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FOREIGN DIRECT INVESTMENT IN MULTI-BRAND RETAILING – A STUDY ON INDIAN SCENARIO

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ABSTRACT

Over the last couple of years, there has been a surge in the movement of trade and cross border investment. This has been possible because of the substantial globalization of world economy. FDI is a tool for economic growth through its strengthening of domestic capital, productivity and employment. FDI plays vital role in the up gradation of technology, skill and managerial capabilities in various sectors of the economy. FDI is also playing inevitable role in retail sector across the countries wherever it has been permitted.
In India, FDI has risen considerably in post reform period since India has allowed FDI in several sectors of the economy but FDI in Indian retail has been permitted subject to some restrictions in cash and carry whole sale trading and in single-brand retailing. FDI is not yet permitted in multi-brand retailing. Though, it is presently under consideration and in near future Government of India may allow foreign companies to invest in multi-brand retail trade. The present paper, thus, attempts to analyze all possible issues associated with FDI in retail sector with special importance to FDI in multi-brand retailing.

KEY WORDS: Cross border investment, FDI, post reform period, single-brand and multi-brand retailing.

INTRODUCTION

One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. It is observed form UNCTAD Report, 2009, that while the global FDI figure was around US $ 1400 billion in 2000, the same increased to US $ 1697 billion in 2008, decreasing from a peak of US $ 1979 billion in 2007 due to recession in the world economy (UNCTAD, 2009).In line with the growing trade flows, the investment coming towards the developing countries and transitional economies has also been on the rise in the recent period (World Investment Report, 2010).

FDI to developing countries in the 1990s was the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world as a vehicle for technology flows and an important source of non–debt inflows for attaining competitive efficiency by creating a meaningful network of global interconnections. FDI provide opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing their resources (Sirari and Bohra, 2011).

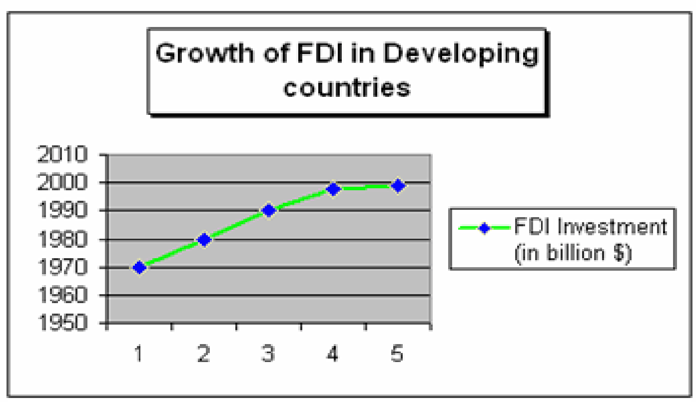
In the past decades, FDI was concerned only with highly industrialized countries. US were the world's largest recipient of FDI during 2006 with an investment of 184 million form OECD (Organization for Economic Cooperation and Development) countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in FDIs. Now, during course of time, FDI has become a vital part in every country more particularly with the developing countries. This is because of the reasons like, availability of cheap labour, uninterrupted availability of raw material, less production cost compared with other developed countries and quick as well as easy market penetration (www.going-global.com, www.oecd.org, www.financialexpress.com, www.iie.org).

FDI provides an inflow of foreign capital and funds, investment in addition to an increase in the transfer of skills, technology and job opportunities. A recent study on the effects of foreign direct investment on local firms in developing countries and transition countries suggest that foreign investment robustly increases local productivity growth. The commitment to development index ranks the "development friendliness" of rich country investment policies (http://www.en.wikipedia.org/wiki/Foreign_direct_investment).

Here we can observe the growth of FDI flow into the developing countries in the recent past:

Figure: 1

Year	$ (in billion)
1970	10
1980	20
1990	26.7
1998	179
1999	208



Source: http://www.en.wikipedia.org/wiki/Foreign_direct_investment.Retrieved from Wikipedia)

In India, FDI has risen considerably in post–reform period. The importance and category of FDI has changed significantly since India has opened up its economy. This has provided high prospects that FDI may serve up as a channel to advanced economic growth. However, it turns out that the development effects of FDI differ extensively across sectors (http://www.articlesphere.com/Article/The-Impact-of-FDI-on-India's-Manufacturing Sector/ 247108). FDI is making significant contribution in Indian manufacturing and service sector. FDI has been permitted in several sectors by the government of India and that can be understood from the policy initiatives taken by the government in this regard. Further, all prior regulations and guidelines have been consolidated into one comprehensive document, which is reviewed after every six months (Union Budget, 2011-2012).

FDI in India up to 100 percent is permitted on the automatic route in all manufacturing activities subject to certain exceptions. In case of service sector, the flow of FDI in that sector is boosting the growth of Indian economy. This sector is contributing the large share in the growing GDP of India. This sector attracting a significant portion of total FDI in Indian economy and it has shown especially in the second decade (2000–2010) of economic reforms in India.FDI up to 51 percent is also permitted in trading companies in India. Recently, India has also allowed FDI up to 100 percent in many manufacturing industries which are designated as small scale industries (Madaan, 2011; Sirari and Bohra, 2011). Another important area where FDI can play its role significantly is the Indian retail sector which is promising one. FDI in Indian retail is permitted in selective cases subject to restrictions (Agarwal and Tyagi, 2011). FDI is not yet permitted in ***Multi Brand Retailing*** in India due to continuous opposition from multiple political quarters.

OBJECTIVES AND SCOPE OF STUDY

- To present an overview of FDI in Indian context.
- To present the current status of FDI in Indian retail along with further scope.
- To analyze the rationality of allowing FDI in Indian retail with special importance to multi – brand retailing.
- To indicate some measures that may be taken into consideration as part of the policy making process.

Moreover, this paper will present a general overview of FDI and then the paper will highlight various issues relevant to FDI in multi-brand retail trade.

METHODOLOGY

This paper attempted to highlight the implications of FDI in multi-brand retailing along with general overview of FDI based on secondary information gathered from diversified sources which include literature survey, news paper articles and internet. Moreover, the present paper can be considered as a review paper.

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 (http://www.en.wikipedia.org/wiki/Foreign_direct_investment).

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 (Ibid).

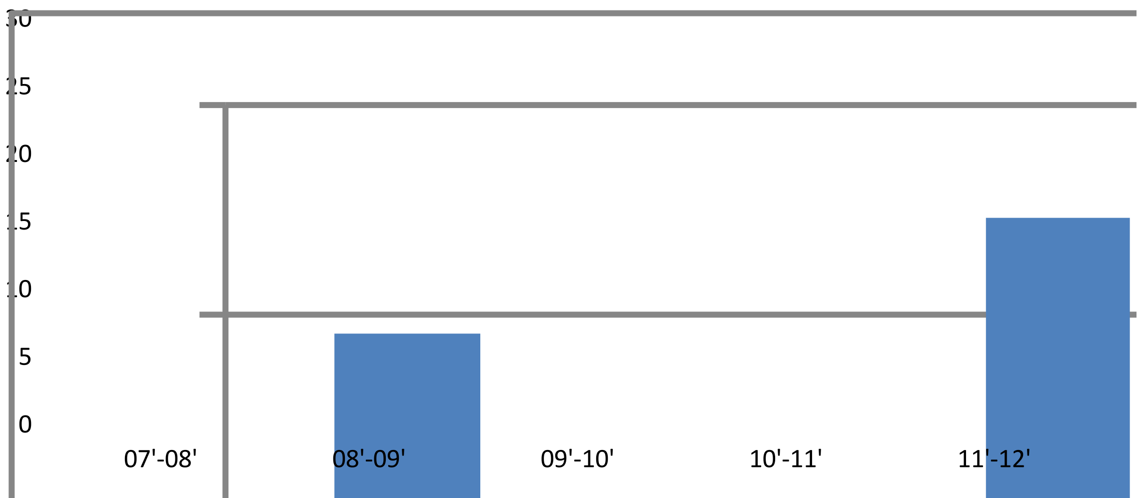
The world's largest retailer Wal-Mart has termed India's decision to allow 51 percent FDI in multi – brand retail as a 'first important step' and said it will study the finer details of the new policy to determine the impact on its ability to do business in India. However this decision of the government 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 FDIs over the last few years:

FDI inflow a bright spot

FDI equity inflows (in $ billions) in India is being highlighted in the following graph:

Figure: 2



Source: The Economic Times, 16th March 2012 Issue.

The figures of FDI during the aforesaid period as shown in the graph were as follows: $24.58 billion, $27.33 billion, $25.83 billion, $19.43 billion and $24.19 billion, respectively from the year 2007-08 to 2011-12 (April-Dec).

After analysis of all the above mentioned figures it can be said that, it starts from $ 24.58 billion in the financial year 2007-08 then the figure has increased to $ 27.33 billion in the next year. But during the year 2009-10 the figure has declined to $ 25.83 billion from the immediately preceding year and it continues up to 2010-11. Perhaps, it is due to the recession in the world economy. But as soon as the recovery of recession phase starts, the FDI figure again has gone up to $ 24.19 billion during the period April to December in the financial year 2011-12 and it is clear from the abovementioned figures.

However, with the initiation of new economic policy in 1991 and subsequent reforms process, India has witnessed a change in the flow and direction of foreign direct investment into the country (Dutta and Sarma, 2008). Traditional industrial sectors like food processing industries, textiles, etc. which were once important sectors attracting larger FDI, have given way to modern industrial sectors as presented below, where we can observe the top ten sectors attracting highest FDI equity inflows recently:

Table: 1 Sector attracting highest FDI inflows in recent days (in Rs Crore)

SECTOR	2005-06	2006-07	2007-08	2008-09 (April-Jan '09)	Cumulative (Apr.2000-Jan 2009)	% of total inflows*
Services (Financial & non-financial)	2399 (543)	21047 (4664)	26589 (6615)	23045 (5061)	78742 (181189)	22.39%
Computer Software & Hardware	6172 (1375)	11786 (2614)	5623 (1410)	6944 (1599)	39111 (8876)	11.12%
Telecommunications	2776 (624)	2155 (478)	5103 (1261)	10797 (2374)	27544 (6216)	7.83%
Construction	667 (151)	4424 (985)	6989 (1743)	6224 (1483)	19606 (4646)	6.07%
Automobile	630 (143)	1254 (276)	2697 (675)	1792 (441)	11648 (2678)	4.17%
Housing and Real estate	171 (38)	2121 (467)	8749 (2179)	10632 (2408)	21794 (5119)	6.20%
Power	386 (87)	713 (157)	3875 (967)	4079 (924)	13709 (3130)	3.90%
Metallurgical	6540 (147)	7866 (173)	4686 (1177)	3608 (850)	10956 (2613)	3.11%
Chemicals (Other than fertilizers)	1731 (390)	930 (205)	920 (229)	2561 (579)	9442 (2244)	2.47%
Petroleum & Natural Gas	64 (14)	401 (89)	5729 (1427)	1196 (263)	8509 (2043)	2.68%

* In terms of Rs.

Figures in bracket are in US$ million.

Source: DIPP, Federal Ministry of Commerce and Industry, Government of India.

FDI IN INDIAN RETAIL – IMPORTANCE AND CURRENT STATUS

Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a country's product or service to enter into the global market, permitting FDI in retail sector may open several benefits to farmers, consumers and the entire economy as well but it should not be one country's planned objective to hamper the economy of another country or to create political unrest.

The Government of India was initially very anxious of allowing FDI in retail sector due to fear of job losses, procurement from international market, Competition and loss of entrepreneurial opportunities but over time, India had to open up the retail sector to FDI as per WTO pronouncement. The Government in a series of moves has opened up the retail sector slowly to FDI.

Here, we can observe the process and / or steps through which FDI in retail sector of India was allowed starting from 1997.

Year	**FDI in Retail – Status**
1997	100 Percent FDI in cash and carry (wholesale) trade was allowed only under Government approval route.
2006	FDI in cash and carry (whole sale) brought under automatic route.
	51 Percent FDI was permitted in a single – brand retail outlet, subject to conditions.
2011	100 Percent FDI in single –brand retail permitted from earlier 51 percent in 2006.

(Source:http://www.india-briefing.com/news/foreign-direct-investment-indias-single-multibrand-retail-5232.html/.)

Above analysis shows that there is no indication about the permission of FDI in multi -brand retailing but at present government is trying to push FDI in that sector but no decision has yet been made due to opposition from other parties. The government may make one last bid to at least push through FDI in multi-brand retail after the monsoon session and before the elections to key states are announced (TOI Aug24,2012).FDI in single -brand retailing was, however, permitted in 2006, to the extent of 51%. Since then, a total of 94 proposals have been received till May, 2010. Of this, 57 proposals were approved. An FDI inflow of US $ 194.69 million (Rs. 901.64 crore) was received between April, 2006 and March, 2010, comprising 0.21% of the total FDI inflows during the period, under the category of single brand retailing. The proposals received and approved related to retail trading of sportswear, luxury goods, apparel, fashion clothing, jewellery, hand bags, lifestyle products etc., covering high-end items. Single brand retail outlets with FDI generally pertain to high-end products and cater to the needs of a brand conscious segment of the population, mainly attracting a brand loyal clientele, which often has a pre-set positive disposition towards the specific brand. This segment of customers is distinctly different from one that is catered by the small retailers/ *kiranashops* (http://dipp.nic.in/english/Discuss_paper/ DP_FDI_ MultiBrand Retail Trading_06July2010.pdf).

FDI IN INDIAN RETAIL - FURTHER SCOPE

Major findings:

Despite the numerous obstacles that existing players and new market entrants have to deal with, the Indian retail market bristles with abundant promise. According to Global Retail Development, Index (GRDI) reports published by the leading US based consulting group, AT Kearney in June 2010, India is the 3rd most attractive retail market for global retailers among the largest emerging markets (Kearney's,2010).

The report also highlights the well documented fact that organized retail constitutes a mere 5% of the total annual revenues generated, hence providing a tremendous window of opportunity for both domestic and international retailers to tap into a burgeoning albeit fragmented market. India's retail industry is estimated to be worth approximately US $411.28 billion and is still growing, expected to reach US $804.06 billion in 2015 (http://www.youthkiawaaz.com/2011/08/fdi-in-multi-brand-retailing-in-india-crossing-the-rubicon /). As part of the economic liberalization process set in place by the Industrial policy of 1991, the Indian Government has opened the retail sector to FDI slowly through a series of steps excepting FDI in multi- brand retailing, which has so far been prohibited in India.

FDI IN MULTI-BRAND RETAILING

Retailing is one of the world's largest private industries. Permitting FDI in retail sector of any country will call for many opportunities. FDI in multi brand retail implies that a retail store with a foreign investment can sell multiple-brands under one roof.

Despite many issues which are against of allowing FDI in multi-brand retailing, It will ensure adequate flow of capital into host country in a manner likely to promote the welfare of all sections of people of society, Particularly farmers, and consumers as well.

FDI IN MULTI-BRAND RETAIL – INDIA'S STANDPOINT

Major Findings:

The decision of Permitting FDI in the retail sector has been a debate in India for a considerable period of time. FDI in the retail sector has always been a litigious issue in our country, policy makers of our country making delay in decision making on key aspects stemming from political risks at large.

In July 2010, the Department of Industrial Policy and promotion (DIPP) and the Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The committee of secretaries, led by Ajit Seth, recommended opening the retail sector for FDI with a 51 Percent Cap on FDI, minimum investment of US $100 million and a mandatory 50 percent capital reinvestment into backend operations. The long awaited scheme has been sent to the cabinet for approval, but no decision has yet been made (http://www.india-briefing.com/news/foreign-direct-investment-indias-single-multibrand-retail-5232.html/).

FDI IN INDIAN MULTI-BRAND RETAIL – RATIONALE

Major Findings:

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 impacts 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 (www.oecd.org) (www.financialexpress.com) (www.iie.org). However, the rationale for allowing FDI in multi-brand retail trade 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 manufacturers 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.
- Public Distribution System is expected to be improved through allowing FDI in retail trade.
- 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 storages) 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 allow MNCs to close existing large productivity gaps more aggressively. FDI can be a 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.

REVIEW DISCUSSION

A number of views have been expressed regarding the subject of FDI in the retail trade sector. Various issues have also been raised on the possible approach to opening the retail trade sector for FDI. FDI is permitted and successfully running in the retail sector in many countries such as, Brazil, Argentina, Singapore, Indonesia, China and Thailand without limits on equity participation while Malaysia has equity caps on FDI in the retail sector (http://dipp.nic.in/english/Discuss_paper/DP_FDI_MultiBrandRetailTrading_06July2010.pdf). The advantages outweigh the disadvantages of allowing unrestrained FDI in the retail sector and it can be observed from the experience of countries like China and Thailand. In both the countries FDI in the retail sector was permitted slowly, but allowing FDI in retail led to country's GDP growth and a rise in the level of employment (http://www.india-briefing.com/news/foreign-direct-investment-indias-single-multibrand-retail-5232.html/).

Industrial organizations such as CII, FICCI, US-India Business Council (USIBC), the American chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centers Association of India (a 44 member association of Indian multi-brand and shopping malls) favour a phased approach toward liberalizing FDI in multi-brand retailing. Foreign retailers such as WalMart, Metro AG and Woolworths Ltd that operate in wholesale cash and carry ventures in India have been demanding continuously to liberalize FDI rules on multi-brand retail (Agarwal and Tyagi, 2011).

The Hon'ble Department Related Parliamentary standing committee on Commerce, in its 90th Report, on 'Foreign and Domestic Investment in Retail Sector', had made an in – depth study on the subject and identified a number of issues related to FDI in the retail sector and these included , labour displacing effects of FDI driven modem retailing, job losses due to predatory pricing strategies , disintegration of established supply chains by establishment of monopolies of global retail chains leading to their control of both ends of the supply chain, inability of retail to boost GDP by itself, it being only an intermediate value added process, and disruption of current balance of the economy by rendering millions of small retailers jobless(http://dipp.nic.in/english/Discuss_paper/DP_FDI_MultiBrandRetailTrading_06July2010.pdf).

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, as mentioned earlier. On the other, there is a big question whether it will benefit to one section of people at the cost of others. At this point, it is very difficult to ensure these two view points through a particular study.

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.

At first, 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, if any.

Second, 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.
Third, foreign investors may be imposed number of conditions while allowing them to operate in India.
Fourth, foreign investors may be allowed to invest in Indian retail sector if it is not backed by political interests of one Country.
Finally, the paper concludes by saying that FDI in multi-brand retail can be permitted as long the interests 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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