

## **FDI IN MULTI- BRAND RETAIL TRADING IN INDIA: OPPORTUNITIES AND CHALLENGES**

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### **ABSTRACT**

*Government of India on September 12, 2012 by a notification reviewed the policy on FDI and decided to permit FDI up to 51% under the Government route in multi-Brand Retail trading [MBRT] with some conditions. Till date the FDI was prohibited in retail trading except in single- brand Product retail trading in which FDI up to 100%. The Government of India succeeded in getting majority support in both the houses of the parliament despite a hostile reaction from various political parties. However it left the decision to allow FDI in retail and opening of giant international stores and chains to individual state Government which can now implements the Government policy. Finally, FDI is here so that is a very good news. There is no threat to us from foreign retailers. However only few states and Union Territories have so far conveyed to the Centre their agreement to open FDI in the multi brand retail.*

### **INTRODUCTION**

India being a signatory to world Trade Organizations General Agreement on trade in service, which include wholesale and retailing services, has to open up the retail sector to foreign investment. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. The Government's proposal to permit FDI in multi-brand retail trading has several riders built in as safeguard, broadly in line with the trend globally, where retail continues to be a tightly regulated sector. But most analysts concede that the condition proposed for multi-brand retail in India are among the most stringent globally. The Ministry of Commerce and Industry of Government of India on September 21, 2012 by a notification reviewed the policy on Foreign Direct Investment (FDI) and decided to permit FDI up to 51 percent under the Government route in Multi-Brand Retail Trading(MBRT) with some condition. Indian retailers have welcomed the move saying that the policy is expected to give a push to the sectoral growth and the overall growth of the economy.

### **OBJECTIVES OF THE RESEARCH STUDY**

- To present an overview of FDI in Indian context.

- To analyze the rationality of allowing FDI in Indian retail with special importance to multi-brand retailing.
- To Study the Opportunity and challenges of FDI in multi-brand Retail trading

## REVIEW OF LITERATURE

Indian Retail sector is the most borrowing sector in the Indian economy and largest sources of employment after agriculture. The retail industry contributes 11 percent of India's GDP. It is undergoing a transitional phase to usher organized retail. The attitudinal shift of the Indian consumers were in terms of "choice preference" "value for money" and the emergence of organized retail format. The overall Indian retail sector is expected to rise to US \$ 833 billion by 2013 and to US \$ 1.3 trillion by 2018. According to a study by the McKinsey Global Institute (MGI), Indian incomes are likely to grow three-fold over the next two decades and India will become the world fifth largest consumer market by 2025, moving up from its position in 2007 as the 12<sup>th</sup> largest consumer market. In the seventh annual Global retail development Index (GRDI) conducted in 2008, India stood second as the most attractive destination for retail investment. According to the world bank report, it is suggested to have an organized retail sector so that is easy to have a direct control on the price mechanism and to control on the macro economic variables. Until now FDI in multi-brand retail trading was not allowed. The cabinet at its meeting held on September 14 2012 approved FDI in multi-brand retail trade up to 51% through the prior governmental approval route 39 the proposal to allow FDI in multi brand retail trading dates back to July 2010, when DIPP first introduced its discussion paper 40 on allowing FDI in multi-brand retail. The current policy does not define the term multi-brand'. Simply put, multi brand retail trading implies the sale of multiple brands under one roof to retail customers for personal consumption. In July 2010 DIPP circulated a discussion paper<sup>41</sup> on allowing FDI in multi-brand retail. The paper highlights the following as some of the benefits that may be accrued pursuant to allowing FDI in multi brand product retailing.

- Access to funds
- Boost to employments
- Reduced wastages in the food supply chain
- Availability of quantity products at better prices

## RESEARCH METHODOLOGY

This research paper attempted to highlight the implication of FDI in multi-brand retailing along with general overview of FDI in Indian context based on secondary information gathered from diversified sources which include literature survey, newspaper article, magazine and internet.

### FDI in India- An Overview

Starting from a baseline of less than \$ 1 billion in 1990 a recent UNCTAD survey projected India as the second most important FDI destination(after China) for transnational companies during 2010-12. As per the data the sectors which attracted higher inflows were services,

telecommunication, construction activities and computer software and hardware. Mauritius, Singapore the US and the UK were among the leading sources of FDI.

FDI in 2010 was \$ 24.2 billion a significant decrease from both 2008 and 2009. FDI in August 2010 dipped by about 60 percent to approx.. \$34 billion the lowest in 2010 fiscal, industry department data released showed. In the first two months of 2010-11 fiscal, FDI inflow into India was at an all time high of \$7.78 billion up 77 percent from \$ 4.4 billion during the corresponding period in the previous year.

The World's largest retailer Wal-Mart has termed India's decision to allow 51 percent FDI in multi-brand retail as a first important step and said it will study the finer details of the new policy to determine the impact on its ability to do business in India. However this decision of the government is currently under suspension due to opposition from other parties. Now, a sudden flash into the recent FDI inflows into India to get an idea about the trend of FDI over the last few years.

## **FDI in Indian Multibrand Retail-Rationale**

Most Countries of the world which embarked on the road to economic development had to depend on foreign capital to some extent. The most important channel through which foreign Capital flows into the Country is FDI. FDI in multi-brand retail will give a boost to the organized retail sector, which positively impact5s several stakeholders including producers, workers, employees, consumers, the government and hence the overall economy in spite of many disadvantages associated with that. China's example indicates clearly that FDI in retailing does not necessitate the complete closure of local retailers. China is the world's largest FDI recipient and it started with an FDI investment of \$19 billion and at present that figure has been increased many times. Carrefour from France, Tesco from England, Metro from Germany and Wal-mart from US have entered the Chinese retail sector and has uplifted the country economy. Initially during 1992 china allowed FDI only in a few selected cities and also restricted the ownership by 26 percent. Later, only in 2004 did china finally permit 100 percent FDI and local Chinese grocery stores have since grown from 1.9 million to more than 2.5 million. In India Opening up of FDI can increase organized retail market size to \$260 billion by 2020. However the rationale for allowing FDI in multi-brand retail may be set out as follows:

- Allowing FDI in multi-brand retail trade will benefit consumers and farmers, and will also aim at bringing down inflation. Farmers in this case may be protected from the domination of intermediaries who dominate the interface between the manufactures or producers and consumers in most cases and major part of the share of profit is eaten by those middlemen causing loss to the farmers. Further consumers will get variety of products at cheaper prices and will have more choice to get international brands at one place.
- Allowing international retailer such as Wal-mart and Carrefour, which have already set up whole sale operations in the country, to set up multi-brand retail stores will assist in keeping commodity prices under control, will cut waste as big players will build backend infrastructure.

- FDI in retail trade if permitted then more foreign companies will come and new infrastructure will build. Banking sector will grow consequently as money required to build infrastructure would be provided by banks.
- Lack of infrastructure (e.g. Cold storage) in the retailing chain has been one of the big issues for years which have led the process to an incompetent market mechanism. FDI might help India over come such issues by channelizing the resources in the right manner.
- Permitting FDI in retail trade will open huge job opportunities. Estimate says it will touch not less than 80 lakh Jobs.
- Allowing FDI in multi-brand retail will contribute to foreign currency reserve and narrow the current account deficit as well.

Further Competition within the host country sector is a critical driver of improvements in sector performance as a result of FDI. FDI's potential for impact can be greater because of the combination of scale, capital and global capabilities which allows MNC to close existing large Productivity gaps more aggressively. FDI can be powerful catalyst to spur competition in industries characterized by low competition and poor productivity such as retail industry due to the current scenario of low competition and poor productivity.

## **FDI in Multi-Brand Retail Trading: Opportunity and Challenges**

### **FDI - Challenges**

The Challenges which may be posed because of the retail sector FDI are as follows.

- Independent stores may be closed, leading to massive job losses. Wal-mart employs very few people in the United states of America. If allowed to spread in India as much as it has expanded in the USA, few thousand Jobs may be created but millions may be lost.
- Foreign retailers may lower prices in the beginning through dumping get competition out of the way, become a monopoly and later raise prices. India has seen this in the case of the soft drink industry where Pepsi and Coke came in and wiped out all the domestic brands.
- One view is that India doesn't need foreign retailers since home grown companies and traditional markets may be able to do the jobs.
- In foreign retail companies work will be done by Indians whereas the profits will go to foreigners.
- India should remember the British East India Company. It came India as a trader and gradually acquired political power. The Government of India has not been able to build consensus with various segments of Indian society.
- The FDI in retail in Thailand has shown adverse impact where 67 percent of the Kirana shops have been closed.

## FDI- Opportunities (Benefits)

- Instead of job losses, retail reforms are likely to be massive boost to Indian Job availability. The organized retail will need workers, Wal-mart employer 1.4 million people in United states alone. With United states population of about 300 million, and India's population of about 1200 million, if Wal-mart-like retail companies were to expand in India as much as their presence in the United States, and the staffing level in Indian stores kept at the same level as in the United states stores, Wal-mart alone would employ 5.6 million Indian citizens. In addition millions of additional jobs will be created during the building of and the maintenance of retail stores, roads, cold storage centers, software industry, electronic cash registers and other retail supporting organization.
- Global investment capital through FDI is necessary, India needs trillions of dollars to build its infrastructure, hospitals, housing and schools for its growing population. Indian economy is small with limited surplus capital Indian government is already operating on budget deficits. It is simply not possible for Indian investors or Indian government to fund this expansion, job creation and growth at the rate India needs. Beyonds capital, Indian retail industry needs Knowledge and global integration. Global retail leaders, some of which are partly owned by people of Indian origin, can bring this knowledge and global integration. Global retail industry needs knowledge and global integration. Global retail leaders some of which are partly owned by people of Indian origin can bring this Knowledge. Global integration can potentially open export markets for Indian farmers and producers. Walmart, for example except to source and export some \$1 billion worth of goods from India every year, since it came into Indian wholesale retail market.
- Comparing twenty-first century changes to eighteenth century events is inappropriate. Condition today are not the same as they were in the eighteenth century. India was not a democracy then as it is today. Global awareness and news media were not the same in eighteenth century as today. For example take China for today. It has over 57 million square feet of retail space owned by foreigners, employing millions of Chinese citizens. Yet china hasn't become a vassal of imperialists. It enjoys respect from all global powers Other Asian countries like Malaysia, Taiwan, Thailand and Indonesia, see foreign retailers as catalysts of new technology and price reduction and they have benefited immensely by welcoming FDI in retail. India too will benefited by integrating with the world rather than isolating itself .
- With 51 percent FDI limit in multi-brand retailing, nearly half of the profits will remains in India. Any outflows of profits will be subject to domestic tax laws and such tax revenue will reduce Indian government deficit.
- States in India have a right to say no to retail FDI within their jurisdiction. States have the right to add restriction to the retail policy announced before they implement them. Thus they can place limits on number, market share, style, diversity, homogeneity and other factors to suit their cultural preferences. In future states can always introduce regulation and India can change the law to ensure the benefits of

retail reforms reach the poorest and weakest segments of Indian society , free and fair retail competition does indeed lead to sharply lower inflation than current levels small farmers get better prices jobs created by organized retail pay well and healthier food becomes available to more household.

- Inbuilt inefficiencies and wastage in distribution and storage account for, as much as 40 per cent. Cost conscious organized retail companies will avoid waste and loss, making food available to the weakest and poorest segment of Indian society, while increasing the income of small farmers. Wal-mart for example since its arrival in Indian wholesale retail market has successfully introduced Direct farm project at Haider Nagar near Malerkotla in Punjab, where 110 farmers have been connected with Bharti Walmart for sourcing fresh Vegetable directly thereby reducing waste and bringing fresher produce to Indian consumers.
- The prices of commodities will automatically be checked. For example, according to Business Standard the Direct farm Project at Haider Nagar in Punjab, the farmers have been connected with Bharti walmart for sourcing fresh vegetable directly.
- The intermediaries operating as per mandi norms do not have transparency in their pricing According to some of the reports, an average Indian farmer realizes only one third of the price, which the final consumer pays. The intermediaries and mandi system will be evicted hence directly benefiting the farmers and producers.

## CONCLUSION

In one hand, it is clear that foreign companies will have ample scope to go for FDI in Indian retail sector as it is promising one and allowing FDI in multi-brand retail trade of India is expected to open many opportunities to the Indian people However the present study attempts to highlight some of the important issues that may be taken care of before taking any decision with respect to such strategic issue. It is very important to match the benefits that can be derived out of such foreign investment with the losses that will cause to any section of people in the country. Deciding the percentage of stake that will be allowed to foreign companies if they invest in Indian multi-brand retail outlet. In this case they may be allowed minority stake that is to say less than 50 percent. Foreign investors may be allowed to invest in India retail sector if it is not backed by political interests of one Country. The paper concludes by saying that FDI in multi-brand retail can be permitted as long the interest of farmers and small traders are protected. There will be no job losses. Further it will not impose any condition on the present economic structure.

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