

# FDI in Retailing in India: Evolution of the public policies and prospect of changes in the years to come

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## *Abstract*

India is a growing economy and many consider it as an attractive country to invest in, particularly in its rapidly growing and changing retail market. However, Foreign Direct Investment (FDI) is partially restricted in retail sector, and despite many years of debate, the regulations are changing very slowly. Foreign Investors are watching India, and giving keen interest to invest in the retail sector, but there are still plenty of uncertainties, restrictions and potential socio-economic risks.

Here question arise about the FDI inflow in India's retail sector will be problematic or will open the door of opportunities? What kind of policies will be taken by the government of India in the coming years? Yet there is no clear answer for this question, there are some views that have been expressed both in favors and against FDI in Indian retail sector. An effort has been made in this paper to highlight the stipulated policies for allowing FDI, as well as argument in favors and against permitting FDI in retail sector, from different stake holders, for example, Government, Parliament, State level, Local and National retailers, and also this paper has discussed about the prospect of changes in policy related to retail industry in future and lessons that can be learnt from China.

Keywords: Retail, India, Policy, Foreign Direct Investment

## **1. Introduction**

Foreign Direct Investment plays an important role in the development process of a country's economy in the developing countries like India. India has been able to attract significant amount of FDI, especially after the liberalization on 1990s, and is still continuing to explore opportunities in FDI inflows. According Philip Kotler "Retailing includes all the activities involved in selling goods or services directly to the final consumers for personal or non-business use."

In simple words retailing is an activity of selling goods and services to final consumers for their own personal use. It is concerned with getting goods in their finished state into the hands of customers who are prepared to pay for the pleasure of eating, wearing or experiencing particular product items. Retailing is all about the distribution of goods and services because retailers play a key role in the journey those products made from a manufacturer, service-provider to the person who consumes.

After 2012 liberalization of the FDI policy in retail has come as a major advantage to foreign retailers for those who are looking to set up or expand operations in the country. India has further decided to relax sourcing and investment rules for the retail sector in a renewed attempt to attract foreign retail chains such as Wal-Mart and Tesco. The government decided to permit 51 percent FDI in multi-brand retailing and raised FDI in single-brand to 100 percent, despite strong opposition from government's key ally, opposition and left parties, and also finally cleared the Parliament hurdle (both Lok Sabha and Rajya Sabha) by means of debate and voting in winter session- 2012 of Parliament, and subject to approvals by the states.

Opening up of FDI in multi-brand is expected to bring benefits like employment opportunities, availability of quality products at a better price, development of backend infrastructure like cold chain, enhanced supply chain with minimal wastage and minimization of the middle man concept, and larger employment opportunities etc. Different stakeholders have different opinions based on their perception and interest about the likely impact of FDI in multi-brand retailing in India. Though foreign players are already operating in the Indian market as cash and carry and single brand retail formats, present controversy centers on outcome of FDI in multi-brand retailing.

Developing countries have a tradition of imposing policies to control the development of retail markets. Governments in developing countries may limit to some degree the power of modern retailers by restricting the locations through zoning regulations and hours and thus convenience for consumers of supermarkets. These limitations may be imposed to protect traditional retailers, and to protect social and environmental pollutions. Historically, such regulations were common in Western Europe and the United States. Thailand and Malaysia have regulations targeting hypermarkets. The intensity of the policies in these “strong regulator” countries has varied considerably over the past 12 years. For example, in Thailand, such regulation first arose in 2003, relaxed in 2004, 2005, and reemerged in 2006. Malaysia also experienced fluctuation in its regulation of supermarkets, first seeing a rise and then a relaxation. The regulations are also a

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response to traditional retailers' concern that modern retailers have advantages in competition that need to be counter balanced by regulation (Ashok Gulati, 2008).

The growth of large format retail raises serious issues for the urban environment and town planning in densely and rapidly urbanizing countries like India. The need for intelligent regulation, therefore, cannot be over emphasized. In India forty millions of work force is engaged in retail sector, next to agriculture and they are completely unorganized. Therefore, any major decision such as opening up the retail sector through FDI will have serious issues.

In India retail sector is regulated by different departments/ministries of the central and state governments and local/municipal bodies that complicate the regulatory regime and force businesses to face a multilevel and varied policy environment. India started to be under significant pressure from Doha Round in 2001, of multilateral negotiations in the World Trade Organization (WTO, 1995) and negotiations in bilateral/regional agreements to open up this sector for FDI.

### **2. Materials and method**

This study aims to examine the current FDI policy with regard FDI in retailing in India, present situation of retail industries, and also analyzed the opinions from different stakeholders with respect to various factors, recommendation for future policies.

This study has been carried out with the help of secondary data in order to conduct a qualitative analysis. All the secondary data has been gathered from various sources including peer reviewed journals, books, magazines, news, government reports and other published data.

### **3. FDI policies in India**

Policy regime is one of the key factors driving investment flows to a country. Apart from underlying macro fundamentals, ability of a nation to attract foreign investment essentially depends upon its policy regime - whether it promotes or restrains the foreign investment flows.

There have been many changes in India's approach to foreign investment from the early 1990s when it began structural economic reforms encompassing almost all the sectors of the economy.

### 3.1 Pre-Liberalization Period

Historically, India had followed an extremely cautious and selective approach while formulating FDI policy in view of the dominance of ‘import-substitution strategy’ of industrialization. With the objective of becoming ‘self-reliant’, there was a dual nature of policy intention ? FDI through foreign collaboration was welcomed in the areas of high technology and high priorities to build national capability and discouraged in low technology areas to protect and nurture domestic industries.

The regulatory framework was consolidated through the enactment of Foreign Exchange Regulation Act (FERA), 1973 wherein foreign equity holding in a joint venture was allowed only up to 40 per cent. Subsequently, various exemptions were extended to foreign companies engaged in export oriented businesses and high technology and high priority areas including allowing equity holdings of over 40 per cent. Moreover, drawing from successes of other country experiences in Asia, government not only established special economic zones (SEZs) but also designed liberal policy and provided incentives for promoting FDI in these zones with a view to promote exports.

As India continued to be highly protective, these measures did not add substantially to export competitiveness. Recognizing these limitations, partial liberalization in the trade and investment policy was introduced in the 1980s with the objective of enhancing export competitiveness, modernization and marketing of exports through Trans-national Corporations (TNCs). The announcements of Industrial Policy (1980 and 1982) and Technology Policy (1983) provided for a liberal attitude towards foreign investments in terms of changes in policy directions. The policy was characterized by de-licensing of some of the industrial rules and promotion of Indian manufacturing exports as well as emphasizing on modernization of industries through liberalized imports of capital goods and technology. This was supported by trade liberalization measures in the form of tariff reduction and shifting of large number of items from import licensing to Open General Licensing (OGL).

### **3.2 Post-Liberalization Period**

A major shift occurred when India embarked upon economic liberalization and reforms program in 1991 aiming to raise its growth potential and integrating with the world economy. Industrial policy reforms gradually removed restrictions on investment projects and business expansion on the one hand and allowed increased access to foreign technology and funding on the other. A series of measures that were directed towards liberalizing foreign investment included: (i) introduction of dual route of approval of FDI via RBI's automatic route and Government's approval (SIA/FIPB) route, (ii) automatic permission for technology agreements in high priority industries and removal of restriction of FDI in low technology areas as well as liberalization of technology imports, (iii) permission to Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100 per cent in high priorities sectors, (iv) hike in the foreign equity participation limits to 51 per cent for existing companies and liberalization of the use of foreign 'brands name' and (v) signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign investments. These efforts were boosted by the enactment of Foreign Exchange Management Act (FEMA), 1999 that replaced the Foreign Exchange Regulation Act (FERA), 1973 which was less stringent. This along with the sequential financial sector reforms paved way for greater capital account liberalization in India.

Investment proposals falling under the automatic route and matters related to FEMA are dealt with by RBI, while the government handles investment through approval route and issues that relate to FDI policy through its three institutions, viz., the Foreign Investment Promotion Board (FIPB), the Secretariat for Industrial Assistance (SIA) and the Foreign Investment Implementation Authority (FIIA).

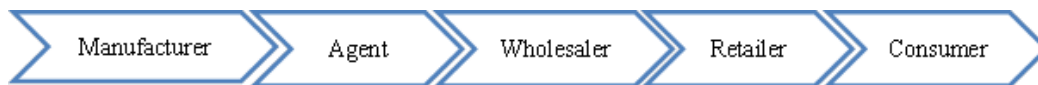
FDI under the automatic route does not require any prior approval either by the government or the Reserve Bank. The investors are only required to notify the concerned regional office of Reserve Bank of India (RBI) within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issuance of shares to foreign investors. Under the approval route, the proposals are considered in a time-bound and transparent manner by the FIPB. Approvals of composite proposals involving foreign investment/ foreign technical collaboration are also granted on the recommendations of the Foreign Investment Promotion Board (FIPB).

#### 4. Concept of Retailing in India

The word, 'retailing' is derived from French word 'retallier' meaning to 'cut a piece off' or 'break the bulk'. It is defined as a distribution function which includes activities in buying products from suppliers and selling goods or services or both to customers for their personal, family or household use. In 2004, the high court of Delhi defined the term 'retail' as a sale for final consumption in contrasts to a sale for further sale or processing.

Thus, retailing is making the final product directly available to the consumers of the product or a sale to the ultimate consumer. Retail can also be defined as a link or interface between bulk producers and individual consumers who purchase for final consumption. Retail is the last step in the distribution of merchandise.

**Fig. 1: Retail distribution process**



Source: FDI & Corporate Governance by N.N. Sharma (2015).

Retail sector is one of the important supporters to the Indian economy which accounts over 10 percent of its GDP and second largest employer after agriculture. India is one of the fastest emerging retail sectors in the world, with 1.2 billion people. Traditionally, the Indian retail sector was characterized by the presence of a large number of small family-owned mom and pop stores. With the liberalization of the economy in the 1990s, modern retail formats began to develop, and Indian business houses and manufactures started investing in this sector.

Increasing business opportunities and the large market have attracted foreign retailers. Despite restrictions on FDI, foreign players have entered the market through different routes such as wholesale (cash and carry), licensing, joint venture, and franchising etc. With growth in modern formats, traditional retailers are also changing their business models, implementing new technologies and modern accounting practices to face competition. In fact, in the past 10 years, with growing GDP and increased income levels, India is enjoying a retail boom.

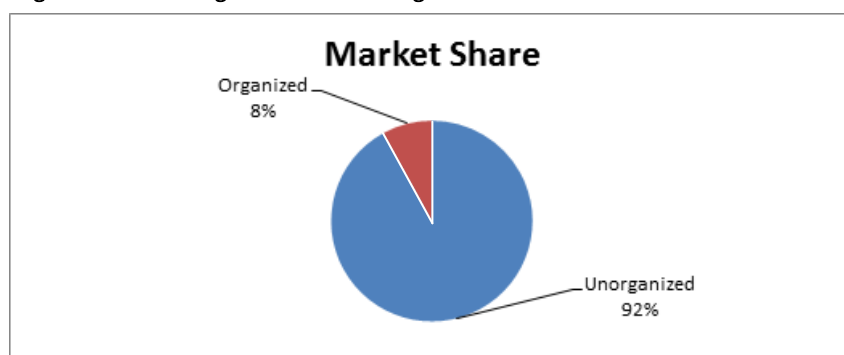
Despite these developments, the share of modern retailing in India is one of the lowest in the world. It is only 8 percent, compared to 20 percent in China, 36 percent in Brazil, 40 percent in Thailand, 55 percent in Malaysia, and over 80 percent in developed countries such as the United States, the United Kingdom, and Germany (IBEF, 2013). Most of these developing countries,

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including China, have liberalized the sector since the 1990s, with a rate of modernization much higher than India's. This is because of India's various barriers to setting up retail operations in the country. FDI is still not fully allowed in multi-brand retailing. The sector is politically sensitive and, of late, even domestic organized (corporate) retailers are facing protests in a few states due to the fear of job losses in the unorganized sector. The government is struggling to come up with an appropriate policy regime that will enable the sector to modernize without having any adverse impact on employment and traditional sectors.

The Indian retail sector is mainly divided into organized retail and unorganized retail sector. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate, hyper markets and retail chains, and also the privately owned large retail businesses. It covers only 8 percent of retail business which is shown in the pie chart below:

**Fig. 2: Share of Organized and Unorganized Retail (2013).**



*Source: India Brand Equity Foundation, 2013.*

Unorganized retailing refers to the traditional formats of low-cost retailing, e.g. local kirana shops, owner manned general stores, Paan/Biddi shops, convenience stores, hand cart (street sellers) and pavement vendors etc. and covers almost 92 percent of the retail business. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 12 percent of India GDP.

Besides the discussion about the organized and unorganized retailing formats the below table clearly explains about which type of Indian retailing format falls under which category.

**Table 1: Classification of Indian Retail Sector.**

<b>Modern Format Retailers (Organized Retail)</b>	<b>Traditional Format Retailers (Unorganized Retail)</b>	<b>Large Indian Retailers (Organized Retail)</b>
Super Markets <ul style="list-style-type: none"> <li>• Food World etc.</li> </ul>	Kiranas <ul style="list-style-type: none"> <li>• Traditional Mom and Pop stores</li> </ul>	Hypermarkets <ul style="list-style-type: none"> <li>• RPG Retail</li> <li>• Tata/Trent</li> <li>• Big Bazaar</li> <li>• Gaints etc.</li> </ul>
Hypermarkets <ul style="list-style-type: none"> <li>• Big Bazaar</li> <li>• Star India Bazar etc.</li> </ul>	Street Markets <ul style="list-style-type: none"> <li>• Haat bazaar</li> <li>• Weekly Markets</li> <li>• Pushcarts etc.</li> </ul>	
Departmental Stores <ul style="list-style-type: none"> <li>• Shoppers Stop</li> </ul>	Government Supported <ul style="list-style-type: none"> <li>• Khadi Stores Cooperatives</li> </ul>	
Mall <ul style="list-style-type: none"> <li>• Central</li> </ul>		Departmental Stores <ul style="list-style-type: none"> <li>• Westside,</li> <li>• Lifestyle,</li> <li>• Shoppers Stop</li> <li>• Pantaloons</li> <li>• Reliance Fresh etc.</li> </ul>
Discount Store <ul style="list-style-type: none"> <li>• Subhiksha,</li> <li>• Margin Free,</li> <li>• Apana Bazaars etc.</li> </ul>		
Specialty Electronics <ul style="list-style-type: none"> <li>• Vivek's,</li> <li>• Vijay Sales etc.</li> </ul>		

*Source: FDI & Corporate Governance by N.N. Sharma (2015)*

All those modern retail formats such as mall, departmental store, discount store falls under organized retailing category. Also the big Indian retailers who have taken license to conduct trade and pay tax regularly such as Big bazar, Tata, Reliance, Pantaloons are also organized retailers. Beside them the mom and pop stores, street market and government supported trades fall under unorganized retailing.

## **5. FDI Policy for Retail Sector in Different Time Frame**

FDI under the Industrial Policy 1991 and thereafter under different foreign trade policies is being allowed in different sector of the economy in different portion under either the government route or automatic route.



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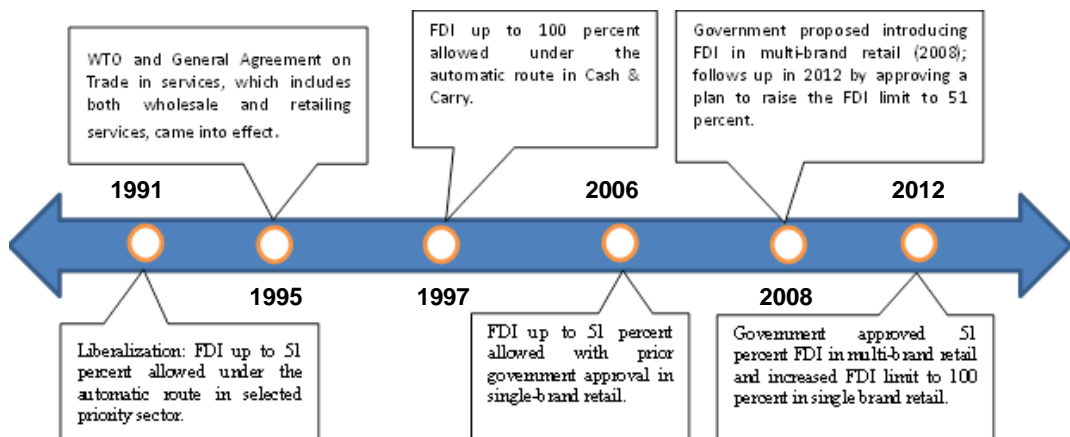
Foreign Investment in India is governed by the FDI policy announced by the government of India and Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (RBI) in this regard had issued a notification, which contains the Foreign Exchange (Transfer or issue of security by a person resident outside India) regulation 2000. This notification has been amended from time to time.

Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry, government of India is nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sectorial policy/sectorial equity cap which goes from 26% to 100 % at present.

The foreign investors are free to invest in India, except few sectors/activities, where prior approval of the RBI or Foreign Investment Promotion Board (FIPB) would be required. FDI is allowed under automatic and government route. FDI in retail sector is allowed through government route only.

As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector of FDI slowly through a series of steps which is clearly shown in figure 3 below.

**Fig. 3: FDI Policy in Retail Sector in Different Time Frame.**



*Source: India Brand Equity Foundation, 2013.*

Till 2006, FDI in both single and multi-brand retail trading was not allowed as per the policies of Indian government. It's for the first time in Feb 2006, the Indian government decided to open up its retail sector to FDI. Subject to certain conditions, Indian government permitted up to 51% FDI in single brand retailing. This policy was made effective by a press note date 10th Feb. 2006, issued by the Department of Industrial Policy and Promotion (DIPP) of Government of India.

As per the consolidated FDI policy, the cabinet of India, in November 2011 decided to permit up to 100 % FDI in single brand retail and up to 51% FDI in multi-brand retailing which produced a considerable political backlash in India. Consequently the Indian government (UPA) indefinitely suspended plans to reform the Indian retail sector.

It was found that the political backlash was due to the issue of 51% FDI in multi-brand retail only, the cabinet decided to bring in force the 100% FDI decision in single brand retail. On 10th January 2012, by a press note the Department of Industrial Policy and Promotion (DIPP) of government of India notified the cabinet's decision to permit up to 100% FDI in single brand retail, subject to prior approval of Foreign Investment Promotion Board (FIPB) of India and certain other conditions.

After a long political turbulence the Cabinet on 14th September 2012 (Friday) decided to operationalize 51% FDI in multi-brand retail but left it to the state governments to allow setting up of such stores.

Regarding the political consensus, though it was not been made mandatory for all states to accept the 51 % FDI in multi-brand retail, some of the state were given their consent, but some other were opposing and stood strong against the decision. Opening up of doors for the foreign players to India's multi-brand retail trade was therefore uncertain because of the Indian political catastrophe but finally been green-signaled.

Beside all these discrepancies the contentious issue of FDI in multi-brand retail, which was simmering for over a year, has finally cleared the Parliament hurdle and got endorsement from both house of Parliament (Lok Sabha & Rajya Sabha on Dt. 05-12-2012 on Dt. 07-12-2012 respectively) for a policy after two days of heated debate between the treasury benches and the opposition and by means of voting.

### **5.1 FDI Policy with Regard to Single Brand Retail in India**

Single brand implies that foreign companies would be allowed to sell goods sold internationally under a 'single brand', for example, Reebok, Nike and Adidas. FDI in 'Single brand' retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets. Though the clear-cut denotation of single-brand retail has not been clearly defined in any Indian government circular or notification, Single-brand retail generally refers to the selling of goods under a single brand name such as Nike, Adidas, etc.

In 2012 up to 100 percent FDI is allowed in sing-brand retail, subject to the Foreign Investment Promotion Board (FIPB) sanctions and conditions mentioned in Press Note 1(2012 series).

FDI in Single- brand product retail trading would be subject to the following conditions:

- a) Products to be sold should be of a 'Single Brand' only.
- b) Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
- c) Single Brand' product-retail trading would cover only products which are branded during manufacturing.
- d) Only one non-resident entity, whether owner of the brand or otherwise, shall be permitted to undertake single brand product retail trading in the country, for the specific brand, through a legally tenable agreement, with the brand owner for undertaking single brand product retail trading in respect of specific brand for which approval is being sought.
- e) In respect of proposals involving FDI beyond 51%, sourcing of 30% of the value of goods purchased will be done from India, preferably from SME, village and cottage industries, artisans and craftsmen, in all sectors.
- f) Retail trading, in any form, by mean of e-commerce, would not be permissible, for companies with FDI engaged in the activity of single-brand retail trading. Application seeking permission of the government for FDI in retail trade of 'Single brand' product would be made to the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy and Promotion.

## 5.2 FDI Policy with Regard to Multi-brand Retail India

Although the government of India has also not clearly defined the term "multi-brand retail," FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, the 51% FDI allowed in multi-brand retail and foreign retailers now can open stores in India of their own provided certain specified conditions and concerned state government approval. Though, global hypermarket and supermarket chains such as Wal-Mart, Carrefour and Tesco are already operating in some form or other, now they can open stores with their own brand names.

Bharti-Walmart was a 50-50 joint venture formed in 2007, and operated 'cash and carry' or wholesale outlets in India but working independently after 2013. Currently, Wal-Mart runs 20 cash-and-carry stores in India, where 100 per cent FDI is permitted.

In 2014, Tesco has become the first foreign supermarket to enter India's multi-brand retail sector with investment of £85 million in joint venture with Trent Hypermarket Limited, a unit of India's Tata Group which runs the country's Star Bazaar Chain.

The proposed pre-conditions for allowing 51% FDI (on Dt. 24.11.2011) in multi-brand retail were stipulated as follows:

- a) Minimum amount to be brought in, as FDI, by foreign investor, would be US \$100 million.
- b) At least 50% of total FDI brought in, shall be invested in 'back-end infrastructure' within three years of the first tranche of FDI, where back-end infrastructure will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistic, storage, warehouse, agriculture market produce.
- c) Infrastructure etc. expenditure on land cost and rental, if any, will not be counted for purposes of back-end infrastructure.
- d) At least 30% of the value of procurement of manufactured processed products purchased shall be sourced from Indian 'small industries' which have total investment of plant & machinery not exceeding US\$ 100 million.
- e) This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point of time, this valuation exceeded, the industry shall not qualify as 'small industry' for this purpose. This procurement requirement would not

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have to be met, in the first instance as an average of five years of total value of the manufactured processed products purchased, beginning 1st April of year during which the first tranche of FDI is received. Thereafter, it would have to be met on annual basis.

- f) Self-certification by the company, to ensure compliance of the conditions at serial nos. (b), (c) and (d) above, which could be cross-checked, as and when required. Accordingly, the investors shall maintain accounts, duly certified by statutory auditors.
- g) Retail sales outlets may be set up only in cities with population of more than 1.00 million as per 2011 census, and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities. In States not having cities with population of more than 1.00 million as 2011 census, retail outlets may be set up in the cities of their choice, preferably the largest city and may also cover an area 10 kms around the municipal/urban agglomeration limits of such cities. The location of such outlets will be restricted to conforming areas, as per the Master/Zonal plans of the concerned cities and provision will be made for requisite facilities such as Transport connectivity and parking.
- h) The policy provides that it would be the prerogative of the State Governments to decide whether and where a multi-brand retailer, with FDI, is permitted to establish its sales outlets within the State. Therefore, implementation of the policy is not a mandatory requirement for all states.

## 6. Different Views about FDI policies in Indian Retail Sector

Many trading associations, political party leaders, entrepreneurs and intellectuals have opined on the massive debating issue of FDI in Indian retailing which are as follows:

### 6.1 Government Views:

Union Commerce Minister **Anand Sharma** said it has been taken to ensure development in villages, provide relief and better remuneration to farmers, prevents wastage of food and increase employment and productivity. He claimed that FDI in retail would also benefit the consumers as they would get access to greater variety of products at cheaper rates.

*How kirana stores to benefit*, Mr. Sharma said, their interest have also been safeguarded since the government has made it compulsory for the foreign retailers to have 30 percent of their sale through small retailers. “The Kirana stores can further directly benefit from buying from cities and selling them in smaller towns.”

Mr. Sharma also said how the FDI will bring in strong competition amongst the retailers, eliminate middlemen, prevent hoarding of stocks, reduce the supply constraint and help pass the benefits of low procurement cost directly to the consumers. All this would also go towards reducing food-based inflation.

***Biggest beneficiary of the FDI in retail***, however, will be the farmers, he said, explaining how big retail would buy their produce directly from the farmers, thus providing them at least 15-20 percent more for their produce. Mr. Sharma also pointed out that past experience across the globe suggest that all countries which opened up multi-brand retail to FDI also generated huge employment. In India, he said, about one million of jobs are expected to be generated through the initiative which would cover 53 cities with over one million populations initially. Noting that the only one to lose would be the middlemen, Mr. Sharma said.

## **6.2 State /Local Government Views:**

The Chief Ministers of Delhi, Assam, Maharashtra, Andhra Pradesh, Rajasthan, Uttarakhand, Haryana and government of the state of Manipur and the Union Territory of Daman and Diu and Dadra and Nagar Haveli, have expressed support for the policy in writing.

The Chief Minister of Jammu and Kashmir, thought his press statement, has already publicly endorsed the policy and asked for its implementation.

The state governments of Bihar, Karnataka, Kerala, Madhya Pradesh, Tripura and Odessa had expressed reservations (PIB Release, RCJ/SC/SKS- ID: 87767).

***Mamata Banerjee***, the Trinamool Congress leader was strongly opposing the decision on 51 % FDI in multi-brand retail trade.

The reason behind the UPA government was unable to implement the decision is, along with the key UPA-ally Trinamool Congress, the Samajwadi party and JD-U with the left parties were opposing FDI in multi-brand retail.

## **6.3 Some Political Parties' Views:**

These are some political leaders who are opposed FDI in retailing are as follow:

Naresh Agarwal (Samajwadi Party), Derek O'Brien (Trinamool Congress), NK Singh (Janata Dal, United), Sitaram Yechury (Communist Party India, CPM) etc. (NDTV, 2012).

#### 6.4 Domestic Retailers Views:

The major domestic retailers welcomed the decision. **Kishore Biyani**, Chairman, Future Group, Mumbai, “We are hoping this time the government will stick to its decision (allowing FDI in multi-brad retail) because that is absolutely essential. Finally FDI is here. It is very good news. There is no threat to us from foreign retailers.

“The decision to let individual states decide on whether they want it is a good decision. This should satisfy people who are opposing it. The industry is convinced once a few states implement it the others will see the benefits and definitely consider it as well”.

**Aditya Biral Group, Business Director (Apparel & Retail Business) Pranab Barua said**, “we have to still wait and watch what happens at the state level. This will help the sector.”

**Tata Group chairman Ratan Tata** has expressed his support in welcoming FDI in retail through a twitter comment. He tweeted, "Political differences and vested interests should never be allowed to stand in the way of India's economic progress.”

**Praveen Khandelwal, General Secretary, Confederation of all India Traders**

“It is unfortunate that despite opposition from their own allies they have chosen to again reopen foreign investment into the sector. It is surprising the government has again reopened the sector without announcing any solid measures to protect small traders.

“We will oppose this move even more strongly this time and are hopeful the government will roll back its decision just the way they did last time”.

#### 6.5 Farmer's Views:

In a joint statement, Navdanya, Alliance for Sustainable and Holistic Agriculture, Organic Farming Association of India and Jagriti Agrotech asserted that their views were 'contrary' to what the government had attributed to them.

The farmers' group pointed out that the monopolistic buying power of the large retailers would further weaken the marginal farmers' position, resulting in lower share of value to them, dictating the production techniques and output by the larger retailers and destruction of diversity in Indian agriculture. It was also highlighted that this would result in loss of employment, increased risk to farmers, increased risk of price manipulation and total lack of level playing field (The Hindu, Dt. 15-01-2012).

## 6.6 Others Views

**Amartya Sen**, the Indian born *Nobel Prize winning economist*, in a December 2011 interview claims foreign direct investment in multi brand retail can be good thing or bad thing depending on the nature of the investment. Quite often, claims Professor Sen, FDI is a good thing for India (JEIEFB, 2014).

According to **Dr. Kaushik Basu**, *Chief Economic Advisor of the Ministry of Finance, Govt. of India* "A couple of big bang reform moves like allowing FDI in multi-brand retail could lift the mood of investors even if the economy is slowing down." (The Hindu-Bangalore, Dt. 13-06-2012)

## 7. Prospect of Changes and Lessons from China

Arguments like destruction of kirana stores, loss of employment to millions of people etc. have been cited as the negative impact of FDI in retail sector in India. With arguments to support, it is widely acknowledged that FDI can have some positive results on the economy, triggering a series of reactions that in the long run can lead to greater efficiency and improvement of living standards, apart from greater integration into the global economy. The advantages of allowing FDI in the retail sector is found to be successful in countries like Thailand and China. India could also learn lessons from China where how local, national, big and small retailers are successful to compete with the foreign retailers and their reforms policies taken by the government. China is a good example for India because both countries are not only neighbors but also share common demographics, climate conditions, market potential and some other factors. In the 23 years period of reforms, it has marched a long way to open herself. For nation like India, which is on the way to reforms, Chinese reforms provide crucial lessons. Insights gained from the Chinese experience with minor modifications can enable other developing nations to move forward with their reforms process smoothly and efficiently.

### 7.1 FDI Policy in Retail in China:

China took over 12 years to liberalize its FDI regime and in stages with reversals as well. It first allowed FDI in retail in 1992 at 26% (Dutta 2011). As soon as retail was opened to FDI in the late 1990s global retailers like Tesco, Wal-Mart, Metro and Carrefour were quick to enter (S Ghosh 2011). After 10 years the cap was raised to 49% when local chains had sufficiently entrenched themselves. 100% FDI in retail was permitted only in 2004, after the infant retailing industry had acquired some muscle (Guruswamy and Sharma 2006). It even revoked some previously granted approvals, to reduce the foreign retailers' footprint (Dutta 2011). Given this timeline, the Chinese



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retail environment is 20years ahead from India. Looking at their market today can give us a rough idea of how FDI in retailing in India might pan out in the medium term (S Ghosh 2011).

Initially, China also allowed foreign retailers to open only in select metropolises, such as Beijing, Shanghai and Shenzhen, and moreover, only in certain districts in those cities. In Beijing and Shanghai, foreign retailers like Wal-Mart were only allowed to operate in districts where there were no local competitors. Through these “invisible barriers”, China succeeded in giving local retailers protection, while at the same time, they learnt from the “more efficient” business models of foreign companies (Krishnan 2011).

### **7.3 Impact on Small Famers**

India's farmers being small or marginal land operators, the draft framework includes no restrictions on procurement of farm and there are no incentives even to encourage small farmer inclusion. Even after so many years of domestic supermarkets operating in India, 60-70% of their procurement is from wholesale markets and not directly from farmers. The operations of the global supermarkets in China indicate, unlike what many proponents of liberal FDI in retail policy claim, the entry of foreign retailers will not make any difference to the producer's share in the consumer's rupee. Further, due to the big size and buying power of foreign supermarkets, producer prices may be depressed. For instance, for a farmer from Hebei, who grows vegetables on a 0.67 hectare plot of land (marginal farmers in India have land possession of not more than four hectares), the coming of retail has increased, not reduced his client base. He has direct sales in a Beijing neighborhood every evening, while also supplying a supermarket chain, which he says, pays less for his produce. “My vegetables are cheaper than in the supermarket, so I will always have my customers,” he said (Krishnan 2011). The only impact so far has been in improving the productivity by increasing the size of landholdings.

Certainly consolidation of the retail sector in China, as a result of the government-supported rise of local retail giants in order to protect them from foreign retailers, has put many small farmers out of work who could not cope with lower prices. (Krishnan, 2011).

### **7.4 Impact on Organized Domestic Retail Chains**

The below table categorically shows that China's biggest retail firms today mostly are Chinese companies the Shanghai Bailian group, Suning Home Appliances, Gome Home Appliances and Dashang group, all have bigger sales than Wal-Mart in China. Shi Yongheng said that the success

of China's local retailers was enabled by the government controlling the speed of the “gradual” opening up process, which gave local retailers enough time to adapt (Krishnan 2011). Apart from this, it is because of economic growth as well and also because big players’ strengths in their home countries are based on factors that are totally absent in other countries, for instance, Wal-Mart is able to drive costs down because of its incredible logistics and supply chains which are absent in India as they were absent in China. There is also the question of physical infrastructure like roads and ports that are not to the same level as they are in the US and they simply will not have the kind of scale that they have in the US to negotiate and bargain with the suppliers and drive down the cost.

**Table 2: Top 10 Chinese Retail Chains 2010**

Top 10 Chinese Retail Chains 2010						
Retail sales Rank	Name of Company	2010 Retail Sales (US\$ billion )	Number of Stores	Operational Format	Regions of Origin	Regions of Operation
1	Suning Appliance Group	24.76	1,342	Electronics Specialty	China	More than 300 cities, Japan
2	Gome Electrical Appliances Company Ltd.	24.55	1,346	Electronics Specialty	China	More than 200 cities
3	Bailian Group Company Ltd.	16.43	5,809	Supermarket, Department Store, Convenience Store, Home Improvement	China	20 provinces and cities in China
4	Dashang Group Company Ltd.	13.66	170	Supermarket, Department Store, Electronics Specialty, Home Improvement	China	Northeast China North China and west China
5	Vanguard Company Ltd.	11.38	3,155	Supermarket, Department Stores, convenience stores, Drug stores , Food and Beverage	China	27 provinces and cities in China
6	RT-Mart International Company Ltd.	7.9	143	Supermarket	Taiwan	21 provinces and cities in China
7	Carrefour Societe Anonyme (China)	6.66	182	Supermarket	France	21 provinces and cities in China

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8	Anhui Huishang Group Company Ltd.	6.42	2,915	Supermarket, Department Store, Convenience Store, Electronic Specialty	China	50 cities in China
9	Wal-Mart Stores Incorporation (China)	6.34	219	Supermarket	US	20 provinces and cites in China
10	Chongqing General Trading group Company	6.06	319	Supermarket, Department Stores, Electronics Specialty	China	Chongqing, Sichuan, Guizhou

*Source: Deloitte China CB and T Group Report 2011.*

The largest player in the supermarket segment, the China-based Shanghai Bailian Group (with 5,809 stores in 2010), enjoys only 11% market share. Even Wal-Mart which dominates the retail market in the US commands only around 6% market share in China, despite the fact the big-box retailer set up shop nearly 15years ago in the country (Thomas White2011). The French retail giant Carrefour Group, the world's second-largest retailer by revenue held a 4.9% market share during 2010. Tesco Public limited company, the world's third-largest grocer by revenue, after the US Wal-Mart and French Carrefour, has had a 2.1% market share in China over the year 2011.

Foreign retailers have yet played an instrumental role in providing impetus to organized retail in China as well as modernizing the sector through best practices and state-of-the-art technology with modern management techniques and brand recognition becoming the mainstays of the Chinese retail sector (Thomas White 2011).“In terms of logistics, procurement and management, we have clearly seen the benefits,” Shi Yongheng said. “Prices have fallen, and efficiency has increased. Initially, we had fears of the coming of foreign companies, but now we are no longer concerned as local companies have been able to learn from them, and compete with them (Krishnan 2011).

### 7.5 Impact on Traditional Retail

The Chinese example indicates that foreign players may not be as much of a threat to incumbents as is being parroted in the media. They will have to navigate an unfamiliar cultural, as well as the infamous bureaucracy to deal with this to an extent. Wal-Mart made a point to have 99.9% of China's associates and all store managers Chinese Nationals. They will also face significant political opposition and will always be vulnerable to adverse media coverage. Indeed, they will have to bend over backwards to convince the Indian authorities that they are not exploiting the

Indian consumers.

According to a study by the Vale Columbia Centre for Sustainable Economic Development, the Centre's Nandita Dasgupta notes that there is no evidence that the huge investments have hurt mom-and-pop operations or domestic retail chains in China (Rao 2011; Government of India 2010). Since 1992 China has attracted huge investments in the retail sector without affecting either small retailers or domestic retail chains. In fact, since 2004 the number of small Chinese outlets has increased to around 2.5 million from 1.9 million ("PTI" 2011). In China, unorganized retail, represented by street vendors and neighborhoods "community retailers", has continued to thrive, offering cheaper prices than supermarkets and retail chains (Krishnan 2011). Similar is the scene expected in India as poor are not able to negotiate prices with modern but traditional retailers. Further, the products which are offered at a lower price by modern retail are less relevant for the poor who buy them loose in small quantities. Likewise, the presence of big global retailers in rural China is also much smaller (S Ghosh 2011).

Certainly consolidation of the retail sector in China, as a result of the government-supported rise of local retail giants like Bailian, has put many small retailers who could not cope with the surge in number of competitors and lower prices, out of work. This phenomenon is called "retail Darwinism" in which only the fittest survive (Singh 2011).

## 7.6 Impact on Supply Chain

In China, the global big retailers have mostly focused more on opening stores in a drive to capture market share; but there has not been much investment in making supply chain improvements and operational efficiencies (Singh 2011; Dutta 2011). Wal-Mart has a 40,000 square meter, central distribution center in Kengzian (China) and Carrefour uses a different approach, it relies more on local distributors to deliver direct to the stores to reduce the cost of developing its supplier network and supply chain. This may not change even in India with FDI though 50% investment in back-end infrastructure seems a reasonable condition (Singh 2011). Yet, almost two decades after China opened up retail fully, the sector has seen rapid growth against the backdrop of increased market consolidation, higher production efficiency enabled by rising investments in rural infrastructure and booming exports made possible by the setting up of new supply chains (Krishnan 2011). Without investments in the supply chain neither can the quality of products be significantly improved nor their cost significantly reduced. The new FDI policy partly addresses this issue, as it requires a minimum investment of US\$50 million in the back-end, which cannot

include land, rentals or front-end storage. While the final notification should be clearer on the exact implications, for now one can assume that this investment is envisioned in the storage, processing and transportation infrastructure. However, the impact this can have on a US\$450 billion retail market of India will be too small to be immediately meaningful (Dutta 2011).

### **7.7 Impact on Consumers**

Believe that no one doubts the positive impact of FDI in retail on consumers. If anything, the entry of big retailers is likely to hot up competition, giving consumers a better deal, both in prices and choices. Mega retail chains need to keep price points low and attractive ? that is the unique selling proposition (USP) of their business. This is done by smart procurement and inventory management, good practices from which Indian retail can also learn (“TNN” 2011). For Chinese consumers the attractions of hypermarkets are low prices and one stop shopping for food and general merchandise. China’s middle class consumers visit hypermarkets once every 10 days on average. While hypermarkets are gaining market share among food retailers, the majority of consumers still buy food at supermarket stores and traditional open markets, especially in rural areas where supermarkets do not exist (Wang and Jha 2011).

## **8. Conclusion**

In this era of globalization and liberalization each and every nation is trying to liberalize its economic policies in order to attract investments not only from its domestic players, but also from all across the globe and India is not out of this space. As a country progresses, its retail sector in respect to all other sectors has to modernize too. The urbanization and better earning have changed the life style of the consumers. The influence of literacy level and media explosion is anchoring tool to motivate the consumers towards better shopping habits. Modern customer indeed looks for better and wider choice place viz. super market or shopping mall etc. In this context the inflow of FDI can be proved very momentous.

It is widely believed that foreign investment is a key component in the growth process of any developing country. But it is not the only factor that could help for the sustained growth. It must be supported by well-planned micro and macroeconomic policies. In India retail is the sector which provides second highest employment after agriculture. The opening up of India's retail trade to FDI should be monitored and taken proper care over years such that many sectors - including agriculture, food processing, manufacturing, packaging and logistics will collect benefits.

In order to counter the adverse effects of corporate organized retail, there should be a legal and regulatory framework along with an enforcement mechanism that would ensure that the large retailers are not able to displace the small ones by unfair means.

After very carefully examining the FDI policies and the likely impact of the policy, this study concludes that, government has introduced the policy only as an enabling policy and sufficient safety measures for each clause has been adopted. All the propositions placed by the critics against the policy are only a misconception. India's local enterprise will potentially receive an up gradation with the import of advanced technological and logistics management expertise from foreign entities. Indian retail chains would get integrated with global supply chains since FDI will bring in technology, quality standards and marketing. FDI would lead to a more comprehensive integration of India into the worldwide market.

Indian government has improved FDI policy in retail with changing scenario of time to attract investment from foreigners. With up to 100% FDI permitted in single brand retail, opening up of multi-brand retail up to 51% FDI is sign of further liberalization in FDI policy. The policy implemented in 2012, doesn't seem to be investment friendly due to some invisible barriers and further improvements in the policy is likely to follow. However, the path of liberalizing the Indian retail sector should be treaded cautiously and the entry norms should clearly state the approval requirements, conditions / restrictions if any imposed, etc. There should be a good policy and continuous monitoring so that it could serve the purpose for future in the reform process. With gradual step from the government, the unorganized retail stores were able to understand and adapt the strategies from the foreign retailers without hurry.

With up to 100% FDI permitted in single brand retail, opening up of multi-brand retail up to 51% FDI is a welcome step. However, the path of liberalizing the Indian retail sector should be treaded cautiously and the entry norms should clearly state the approval requirements, conditions / restrictions if any imposed, etc. There should be a good policy and continuous monitoring so that it could serve the purpose for future in the reform process.

The decision to liberalize FDI policies in India, in retailing come from different factors like country's economic growth, infrastructure, employment etc. The intentions look admirable but its impacts are widely debatable. Arguments like destruction of Kirana stores, loss of employment to millions of people etc. have been cited as the negative impact of FDI. With arguments to support, it is widely acknowledged that FDI can have some positive results on the economy,

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triggering a series of reactions that in the long run can lead to greater efficiency and improvement of living standards, apart from greater integration into the global economy. The advantages of allowing FDI in the retail sector is found to be successful in countries like Thailand and China.

India can learn lots of lesson from China as they are neighboring countries and share similar demographics also. In regard to Chinese experience, the entering of foreign retailers did not make any difference to the farmers, unorganized and organized retailers.

All China's biggest retail firms are Chinese companies despite the fact the big retailers set up shop nearly 15years ago in the country, which was enabled by the government controlling the speed of the "gradual" opening up process, which gave local retailers enough time to adapt. It is also because big players' strengths in their home countries are based on factors that are totally absent in India and China, like incredible logistics and supply chains; physical infrastructure like roads and ports. However, foreign retailers have yet played an instrumental role in providing impetus to organized retail in China as well as modernizing the sector through best practices and state-of-the-art technology with modern management techniques and brand recognition becoming the mainstays of the Chinese retail sector. It is also indicated that foreign players will have to navigate an unfamiliar cultural and culinary environment, as well as the infamous Indian bureaucracy. They will also face significant political opposition and will always be vulnerable to adverse media coverage. Indeed, they will have to bend over backwards to convince the Indian authorities that they are not exploiting the Indian farmer or consumer.

Since 2004 the number of small Chinese outlets (equivalent to Indian Kirana stores) has increased to around 2.5 million from 1.9 million and unorganized retail has continued to thrive, offering cheaper prices than supermarkets and retail chains. On the contrary, some small retailers have lost their jobs, but the question is have the benefits outweighed the costs? The answer is certainly a "yes". Second, as regards to impact on supply chain, foreign retailers do not invest in supply chain improvements. This may not change even in India with FDI in multi-brand retail, though 50% investment in back-end infrastructure seems a reasonable condition. Finally, foreign investment will only lead to an expansion of the organized sector whose benefits are several. The most obvious is to the consumer who gets a better product at a cheaper price and thus the standard of living of people improves. But the greater benefit is the expanded reach and increased volumes that organized retail can tap. Increased volumes translate into more manufacturing, more jobs in industry and more prosperity. All said and done, it is still obscure if

India can pose the barriers that challenged foreign retailers in China as the unorganized retail sector is also far larger in India, with organized retail accounting for less than 8%, compared with 20% in China.

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