FOREIGN DIRECT INVESTMENT IN INDIAN SINGLE & MULTI BRAND RETAIL TRADING: AN ANALYSIS

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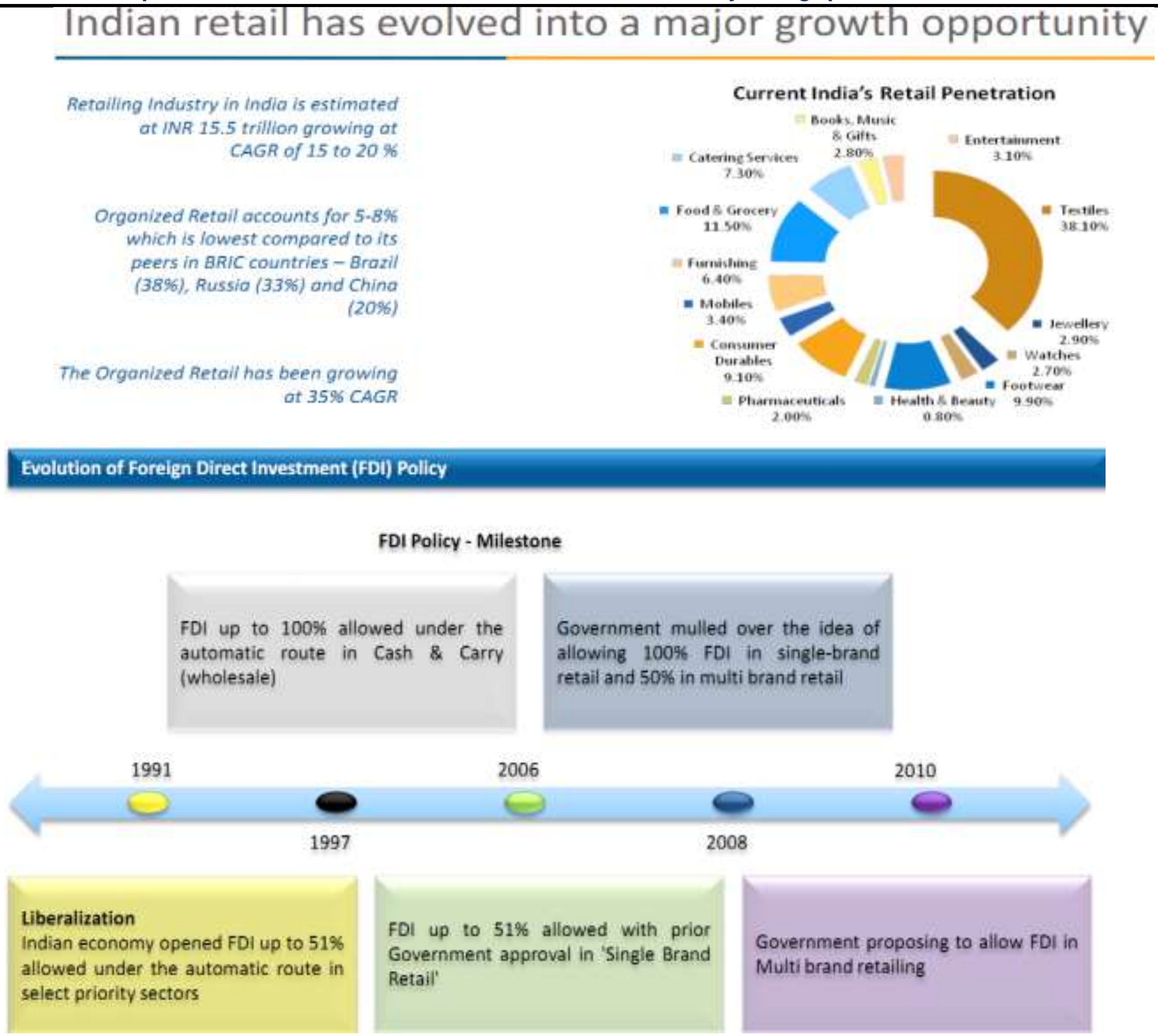
Abstract : Retailing in India is one of the pillars of its economy and accounts for about 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. This white paper will attempt to discuss and debate on whether to allow FDI in Retail seems to give a fillip to the inclusive growth of the economy and will have positive implications for various industry sectors including food processing, agriculture, textiles, consumer goods, SME, unorganized trade participants etc. or else prove grim and dismal for the entire Indian economy.

***IndexTerms* - Foreign direct investment, Multi-Brand retail, Single-Brand Retail, SME, Inclusive growth.**

I. INTRODUCTION

India's growing retail boom is a success story. Retailing in India is one of the pillars of its economy and accounts for about 15% of its GDP. With strong fundamentals developing in the Indian economy in the liberalized environment since 1991 with changes in income levels, lifestyles, taste & habits of consumers with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base, India has also observed a major retail boom in recent years. India is currently the fifth largest retail market globally, with a size of INR 16 trn, and has been growing at 15% per annum. Being encouraged by India's growing retail boom many multinational companies also started making beeline to enter India's retail market. Investment from abroad has also been hailed by Indian industry, by and large, as the same has been considered to be very vital for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, business, employment, demand, consumption and income with multiplier effects. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. The government has also proposed 51% FDI in Multi-Brand retail which has now been kept on hold due to pressure from political parties and other stakeholders.[1]FDI in Multi-Brand retail trade. The decision however is been delayed and held back for some time because of the absence of political consensus in the Government and controversies raised in the country.

Resurgent India: Indian Retail sector; March 2011



Resurgent India: Indian Retail sector; March 2011

A decision has been taken by the Government to permit FDI in MBRT in all products, in a calibrated manner, subject to the following conditions:

(i) FDI in Multi-Brand Retail Trade (MBRT) may be permitted up to 51%, with Government approval.
(ii) Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, maybe unbranded.
(iii) Minimum amount to be brought in, as FDI, by the foreign investor, would be US $ 100 million.
(iv) At least 50% of total FDI brought in shall be invested in 'backend infrastructure', 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, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure.
(v) At least 30% of the procurement of manufactured/ processed products shall be sourced from Indian 'small industries' which have a total investment in plant & machinery not exceeding US $ 1.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point in time, this valuation is exceeded, the industry shall not qualify as a 'small industry' for this purpose.
(vi) Self-certification by the company, to ensure compliance of the condition at serial nos. (iii), (iv) and (v) above, which could be cross-checked as and when required. Accordingly, the investors to maintain accounts, duly certified by statutory auditors.
(vii) Retail sales locations may be set up only in cities with a population of more than 10 lakh as per 2011 Census and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities; retail locations 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.
(viii) Government will have the first right to procurement of agricultural products.

Alongside a decision was also taken to permit 100% FDI in single brand retail trading, subject to the following conditions:

(i) FDI in single brand retail trading may be permitted up to 100% with Government approval.
(ii) Products to be sold should be of a 'Single Brand' only.

(iii) 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.
(iv) 'Single Brand' product-retailing would cover only products which are branded during manufacturing.
(v) The foreign investor should be the owner of the brand.
(vi) In respect of proposals involving FDI beyond 51%, 30% sourcing would mandatorily have to be done from Indian SMEs/ village and cottage industries artisans and craftsmen. 'Small industries' would be defined as industries which have a total investment in plant & machinery not exceeding US $ 1.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point in time, this valuation is exceeded, the industry shall not qualify as a 'small industry' for this purpose. The compliance of this condition will be ensured through self-certification by the company, which could be subsequently checked, by statutory auditors, from the duly certified accounts, which the investors will be required to maintain.[3]

II. Objectives

The takeaway from the study would be:

1. Influence of current retail policy reforms on various stakeholder groups.
2. Critical analysis of FDI in Single and Multi-Brand retail: Better than Bad.
3. Benefits of Modern trade in transitional economy leading to inclusive growth.

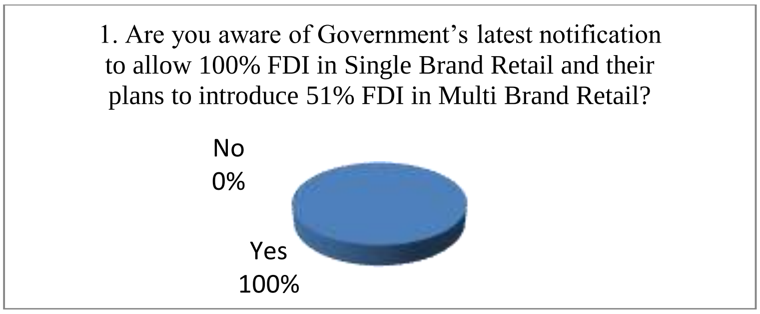
III. Research Methodology

A number of primary and secondary sources is been consulted for the study. The principal data sources are mainly public domain, including trade journal, press releases, industry analyst reports, various business information database, consulting reports et al. A questionnaire is also prepared for collecting data from corporate and industry emissaries.

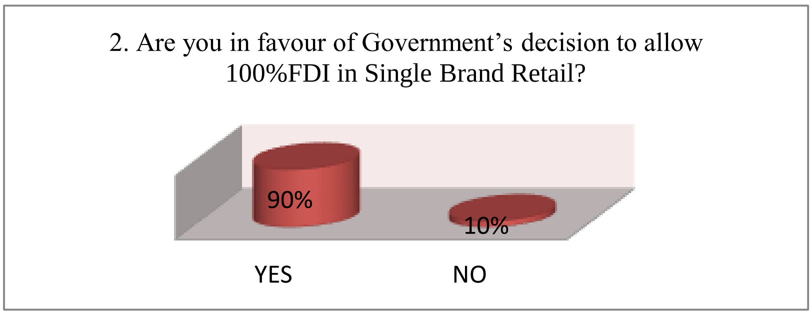
IV. Results and discussions

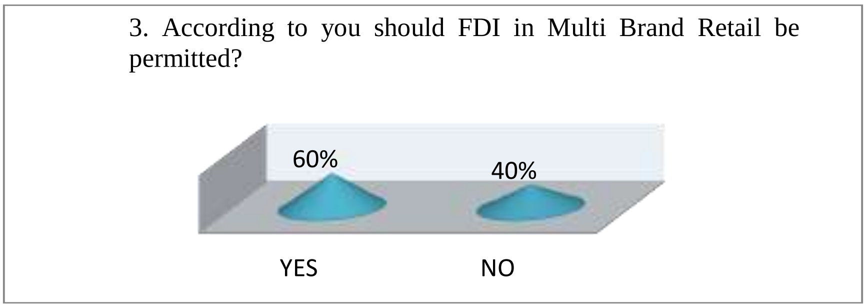
INDIAN RETAIL: 100% FDI IN SINGLE BRAND AND 51% FDI IN MULTI BRAND RETAIL-THE IMPLICATIONS THE ANALYSIS

The Survey confirms that 100% of the respondents from industry are aware of the Government's latest notification to allow 100% FDI in Single Brand and their plans to introduce 51% FDI in Multi Brand retail.

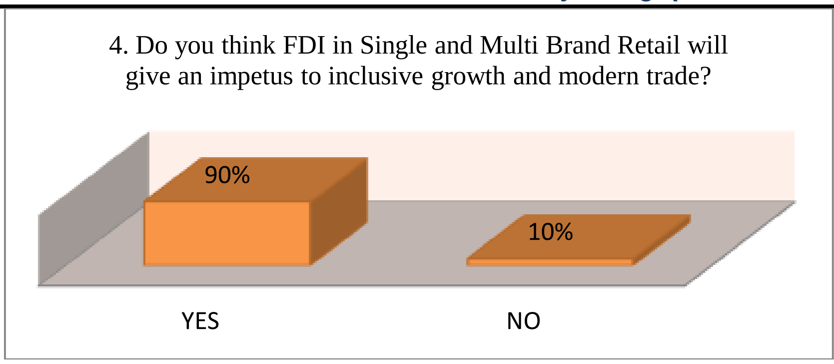


A majority of the respondents, surveyed have supported the government's decision and the notification allowing 100% FDI in single brand retail and about 60 percent of respondents are in favor Government's proposed plan to allow 51% FDI in Multi-Brand retail.

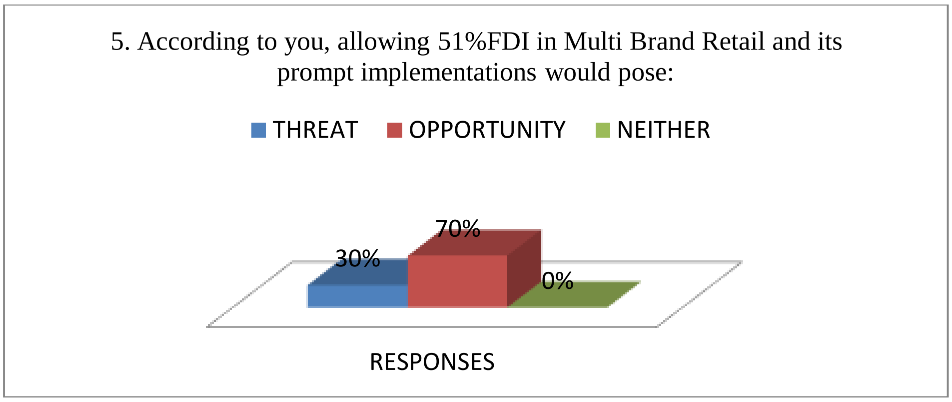




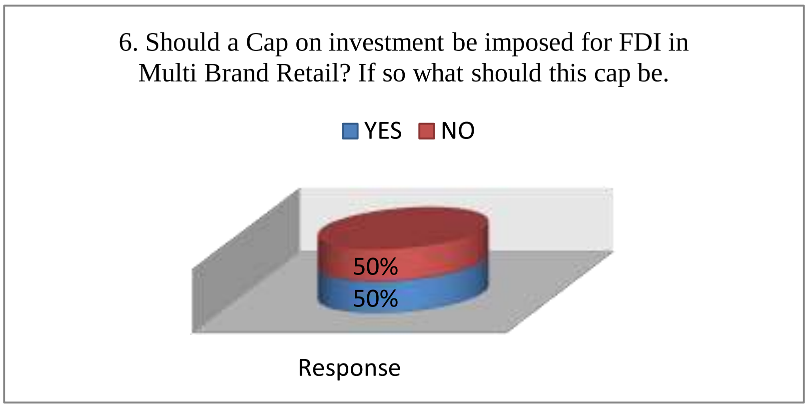
90% respondents believe that FDI in single and Multi-Brand Retail have the ability to directly drive inclusion for a very large number of people falling into three stakeholder categories: Government, Consumers, and unorganized trade participants.



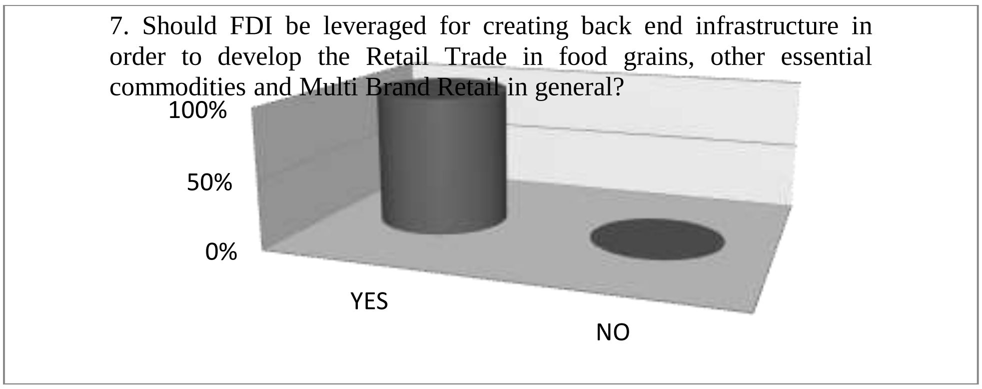
A considerably vast section of the respondents are of the view that allowing 51% FDI in multi-brand retail and its earlier implementation on the part of the government would give a major boost to the all-round growth of organized retail in the country and will have substantial positive impact on the growth and positive developments in many sectors.



There is an even consensus on whether a cap on investment be imposed for FDI in Multi-Brand retail. 50% of respondents are affirmative on having a cap on investment. According to them the cap can be either 74% or 51%



To develop the retail trade in food grains, other essential commodities and multi- brand retail in general; a majority of respondents believe that FDI be leveraged for creating back-end infrastructure. However, there should be no condition specifying that a percentage of the FDI should be spent towards building up of back end infrastructure, logistics or agro processing.



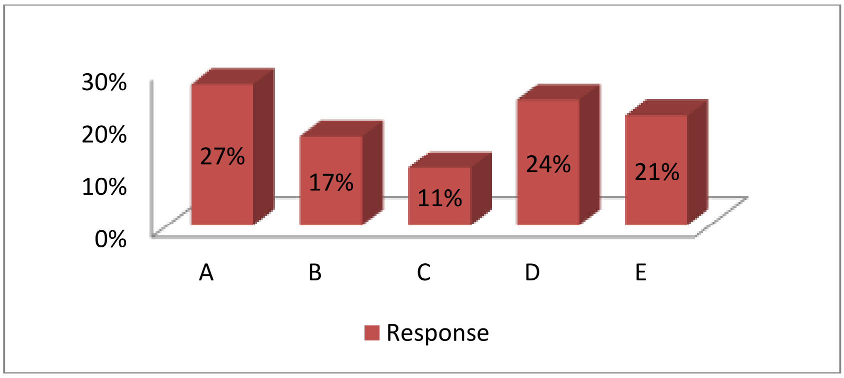
8. According to you what all conditions should be imposed on foreign retailers for making a favorable policy?

A. Minimum threshold limit for investment in backend infrastructure. Minimum threshold limit for investment in backend infrastructure logistics

B. Reservation of jobs for rural youth

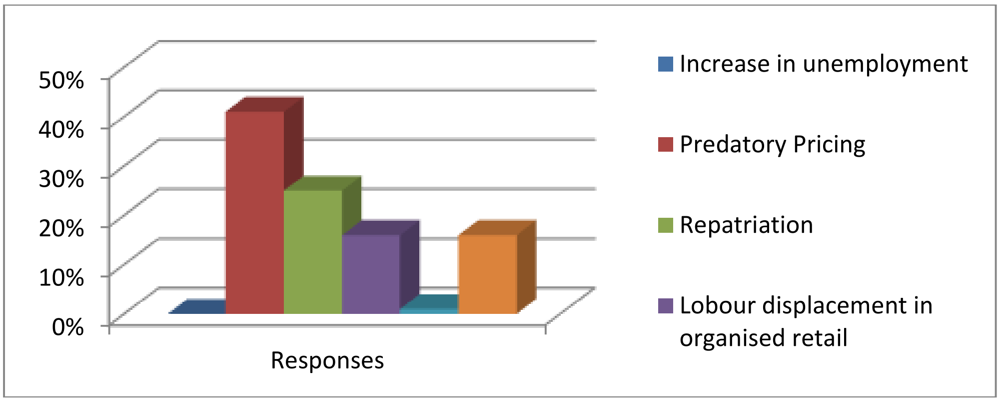
C. A minimum percentage of manufactured products be sourced from Indian SME sector

D. Small retailers to be integrated into a upgraded value chain and given access to supply chain set up by FDI funded Retail
E. An exclusive legal and regulatory framework be established to protect the interest of small retailers

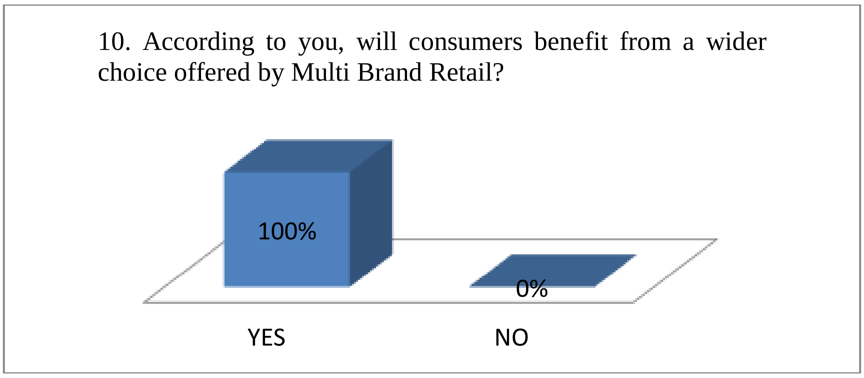


A considerable large number of respondents suggest that certain conditions be imposed on foreign retailers for making FDI in Multi-Brand a favorable policy. A majority of respondents are of view that minimum threshold limit for investment in backend infrastructure logistics should be indicated, small retailers should be integrated into upgraded value chain set up by FDI funded retail and an exclusive legal and regulatory framework be established.A majority of respondents believe that FDI in Single and Multi Brand Retail might lead to predatory pricing or repatriation of profit. However, around 20% respondents don't agree that FDI in Multi and Single Brand Retail will have any negative impact on our economy.

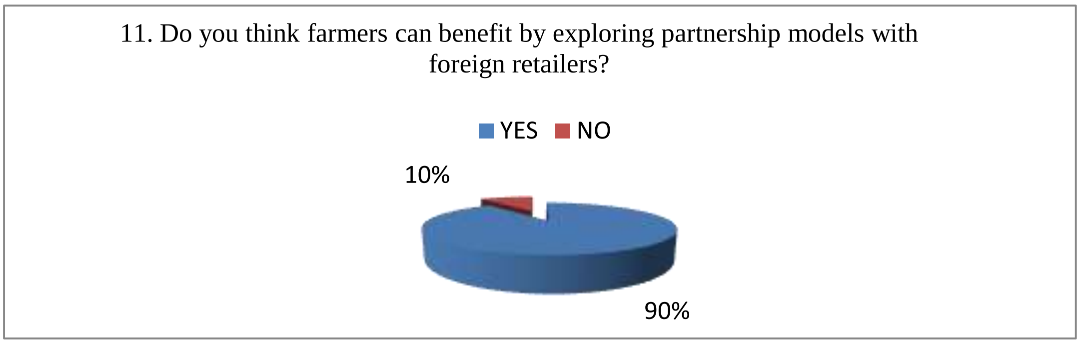
9. FDI in Single and Multi Brand retail will lead to



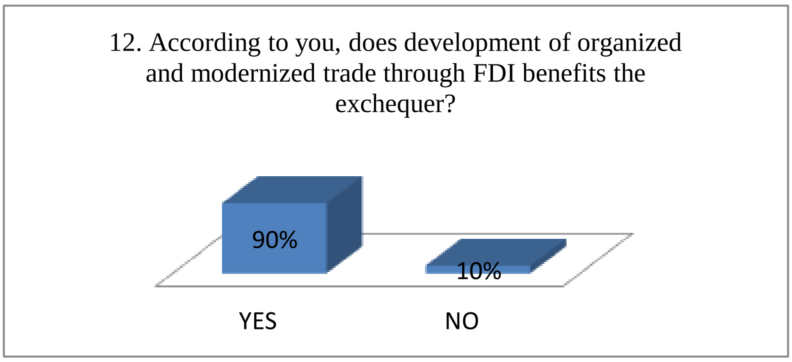
Every respondent agrees that by opening up the retail sector and encouraging the growth of modern trade will benefit the consumer by driving consumption and by equalizing standards of living between countries.

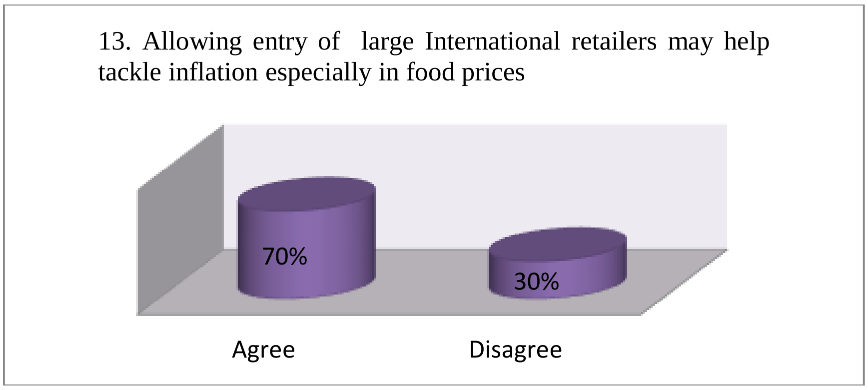


90% of respondents are of view that aqllowing fdi will bring about the development of a robust supply chain which in turn will integrate farmers into the modern trade process, result in knowledge and skills transfer, ensure farmers receive higher prices for their produce, provide a more transparent mechanism for pricing, helps stabilize order quantities, eases the access to credit and provides for better planning at the time of harvest.



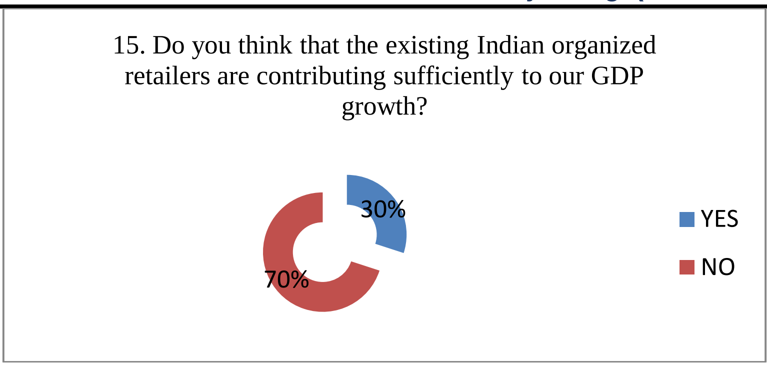
A majority of respondents affirm that development of organized and modernized trade through FDI will help state increase their tax revenues.



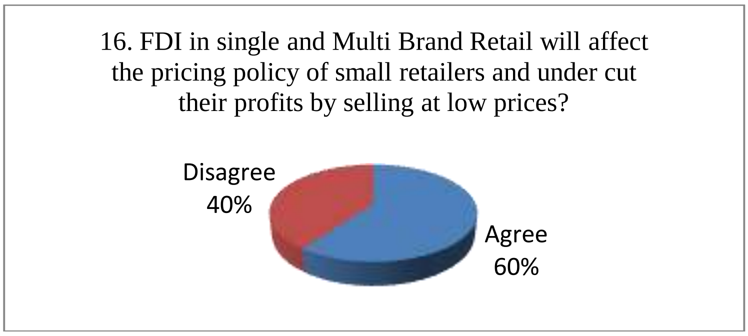


FDI in Retail will spur employment by becoming a critical enabler for the rural, semi-urban and urban unemployed. A majority of respondents also agrees with the aforementioned statement denying the possibility of jobless small retailers. However almost 30% of respondents believe that FDI in MBRT will render millions of small retailers jobless

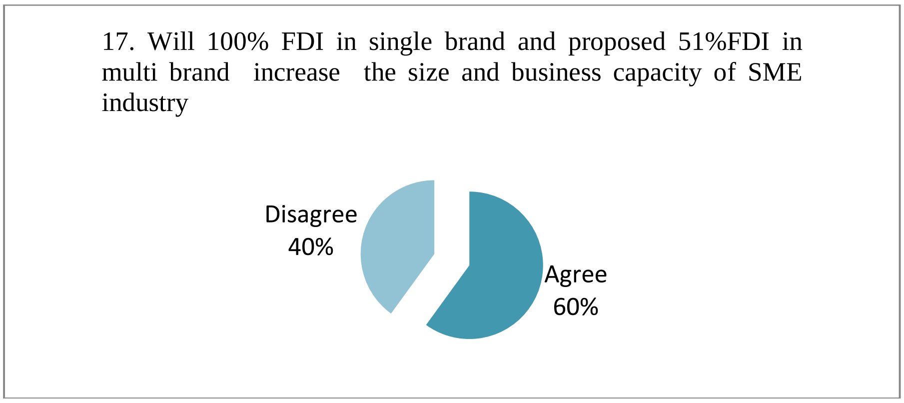
70% respondents are of view that the existing Indian organized retailers are not contributing sufficiently to our GDP. Hence allowing international retailers will spur our GDP growth



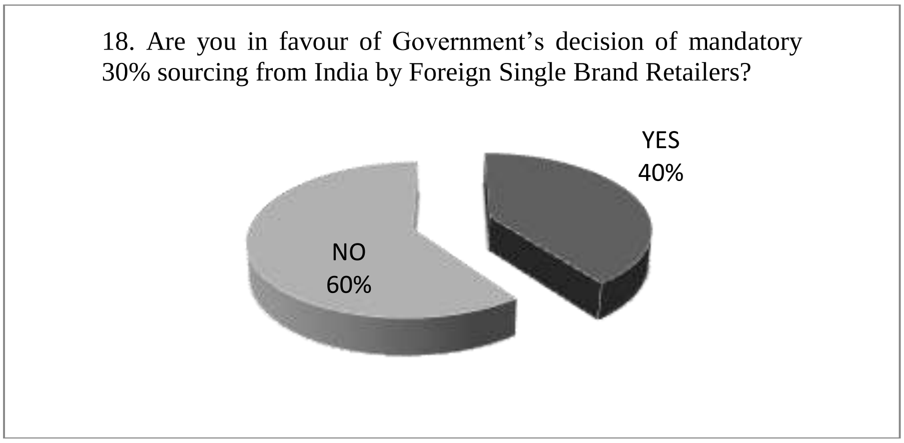
Among all responses received, small retailers agrees to the fact that FDI in Single and multi-Brand Retail will affect their pricing policy and will undercut their profit. However, a majority of industry respondents disagree with this statement



On the aspect of the possible impact on the size of the industry, business and capacity addition, majority of the respondents (60 percent) expect the size and business capacity of companies especially SME to grow with the opening of 51 percent FDI in multi-brand retail along with 100 percent FDI in single-brand retail.

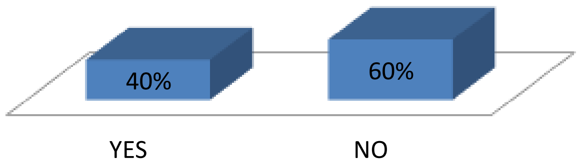


A majority of Industry respondents (60%) have expressed their concern on the rule of mandatory 30% sourcing from India, since in several areas, the domestic small vendors may not have the required skill and capabilities to be suppliers of global scale in terms of capacity and quality.



40% of respondents agree that mandatory 30 percent sourcing from Indian MSME sector will help them in achieving qualitative improvements and product branding in this sector

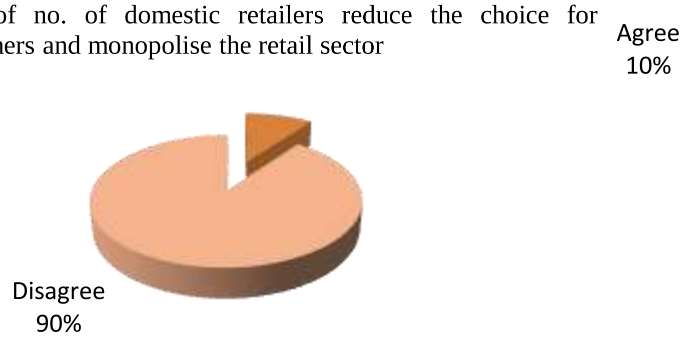
19. Do you think that Government's decision of ' mandatory 30% sourcing from Indian MSME' sector will help in achieving qualitatative improvements and product branding in this sector?



FDI in Single and Multi Brand retail will not invite trouble for Indian Economy as a considerable large number of respondents agree that opening up of retail sector will more good than bad.

20. FDI in Single and Multi Brand retail: More bad than good

21. Coming of big International Multi Brand retailers and reduction of no. of domestic retailers reduce the choice for SMEs/Farmers and monopolise the retail sector



A majority of respondents agrees that Multi Branded retail firm will give a farmer better price for his produce than what he is already getting and coming of Big International Multi Brand retailer will not monopolies the retail sector or reduce the choice for SME's and farmers.

V. RECOMMENDATIONS AND CONCLUSION

Industry welcomes the long-awaited move of the Government of allowing 100% in single brand retailing and their plans to introduce upto 51% FDI in multi-brand retail. This policy initiative will give a fillip to the growth of the economy and will have positive implications for various industry sectors including food processing, agriculture, textiles, consumer goods etc. At the same time, SMEs and the Indian consumer will also be benefited at large. Apart from these potential benefits, we would like to bring into light other positive impacts of FDI in retail and clear some of the misgivings associated with the policy change. It is estimated that the retail market will grow from the present size of $450 billion to nearly $1 trillion in the next twenty years. During this time the share of large retailers, including foreign retailers, is expected to increase from 4% to16%. That still leaves 84% of the retail market to small stores implying a market of $840 billion for mom and pop stores. Retail trade is a positive and not a zero-sum game in a growing economy. Also, foreign stores are being permitted only in larger cities with populations of 1 million and above. These number 53 now and are expected to grow to 76 by 2030, still leaving a huge market for the small stores. In context of fears regarding increase in unemployment, with limited mortality and 84% of market share still remaining with small stores, there would be no case of large-scale unemployment. More importantly, large scale retailers will generate additional higher quality employment. And small stores have reportedly increased their employment per shop to serve their neighborhood consumers better with home deliveries, drop off to the parked car etc. Further there is a misconception that predatory pricing would be practiced in the initial years to drive out the smaller retailers and then with market dominance will hike prices to fleece innocent consumers. Here, it needs to be brought out that predatory pricing can be practiced only by monopolies and foreign retailers will not enjoy any such market dominance. Indian competitors apart, there will be a number of foreign players, a majority of them with Indian partners, competing for market share. This combined with the monitoring eye of the Competition Commission would suffice to rule out predatory pricing practices.

Another fear is that Foreigners will repatriate their profits that they make from Indian consumers and this will impoverish India. There is hardly any reason to believe that foreign investors will forego the opportunity to expand capacity in India by re-investing their profits here rather than repatriating them. And even if they do so, our main policy concern at this time should be generate maximum employment in the country rather than be distracted by other pseudo objectives like minimizing profit outgo. FDI will help generate more employment. Modernization of retail trade is long overdue. More than 300 people million will move into urban centres in the next two decades. The present retail format cannot simply cope with that scale and diversity of demand. Hence FDI in retail is the need of the hour and is a positive reform move.

VI. ACKNOWLEDGMENT

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