICY PARALYSIS

RAMA VENKATACHALAM

Associate Professor, St. Mira’s College for Girls, University of Pune, Pune, India.

ABSTRACT

As we are marching ahead with the retail revolution and awaiting a dynamic change in the retail landscape, the government’s decision to put on hold FDI in multi-brand retailing is a major setback. India is been ranked as the 4th most attractive nation for retail investment and 2nd in the FDI Confidence Index by A T Kearney’s Global Retail Development Index (GRDI). India is an emerging market for global retailers; having a huge population and a young consumer base. The acceptance of the proposal of FDI in multi-brand retail would accelerate India towards becoming the worlds’ third largest economy. The non-approval of the proposal has lead to a policy paralysis. The paper makes an attempt to understand the arguments in favour of and against FDI in multi-brand retail in India on the basis of the policy U-turn.

The study is based on secondary data collected from various sources like Books, Journals, Newspapers articles and websites.

KEY WORDS: Foreign Direct Investment, Retail Industry, India, Multi-brand Retail, Policy Paralysis, Implementation Crisis

INTRODUCTION

The Retail Industry in India, the fifth largest in the world, is standing on a threshold of a retail revolution. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to US$ 660 billion by the year 2015. Retail market for food and grocery with a worth of Rs.7, 43,900 crore is the largest of the different types of retail segments in India. Furthermore, around 15 million retail outlets help India win the crown of having the highest retail outlets in the world. The present value of the Indian retail market is estimated to be around Rs 12, 00,000 crore (US$ 270 billion) and the annual growth rate is 5.7%. The retail sector is the second largest employer in India next to agriculture. According to DIPP Report 2010, the retail trade employed 7.2% of the total workforce which translates to 33.1 million jobs. According to McKinsey, a research and consulting firm, organised retail in India is expected to increase from 5% (which is very low when compared to other countries of the world) of the total market in 2008 to 14%-18% of the total retail market and reach US $ 450 billion by 2015.

Table 1: Retail Industry
Inspite of the recent development in retailing and its contributions to the economy, retailing continues to be the least evolved industry and the growth of organized retailing in India has been much slower as compared to the rest of the world. This is due to the absence of an encouraging policy for FDI in retail. This paper examines the current state of FDI in retailing in India and obtaining clearer insights on the arguments in favour of and against multi-brand retailing; the stiff policy riders for FDI in retail and the future roadmap.

**REVIEW OF LITERATURE**

Discussion on permitting FDI in multi-brand retail has been in public domain for the last four years. The government is unable to arrive at a consensus on this issue due to opposition from different lobbies. FDI in retailing has its benefits and concerns. Lowering inflation and food prices, improved SCM, generation of additional employment opportunities are some of the benefits (Chari & Raghavan, 2011). The possible threats to domestic retailers from entry of foreign players cannot be ignored (Vivek Kumar & al, 2011). Setting up of a National Commission to study the problems of the retail sector and to evolve policies that will cope with FDI is the need of the hour. The entry of FDI in India’s retail sector is inevitable. However with the instruments of public policy in its hands, the government can ensure both domestic and foreign players are more or less on an equal footing and that domestic traders are not at a special disadvantage (Guruswamy & al, 2010).

With proper regulatory framework, FDI in the buzzing retail sector should not just be freely allowed but should be significantly encouraged. This would undoubtedly enable India Inc to integrate its economy with that of the global economy (Gupta 2010).

**FDI IN RETAILING IN INDIA**

Many countries the world over have an open door policy on FDI in the retail sector and have liberalized policies for opening of FDI in retailing long long ago. China allowed FDI in 1992; Brazil, Mexico, Argentina followed the footsteps of China in 1994; South Korea too joined the league in 1996; whereas Thailand and Indonesia allowed it in 1997 and 1998 respectively. However, India is yet to open fully to FDI in retail.

**FACTS ON FDI IN RETAILING**

<table>
<thead>
<tr>
<th>Country</th>
<th>% Share in Retail Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>5</td>
</tr>
<tr>
<td>USA</td>
<td>65</td>
</tr>
<tr>
<td>Malaysia</td>
<td>55</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
</tr>
</tbody>
</table>
• A T Kearney’s Global Retail Development Index (GRDI) that ranks top 30 emerging countries for retail development has ranked India as the fourth most attractive nation for retail investment in its 9th annual GRDI ranks (2011).

• In the FDI Confidence Index (2010) by A T Kearney, India is ranked third among the top 20 countries. The index provides a unique look at the present and the future prospects of international investment flows.

• From 2006-2010, around 94 foreign firms applied to invest through the single-brand route of which 57 were approved.

• China and India are predicted to account for more than 91% of regional retail sales in 2012; and their share of the regional markets is expected to be at least 93% by 2015.

India permits FDI in retailing upto-

• 100% in Cash & carry wholesale trading and export trading since 2010.
• 51% for retail trade of single brand products since 2006.
• A proposal to permit 51% in multi-brand retailing is still on the backburner.

In Jan 2012, the government removed restrictions on FDI in single brand retail sector allowing 100% FDI. The government has, however, put a condition in respect of proposals involving FDI beyond 51% making mandatory sourcing of at least 30% of the value of products sold from Indian ‘small industries’ village and cottage industries, artisans and craftsman.

While presenting the Budget for 2012-2013, the Finance Minister Pranab Mukherjee opined that due to widespread opposition by allies and several states, the Government suspended its decision to allow 51% FDI in multi-brand retail. “Efforts are on to arrive at a broad-based consensus with state governments on allowing FDI in multi-brand retail up to 51%,” he said (Mehudia, 2012).

A more realistic explanation for the opposition probably lies in the fact that several stakeholders in the economy continue to remain unconvinced about the benefits of greater competition and integration with the world economy. These are typically the interest groups and industry lobbies that continue to benefit from absence of reforms. The enormous unorganised retail trade in the country is wary of greater competition and strongly opposed to entry of foreign retailers. So are the large numbers of small informal sector low-end manufacturers whose products are procured and marketed by the unorganised retail trade without stringent certification or quality requirements. Both the unorganised retailers as well as the small manufacturers enjoy considerable clout in influencing perceptions of political parties in opposing policies on foreign entry in retail. However, efforts are on to arrive at a broad based consensus with the state governments on allowing FDI in multi-brand retail.

The global players have experienced saturation in their existing markets and are looking forward to investment opportunities in other developing countries. India is such a huge market with a population of
108 billion and growing at 1.6% p.a. It also has a demographic advantage where the segment between 20-45 years is emerging as the fastest growing consumer group. The mean age of Indians now is 21 yrs; a mean age that reinforced spending across all retailing channels of grocery, non-grocery and non-store items.

The retail sector is experiencing exponential growth with development taking place not just in major cities, but also in Tier-II and Tier-III cities. Growing economic prosperity and transformation in consumption pattern drives retail demand. Consumer spending has increased by over 75% and this is bound to attract the global players. The Indian government is also encouraging global players in the retail sector. But the global leaders need to understand that retailing in India is much different from the established markets of the developed countries. It requires a distinct understanding of consumer tastes, preferences and their buying habits. It would enable the global players to design their strategies for success in retail sector in India.

The growing market has attracted foreign investors and India is portrayed as an attractive destination for FDI. India has received requests from many important trading partners such as US, Japan, China, EU, Singapore, and Brazil in the Doha Round of negotiations to allow FDI in retailing. Many top global retailers have set shop in India through joint ventures.

**Table 2 : Foreign Retailers Eyeing India’s Multi-Brand space**

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>No of stores</th>
<th>Employees</th>
<th>Business model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>US</td>
<td>9,800 in 28 countries</td>
<td>20 lakh</td>
<td>Wholesale retailer in India through joint venture with Bharati Enterprises since 2007</td>
</tr>
<tr>
<td>Carrefour</td>
<td>France</td>
<td>9500 in 32 countries</td>
<td>4.71 lakh</td>
<td>Wholesale retailer in India since 2010.</td>
</tr>
<tr>
<td>Tesco</td>
<td>UK</td>
<td>5,380 in 14 Countries</td>
<td>4.7 lakh</td>
<td>Joint venture with the Tata group-led Trent for wholesale business since 2008</td>
</tr>
<tr>
<td>Metro AG</td>
<td>Germany</td>
<td>2100 in 33 countries</td>
<td>2.8 lakh</td>
<td>First foreign retailer to set up wholesale business in 2003.</td>
</tr>
<tr>
<td>Auchan</td>
<td>France</td>
<td>1339 hypermarkets in 12 countries</td>
<td>2.62 lakh</td>
<td>Plan not known</td>
</tr>
<tr>
<td>Target</td>
<td>US</td>
<td>1750 stores</td>
<td>3.5 lakh</td>
<td>Plan not known</td>
</tr>
<tr>
<td>Best Buy</td>
<td>US</td>
<td>1,100 stores</td>
<td>1.8 lakh</td>
<td>May enter through joint venture.</td>
</tr>
<tr>
<td>AHOLD</td>
<td>The Netherlands</td>
<td>2970 stores</td>
<td>2.1 lakh</td>
<td>Plan not known</td>
</tr>
</tbody>
</table>

**Table 3 : Single Brand Retailers Already Present In India**
<table>
<thead>
<tr>
<th>Store</th>
<th>Owners</th>
<th>Joint venture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zara</td>
<td>Spanish fashion retailer Inditex group</td>
<td>Trent, the retail arm of Tata group</td>
</tr>
<tr>
<td>Tommy Hilfiger</td>
<td>Premium clothing brand owned by Van Heusen Corp’</td>
<td>Arvind Brands</td>
</tr>
<tr>
<td>Giorgio Armani</td>
<td>Italian fashion brand</td>
<td>Real estate developer DLF</td>
</tr>
<tr>
<td>Mothercare</td>
<td>UK retailer for kids and expectant mothers</td>
<td>DLF</td>
</tr>
<tr>
<td>Versace</td>
<td>Blues clothing company</td>
<td></td>
</tr>
<tr>
<td>Marks &amp; Spencer</td>
<td>Single brand multi product store</td>
<td>Reliance Retail</td>
</tr>
</tbody>
</table>

ARGUMENTS IN FAVOUR OF FDI IN MULTI-BRAND RETAILING

Many organized retailers, retail consultants, consumers and Industry experts suggest that permitting FDI in multi-brand retailing would create dearth of opportunities for the economy as a whole. This section looks at the potential benefits of allowing entry by large foreign discount retail chains.

1. India is the second largest producer of fruits and vegetables in the world next to China. India produces 180 million tons of fruits and vegetables every year of which India currently wastes around 1 trillion worth of fresh produce. More than 50% of this can be brought to market with proper farm-to-fork infrastructure. International retailers with the state-of-the-art cold storage chains could minimize wastage of fresh produce and ease food inflation. The Economic Survey 2011-2012 said that Inter-Ministerial Group (IMG) on inflation has recommended leveraging FDI in multi-brand retail as one of the means for addressing issues relating to high rates of food inflation.

2. Increased foreign investment would bring in the global players like Wal-Mart, Tesco and Carrefour etc on to the Indian retail scene. This will automatically bring in best management and IT practices. Modern technologies like RFID (Radio Frequency Identification) would bring about major changes in the way business is conducted in India. It is interesting to note that the retail giant Wal-Mart uses its own software called ‘Retail Link’; this software is said to tracks orders on a real time basis from the shelf level to the purchase department in the distribution centres. This gives a clear picture of total sales and inventory on hand.

3. Farmers in India rely on several layers of intermediaries to distribute their fresh produce of fruits and vegetables. Each intermediary adds its share of profits and commission which leads to considerable difference between farm-gate and shelf prices. FDI in retailing will create better linkages between demand and supply, translating into better prices for farmers and lower prices for consumers. As per the IMG on inflation, FDI in multi-brand retail would help in developing a ‘farm-to-fork’ retail supply system and address the investment gaps in post harvest infrastructure for agricultural produce. According to the CII-BCG study, to put a modern retail chain in place, an investment of US$ 60 billion would be required. Mr Kaushik Basu, the chief economic advisor to the finance
minister Mr. Pranab Mukherjee opined that, ”If the government does not allow FDI in multi-brand retail in India consumer prices will remain high and farm prices will remain low which will hurt the government politically. He further elaborates that he has letters from farmer lobbies imploring that FDI in retail should be pushed through” (Bhargave, 2012).

4. The foreign retailers are expected to bring in new concepts from the home country to India in order to satisfy the needs of the consumers ultimately. Consumers would benefit with a wide range of world-class products at competitive prices. Globalization has brought in a shift to monopolistic market conditions that has in turn ensured competitive prices. This is already visible in single-brand retail trade where government has allowed 51% FDI presence. The entry of global brands in readymade apparels, lifestyle products and accessories has brought down the prices of almost every well known brand of India.

5. The big retailers in India are not willing to do big capital to bring relief to the fund crunch faced by the sector. For FDI in retailing can help domestic retailers usher certain major expansions in business processes. This is evident in FDI inflows in single brand retailing for April 2009 to Jan 2011 that stood at US $128.34 million as stated in the DIPP report.

6. FDI in retailing is also expected to benefit inter-linked sectors such as, entertainment and recreation. The shopping malls offer a wide range of entertainment such as multiplexes; food courts and gaming zones. It is also expected to boost the Indian Tourism as well as the Entertainment Industry.

7. Tourism is also a contributor to the Indian retail sector. Tourist arrivals rose by 8% in 2010, i.e. 5.4 million in 2010 from 4.99 million in 2009. Foreign exchange earnings from tourism were up 9.55% for the same period.

ARGUMENTS AGAINST FDI IN MULTI-BRAND RETAILING

A number of concerns have been raised about opening up the retail sector for FDI in India.

1. There are widespread fears that the entry of global retailers will adversely affect the domestic players. The existing retail scenario in India is characterized by the presence of large number of highly fragmented family owned businesses who may not be able to survive the competition from these foreign players.

2. The global retailers might resort to unfair trade practices like predatory pricing. Initially, these players may tempt customers by selling at below cost levels. Such a policy may seriously after the domestic players and may even be wiped out due to absence of proper regulatory guidelines. The foreign players will gain a monopoly position which allows them to increase prices and earn profits.

3. The complete entry of FDI in retail may adversely affect the food & grocery sector as well; this segment is mostly unorganized. Food dominates the shopping basket in India. Food accounted for 53% of the total private consumption in India; while it is only 9.7% in the U.S and 15% in Japan and UK. Global players entering into the food & grocery retail can destroy the business of millions of small vendors.
4. Those against FDI in retailing have argued that large international retailers can upset the import balance by preferring to source majority of their products globally rather than investing in local production.

5. The majority of the workforce employed in the retail sector in India is semi-educated. However, global retailers demand higher skill levels than domestic retailers. This would mean additional employment for the educated and skilled youth. At the same time, it can mean that the semi-educated youth would have fewer choices or opportunities and thus may even face unemployment.

RIDERS FOR FDI IN RETAIL

As the industry is divided in its opinion on opening of the retail sector, the Government of India is not in a hurry and is playing it safe. A draft cabinet note has been formulated with tough conditions for allowing FDI in retail.

FDI IN MULTI-BRAND RETAIL

- Government permission for upto 51%
- Fresh agricultural produce, including fruits, vegetable, flowers, grains, pulses, fresh poultry, fishery and meat products may be unbranded.
- The minimum amount fixed for a foreign investor in $ 100 million.
- At least 50% of the total FDI must be invested in ‘back-end infrastructure’ or investment made in processing, manufacturing, distribution, design improvement, quality control and packaging, but not land cost and rentals.
- At least 30% of the procurement of manufactured and processed products should be sourced from ‘small industry’, or a unit with a total investment in plant and machinery not exceeding $0.25 million. The value refers to the investment at the time of installation without providing for depreciation.
- Compliance through self-certification, investor need to keep all records.
- Retail sales location can be set in cities with more than one million population based on the Census 2011.
- The government will have the first right to procure agricultural produce.

FDI IN SINGLE-BRAND RETAIL

- Permission of up to 100% FDI from 51% at present.
- Products to be sold should be of single brand only.
- Products to be sold under same brand name internationally.
- Product retailing would cover only those brands which are branded during manufacture.
- The foreign investor should be an owner of the brand.
• 30 per cent sourcing from ‘small industries’ is mandatory.

CONCLUSIONS

The government is again carrying out consultations with stakeholders like farmers, consumer associations, and food processing industry to arrive at a consensus on this issue. The ‘kiranas’, about 5-6 million of the 8 million FMCG stocking kiranas, are in rural India and are totally safe as the new ones can only come to the top 53 cities. Even the ones in the cities are horribly efficient and will redefine their business (Bijapurkar, 2011). One can conclude that India is on a high growth trajectory and both the organized and unorganized sectors in retail will grow and survive.

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