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GLOBAL EXPERIENCE OF FOREIGN DIRECT INVESTMENT IN MULTI-BRAND RETAILING

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ABSTRACT

A debate is going on regarding the impact of foreign direct investment on the retail sector recently. Although, no case of domination by the large foreign retailers has been observed in the last 20 years of globalization worldwide, yet many experts believe that opening the retail sector to foreign players would jeopardize the local retailers in many ways. In this paper, the global experiences of six countries namely – Argentina, Brazil, China, Indonesia, Singapore and Thailand have been analyzed in order to evaluate the impact of foreign direct investment on the multi-brand retailing as 100% foreign direct investment is allowed in the retail sector of these economies. The trade restricting policies introduced in these countries have been studied in detail and suitable suggestions are provided to safeguard the interests of domestic players in the retail sector. The Indian government could learn from the successful experiences of these economies.

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KEYWORDS
Foreign direct investment, foreign retailers, retail sector.

INTRODUCTION

Foreign Direct Investment is an integral driver of the economy. It is usually preferred over other forms of external finance for the reason that it is non-debt creating, non-volatile and its return is dependent on the performance of projects financed by the investors. It stimulates competition in the industries, characterized by poor productivity and low competition. It also creates economic benefits for both, the developing countries and the global leaders. Foreign Direct Investment enables the home country to achieve global growth by reducing production costs and explore new markets. The host countries are also benefitted in the form of financial inflows, managerial skills and technological know-how from the developed economies. The biggest beneficiaries in the process are the consumers-the global consumers reap the benefits from global industry restructuring and consumers in the host economies gain by the improved standard of living and purchasing power.

Foreign Direct Investment in multi-brand retailing provides the opportunity of expanding the market by reducing transformation and transaction costs through the adoption of advanced supply chain. The high economic growth further leads to high per capita income. This in turn brings a shift in consumption pattern from necessary items to discretionary consumption. Owing to liberalization and globalization of the economy, many international players make an entry into the domestic market. The consumers become more aware and are likely to experiment with the various international brands. This popularity of the brands leads to increase in the retail space.

The liberalization of Foreign Direct Investment in multi-brand retailing is opposed mainly for the reasons like loss of local employment, distortion of urban cultural development, fear of predatory pricing by the foreign players and promotion of unhealthy competition among organized domestic retailers which leads to the exit of small retailers from the market. But the evidence of last 20 years of globalization by retailers worldwide shows that there is no such case of supremacy or domination of foreign retailers wherever the markets for global retailers have been liberalized. Only few foreign players have entered into the host economies, that too with lot of caution, as they have realized that retail thrives on local knowledge rather than transferring global retail concepts, formats and strategy. The experiences in the emerging economies have proved that fewer foreign players have been doing well while several failed as they could not understand the customer preferences and tastes, local culture, local regulations and local competition. Also, they could not exercise their bargaining power which they enjoy in their home countries. Indeed, in various countries the domestic retailers experience better market shares, performances and sizes. In the present paper, we will study the experiences of those economies where Foreign Direct Investment is permitted in the multi-brand retailing. Foreign Direct Investment is allowed in the retail sector in Argentina, Brazil, China, Indonesia, Singapore and Thailand without limits on equity participation, whereas Malaysia has equity caps on Foreign Direct Investment in the retail sector.

REVIEW OF LITERATURE

It was Stephen Hymer in 1970s who first discussed about the market power of transnational corporations (TNCs). His analysis was based on the structural imperfections in the host economy. According to him these structural imperfections provided, multinational enterprises, an opportunity in terms of scale economies due to large scale of production, knowledge advantages, channelized distribution networks, product diversification and credit advantages. All these advantages allowed these foreign firms to close domestic markets and increase market power. The transnational corporations have the potential to use its international operations to separate markets and remove competition. These big firms raise the barriers to entry for the domestic firms and can lead to ineffectiveness within the market by creating a dominant position within the market.

Since 1970s, research scholars have studied the programs implemented by governments in different countries (Davies, 1976; Kirby, 1981; Tsuchiya and Riethmuller, 1997). Several researchers have focused on the effects of large scale retail regulations. In addition to this, government's agenda for planning the use of land and new store openings have also been studied (Davies, 1976) while other researchers concentrated on the government actions and policies to protect low-income consumers (Ward, 1987). A number of studies highlighted the problems faced by small stores and categorized them into two kinds of inadequacies: in the retail operation and in management (Smiths and Sparks, 1997). Against the latter, the small retailers have proven to be as efficient as possible. Although the problems encountered by small shopkeepers are well documented, many local retailers are performing quite well (McGee and Peterson, 2000).

Wrigley and Lowe (2002) stated in their study that the body of stiff regulations and competition laws enacted in the United States resulted in a significantly slower spread of supermarkets from 1930s to 1980s. In the late 1990s till early 2000s, in Chile, Ahold, Carrefour and Home Depot all failed to establish themselves against sustained defense by the largest indigenous chains namely-D&S and Cencosud in grocery retailing, Sodimac in home improvement retailing (Bianchi & Mena, 2004 and Bianchi and Ostale, 2006).

A group of studies by Helpman, Melitz and Yeaple (2003) and Nocke and Yeaple (2005) revealed that the love for variety prevents any firm (foreign or domestic) from gaining the entire market share no matter how better its technology is or how lower its price be. This means that even if the transnational corporations are more technologically advanced than the local firms, the consumer would always like to use diversified products and this prevents any firm from capturing the entire market share. According to Deloitte (2010), retailing is a uniquely complicated business. The indigenous retailers rapidly and successfully imitate the organizational innovations and best practices of the foreign retailers that have entered their home markets. They, because of their local knowledge and social networks, are able to predict and respond to the foreign retailers sources of competitive advantage. In this way, they are able to develop a defendable market scale before the entry of big foreign players in order to ensure that they are well positioned to resist the entry of transnational retailers.

IMPORTANCE OF THE STUDY

The current research paper makes an attempt to analyze the performance of the retail sector of those economies where 100% foreign direct investment is allowed in the retail sector. In these economies, either the entry of foreign players has improved the functioning of domestic retailers due to direct competition, better products, improvement in technology, better knowledge etcetera or the domestic players have still managed to be the market leaders or the government has played an active role by safeguarding the interests of the domestic retailers against the giant sized foreign retailers. The government's decision of permitting foreign direct investment in the retail sector has been a controversial one (100% foreign direct investment has been allowed in single brand and 51% in multi-brand retailing in India). It has always been a hot topic of debate. With the help of the present research study, we can anticipate the overall effect of foreign direct investment on the Indian retail sector and can learn lessons from these economies on how to put the domestic retailers on an equal platform with the foreign supermarkets so as to boost up the whole economy.

OBJECTIVES

The present research study has been undertaken with the following objectives:

- To study the international scenario of foreign direct investment in the retail sector by taking few countries into consideration.
- To scrutinize the effect of foreign retailers on the indigenous players in the selected countries.
- To study the various measures and policies that has been implemented in these countries in order to protect the interests of local retailers against the foreign players.
- To provide suggestions to the government for protecting the Indian retailers against various threats due to the entry of large foreign retailers.

RESEARCH METHODOLOGY

The research study is descriptive in nature, thus a descriptive research design is selected to achieve the above mentioned objectives. The data is collected through the secondary sources like research reports, research journals and websites. Primary data cannot be taken into consideration because it is a country wise report analysis. The literature survey is done about the international scenario of foreign direct investment in the retail sector. For this, few countries have been considered which are similar to India in terms of demographics and various macroeconomic factors. Also, the retail sector of these countries is opened to foreign direct investment up to 100%. The countries analyzed in the research study are Argentina, Brazil, China, Indonesia, Singapore and Thailand.

IMPACT OF FOREIGN DIRECT INVESTMENT ON THE RETAIL SECTOR OF OTHER COUNTRIES

CHINA

- Foreign Direct Investment in retailing was allowed in China for the first time in 1992. Foreign retailers were initially allowed to trade only in six Provinces and Special Economic Zones. The foreign ownership was initially restricted to 49%.
- In December, 2004, China permitted 100% Foreign Direct Investment in retail, owing to its accession to World Trade Organization.
- Retail trade in China has been growing since 1992.
- Employment in the retail and wholesale trade increased from 4% of the total labour force in 1992 to about 7% in 2001. The number of traditional retailers also increased by around 30% between 1996 and 2001.
- The total retail sale in China amounted to $US 785 billion in 2006, of which the share of organized retail amounted to 20%.
- Some of the changes that occurred in China subsequent to the liberalization of its retail sector, include:

a. Over 600 hypermarkets were opened between 1996 and 2001.
b. The number of small outlets increased from 1.9 million to over 2.5 million.
c. Employment in the retail and wholesale sectors increased from 28 million people to 54 million people from 1992 to 2001.

- China's retail sector registered growth in 2007. The nominal growth of China's retail sales of consumer goods increased to 16.8% in 2007, up from 13.7% in 2006. Total retail sales amounted to 8921 billion Yuan.
- The total foreign direct investment inflows and outflows, in the retail sector, have increased since the introduction of foreign direct investment in retail.
- China opened up its retail sector to Foreign Direct Investment in a phased manner. Initially, China permitted foreign retailers to open in select metropolises, such as, Shanghai, Beijing and Shenzhen, and that too only in certain districts in those cities. In Beijing and Shanghai, foreign players like Wal-Mart were only allowed to operate in districts where there was no local competition.

TABLE 1: IMPACT ON ORGANIZED DOMESTIC RETAIL CHAINS

TOP 10 CHINESE RETAIL CHAINS 2010						
Retail Sales Rank	**Name of Company**	**2010 Retail Sales ($US billion)**	**Number of Stores**	**Operational Format**	**Region of Origin**	**Regions of Operation**
1.	Suning Appliance Group	24.76	1,342	Electronics Specialty	China	More than 300 cities in all regions, Hong Kong, Japan
2.	Gome Electrical Appliances Company Limited	24.55	1,346	Electronics Specialty	China	More than 200 cities in all regions
3.	Bailian Group Company Limited	16.43	5,809	Supermarket, Department Store, Convenience Store, Home Improvement	China	20 provinces and cities in China
4.	Dashang Group Company Limited	13.66	170	Supermarket Department Store, Electronics Specialty, Home Improvement	China	Northeast China, North China and West China
5.	Vanguard Company Limited	11.38	3,155	Supermarket Department Store, Convenience Store, Drug Store, Food and Beverage	China	27 provinces and cities in China
6.	RT-MART International Company Limited	7.96	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
8.	Anhui Huishang Group Company Limited	6.42	2,915	Supermarket, Department Store, Convenience Store, Electronics Specialty	China	50 cities in China
9.	Wal-Mart Stores, Incorporation (China)	6.34	219	Supermarket	US	20 provinces and cities in China
10.	Chongqing General Trading (Group Company Limited)	6.06	319	Supermarket, Department Store, Electronics Specialty	China	Chongqing, Sichuan, Guizhou

Source: Top 10 Chinese Retail Chains 2010

The table above shows that China's biggest retail firms in 2010 are all local Chinese companies – Suning Home Appliances, Gome Home Appliances, Shanghai Bailian Group, Dashang Group and Vanguard Company, all the companies have higher sales than Wal-Mart in China. Shanghai's Bailian Group Company held 11% market share whereas Wal-Mart, which dominates the US market, only had approximately 6% market share. On the other hand, the French retail giant Carrefour Group, world's second largest retailer by revenue, had a 4.9% market share and Tesco Public Limited Company, world's third largest retailer by revenue after US Wal-Mart and French Carrefour, held only 2.1% market share.

THAILAND

- Modern retail outlets by local Thai people gained importance during the economic boom in the early 1990s.
- Prior to 1997, no foreign investment was allowed and therefore there was limited competition in the retail sector. Moreover, there were few incentives to modernize their operations.
- With the advent of the Asian Crisis in 1997, the entry ban on foreign investment was lifted up. Within a short time period, the foreign retailers expanded their operations considerably and marginalized the local players who were already experiencing a recessionary trend of economy. 100% foreign equity was allowed, with no limits on the number of outlets. For the retail business, a capital requirement of TBH 100 million and TBH 20 million for each additional outlet, while a capital requirement of TBH 100 million for each wholesale outlet, was made mandatory.
- Many local retailers had to shut down their business.
- Entry of foreign retailers during the recession in the economy badly affected all the segments – manufacturers, wholesalers and local retailers in the short run. The stores opened by the foreign retailers became popular due to their wide variety and low prices.
- Although the entry of foreign retailers had some positive effects also, such as:

a. It led to the growth of organized retailing and so Thailand has become a large shopping destination.
b. It encouraged the development of agro-food processing industry and increased the exports of Thai-made goods through the network of the foreign players.
c. Direct competition of the foreign stores with local supermarkets and convenience stores, forced the local players to improve their management systems and marketing strategies.
d. Unemployment rate remained low.
e. Inflation rate also remained low at 0.3%.
f. The openness indicator reached its maximum point in 2002.
g. Foreign direct investment inflows increased to TBH 7,314,804,931 in 1998.

SINGAPORE

- 100% foreign direct investment had been permitted in the retail sector.
- The rise of supermarkets and foreign multi-retailers in Singapore decreased the productivity and efficiency of the domestic small-scale retail sector, thus they were unable to compete with the Japanese and Korean groups, which were making a mark in the Singaporean market. European, American and Australian groups were also making a gradual entry into the market after testing the Hong Kong and China markets.
- The local government implemented certain measures to safeguard the interests of the local traditional retailers. They provided the retailers various forms of assistance such as subsidies and grants, regulation amendments, etc.
- One of the action plans implemented by the Singapore government to help the small retailers was Housing and Development Board's Sale of Tenanted Shops Scheme (SOTS). Housing and Development Board provided public housing in which 86% Singaporean live. In order to make retail facilities available to them small shops were opened in the neighbourhood, close to consumer's homes, thereby providing the convenience of long shopping hours to the local people there. Today, there are some 20,000 shops in 24 town centers and 255 neighbourhood centers.
- Another retail cooperative, National Trade Union Congress (NTUC) helped its members, the traditional store owners, by giving a rebate on their purchases and a dividend on their shares. Its pricing policy, thus, puts competitive pressure on the new entrants in the retail sector. Presently, NTUC Fair Price is the largest supermarket retailer having about 4,00,000 members/owners and operates 80 stores. This supermarket chain was established by National Trade Union Congress in 1973.
- The domestic retailers, currently, continue to focus on the departmental store format and are performing well. Most of them are still adopting a cautious approach towards expansion.

INDONESIA

- The modern retail in Indonesia started growing in the 1990s through the domestic chains.
- Foreign direct investment in retail led to the multi-nationalization and rapid consolidation of the supermarket sectors in such developing countries.
- In Indonesia 100% foreign equity was allowed in the retail business, with no limits on the number of outlets in 1990s. It did not enforce any capital requirements.
- Matahari, the current leading chain, initially started as a small shop in 1958, grew into a chain of department stores and was purchased by a giant banking and real estate multinational company, Lippo Group, in 1997, just before the crisis. The crisis created a sharp dip in modern retail sales, which began recovering in the 2000s. The sales of Matahari got doubled between 2002 and 2006 and it became a billion dollar chain by 2006.
- Even after many years of emergence of supermarkets 90% of the fresh food and 70% of the total food retail is still in the control of unorganized retailers. No complaints of exploitation of local resources or dominance by the foreign players over the indigenous retailers have been recorded in the retail sector. The leading company in retail industry is a local retailer, Matahari.
- The share of foreign companies (one European and one Hong Kong) in the top seven chains is now 40%.
- Although, as the sector is still fragmented, foreign chains do not have more than a 20% share, similar to the situation in China.
- The entry of foreign players has a positive impact on the industrial competitiveness.
- A wide range of institutional reforms was introduced. The monetary policy was redirected towards maintaining price and exchange rate stability. Eventually, the price stability was re-established.
- The imports, exports and real exchange rate remained constant.
- There was an increasing effect of foreign direct investment in retail on the total foreign direct investment inflows. However, the foreign direct investment outflows in retail dropped after 1994.

BRAZIL

- Brazil opened up its retail sector to the foreign investment in 1994. 100% foreign investment was permitted in the retail sector. Since then, the traditional small retailers have been able to enhance their market share by 27% (according to a report by CUTS International).
- Out of the top seven companies in 2006 – Casino (the leader), Carrefour, Wal-Mart and Makro, were all foreign owned. The presence of these foreign retailers improved the productivity of the traditional retailers due to adoption of better technology, thereafter. As a result, these domestic retailers started giving tough competition to the foreign companies.
- Retail sales per capita increased at the rate of 12% per year for the last four years (2007-2011). Consumer spending increased at the rate of 9% per year since 2007. Retail market size increased by 15% in 2011. Retail sales accounted for 70% of consumer spending in 2011.
- In 2011, with 44 Foreign Direct Investment projects, representing 9% of the total projects for the year, the retail sector experienced strong investment levels. This resulted in the boosting up the of the employment levels with 23,051 jobs created during 2011.
- The annual gross domestic product growth remained stable and positive.
- The unemployment rate decreased after 1994, after its maximum at 9.6.
- The value of exports and imports also increased after the introduction of foreign direct investment in retail sector.

- The total foreign direct investment inflows in retail reached its highest point in 1998.
- The retail regulations were enforced in Brazil for safeguarding the traditional retailers. One of the regulations was applying special tax regulation to small retailers by the Brazilian government that reduced their tax burden. The government also provided subsidies to traditional retailers through SEBRAE (the Brazilian Department of Support for Small Enterprises).

ARGENTINA

- During the mid 1990s, foreign direct investment liberalization took place in the retail sector up to 100% in Argentina.
- In Argentina, the number of small food shops declined from 209,000 to 145,000, which means that approximately 64,000 shops were shut down from 1984 to 1993 (the period during which the supermarkets were burgeoning).
- The general-line shops were closed down quickly but those which were specialized, predominantly the bakeries, fresh meat and fish shops, fruits and vegetable shops, shut down less quickly.
- Some regulations were introduced to improve supermarket chain and supplier relations and thus facilitate retail trade during 2000-2001. Three laws were called on to lay the legal foundation namely-the Truth in Trading Act of 1983, the Consumer Protection Act of 1993 and the Competition Law of 1999. The Competition Commission declared that it would promulgate a national law, combining these three laws, to closely regulate supermarkets and their relations with their suppliers, if the retail, wholesale, processing and farming sectors (suppliers) did not formulate a private code of commercial conduct. Retailers and suppliers responded positively and signed the Code of Good Commercial Practices in July, 2001.
- The Code of Good Commercial Practices had four basic provisions: (1) compliance with contracts by both retailers and suppliers (2) equal treatment among suppliers (3) prompt payment (4) co-operation in logistics development. The conflict resolution mechanism accompanying the code proved to be very effective.
- The Argentine government provided market intelligence capital for the suppliers so that their business relations with the supermarkets could be strengthened.
- However, the introduction of such economic measures has worsened the investment environment. The Argentine government will not change its current economic policy of attempting to boost the domestic business without considering its consequences on the whole economy. With estimated annual inflation of 25% (one of the highest in the world), the purchasing power has decreased overall, thus slowing down the demand.

RECOMMENDATIONS

The domestic retailers encounter problems due to their inefficiency, low productivity and inability to compete with the foreign retailers and supermarkets. The existence of foreign retailers not only brings competition into the market but also stimulates the domestic players to improve their quality, management and performance. But the international operations and supremacy of the large foreign players often force the indigenous retailers to either reduce or shut their business. Using the experiences of the six emerging market economies-Argentina, Brazil, China, Indonesia, Singapore and Thailand, this research paper endeavors to provide suggestions regarding the preventive measures that can be executed by the Indian government with the aim of encouraging local retail trade in the presence of powerful foreign players so that the former does not get completely driven out of the market by the latter.

- Foreign direct investment in retail should be liberalized in a phased manner like the case with China where foreign retailers were allowed to trade only in six provinces and special economic zones.
- A distinctive regulatory framework should be made to control the foreign direct investment in the retail sector. Such regulations would protect the local retailers against the threat of labour displacement, exploitation of local suppliers and predatory pricing by foreign chains. A national commission or business association for retailers, consumers and suppliers should also be formed to look after the interests of local businessmen such as ban foreign retailers from buying products below cost and selling below cost, improve domestic retail markets for small farmers, establish multi-stakeholder initiatives in the supermarket chains and provide support to small producers and traditional retailers.
- Various forms of assistance such as subsidies and grants, training and retraining and retirement pensions should be given to the local retailers by the government. This would help them in competing directly with the large foreign retailers.
- The government should build financial services to access capital for the suppliers (as working capital and for investments in equipment and other physical capital upgrades) as it is a crucial element in business.
- The government should introduce special tax regulation for the domestic retailers where less tax is imposed on them as happened in Brazil.
- The government should also offer market intelligence capital to the local suppliers so as to make their business relations with the foreign retail chains stronger just like the Argentine government did.
- Trade restricting laws should be made to avoid foreign retailers such as Wal-Mart and Carrefour from having a high concentration of business in the country as in Argentina provincial lawmakers have passed the legislation that no business can control more than 30% of the market in one sector.
- Last but not the least, to maintain fair competition between large foreign supermarkets and domestic retail stores, a mechanism of "Zoning" should be executed. This mechanism implies that foreign stores are strategically kept outside the city and far from the traditional markets just like in Indonesia where hypermarkets are prohibited within 500 meters of traditional markets and large stores of more than 40,000 square feet are to be at least 2.5 kilometers from traditional markets. Similarly, in Singapore, Housing and Development Board provided retail facilities to the residential localities by selling tenanted shops to the local shopkeepers through Sale of Tenanted Shops Scheme (SOTS).

CONCLUSION

Foreign direct investment in retail sector in the emerging market economies have provided the following benefits-expanded markets, increased productivity, enhanced wages, generation of world class supply chains, benefitted consumers and generation of externalities to the local firms. The foreign capital has given a boost to the domestic economy and triggered its growth. It is a superb conduit for the transfer of technology and know-how to the developing countries. Thus, foreign direct investment is very important for an economy's growth and rapid development in the global markets.

However, the entry of foreign players posed certain threats for the host countries initially but the government of these economies played a pivotal role in dealing with them eventually. The government, in these countries, played a role of 'Facilitator' and provided the local players with a conducive business environment to work, in an attempt to bring them on an even and competitive playing field with the foreign companies. The framework of schemes and policies, designed by them, was guided by the desire to limit foreign control of economic activities but at the same time take advantage of the opportunities provided by foreign capital. The success of these policies can be evaluated from their end results. In China, even after 15 years of establishment of the big-box retailers like Wal-Mart and Carrefour, Chinese companies remain China's biggest retail firms. Shanghai's Bailian Group holds 11% market share while Wal-Mart holds only 6% and Carrefour holds 4.9% market share. Similar success stories have been observed in Brazil, Indonesia, Singapore and Thailand. So it can be fairly stated that foreign direct investment has several benefits along with few disadvantages; the advantages being surpassed by the disadvantages.

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