ISSN-2347-6257

WAL-MART IN INDIA: An Analysis

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Abstract

With around 12 million outlets, India has the largest density of small shops in the world. The unorganized retail sector is around 97% of all retail sales. Corporate retailers plan to grow the share of organized retail from the current 3% to approximately 15-20% in four years by investing more than $25 billion, of this 60-65% of all investments will go towards food and grocery retail in setting up the supply chain, which means direct corporate investment in agricultural Wal-Mart is the largest corporation in the world. Their annual revenue of over 350 billion is larger than the entire Indian retail market. They are currently banned from entering into India, but are trying to come in through the back-door by signing a Joint Venture with Bharti Enterprises (Airtel). They have not yet signed the deal. They must be stopped. A study by Kenneth Stone of Iowa State University found that some rural towns in the USA lost 47% of their retail trade after the opening up of a Wal-Mart.

Keywords: Corporate retailers, grow, Wal-Mart , Corporation, Bharti Enterprises , Joint Venture.

The Inquisitive Meridian
Online ISSN:
ISSN-2347-6257

Volume 1 Issue 2 December 2013

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INTRODUCTION

AN OVERVIEW

FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services. The domestic company in which foreign currency is invested is usually being controlled by the investing foreign company. The Retail Industry is the sector of economy which is consisted of individuals, stores, commercial complexes, agencies, companies, and organizations, etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly. Goods and products of the retail industry or sector are the finished final objects/products of all sectors of commerce and economy of a country[1].

The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment. According to a recent survey by the United Nations Conference on Trade and Development (UNCTAD), India has conspicuously emerged out as the second most popular and preferable destination in the entire world, after China, for highly profitable foreign direct investment[2].

[1] *http://www.fibre2fashion.com/industry-article/7/604/fdi-in-retailing1.asp*
[2] *http://www.globaljurix.com/foreign-direct-investment-india-fdi.php*

AT Kearney (a globally famous international management consultancy) recognized India as the second most alluring and thriving retail destination of the world, among other thirty growing and emerging markets[3]. At present, other profitable retail destinations of the world are China and Dubai of Asia. Diverse foreign direct investment in Indian retail is greatly cherished by most of the major and leading retailers of USA and European countries, including Wal-Mart (USA), Tesco (UK), Metro (Germany), and Carrefour (France). Liberalization of trade policy and loosening of barriers and restrictions to the foreign investment in the retail sector of India, have collectively made the FDI in retail sector quite easy and smooth. Our services are easily and economically available for the following ways of FDI in Indian retail[4].

Legal Aspects of FDI in India:

The foreign direct investment in Indian business sectors can easily be made in a variety of ways, through the Governmental and Automatic Routes. However, the Joint Ventures are the most popular and preferred forms of making investment in Indian industry. At present, the most lucrative business sectors for FDI in India are, Infrastructure (Power, Steel, Railways, etc.); Telecommunications; Hospitality sector; Education; Retail; Real Estate; Retail sector, Petroleum and Petroleum Products; Biotechnology; Alternative Energy, etc. Global Jurix can help well-rounded the foreign investors of all class and categories for getting highly lucrative and secure FDI in India, through providing the following legal services reliably and economically:

- Company Formation and Company Law services
- Establishment of Joint ventures
- Corporate and Commercial Law services
- For making all mandatory Compliances
- Drafting all requisite Contracts, Agreements, and other Documents
- Setting up Subsidiaries
- Tax Planning
- Project Finance
- Dispute Resolution
- Private Equity
- And, other legal services for FDI in India.

Aforementioned were the core concepts related to FDI (foreign direct investment). This paper however in its first part tries to deal with comparative study of FDI in different countries consequently would lay down the advantages and disadvantages of the same.

[3] *Kearney A.T. (2010), "A. T. Kearney Global Management Consultants : Expanding Opportunities for Global Retailers, 'The 2010 A.T. Kearney Global Retail Development Index'.*

[4] *www.moneycontrol.com/news-topic/fdi /*

Following the same the second part tries deal with the advent of FDI in retail in India and the implications of the same by keeping in mind the economy of India. Last part, however, also deals with advent of WAL-MART in India.

Primarily, this paper tries to contemplate the concept of FDI in retail in India, especially, Wal-Mart wherein India is an agrarian country and most of the labour force is indulged in it or say dependent on it. Their livelihood depends on it.

COMPARATIVE STUDY OF FDI

Advent of FDI in different countries

Foreign direct investment is treated as an important mechanism for channelizing transfer of capital and technology and thus perceived to be a potent factor in promoting economic growth in the host countries. Moreover, multinational corporations consider FDI as an important means to reorganise their production activities across borders in accordance with their corporate strategies and the competitive advantage of host countries. These considerations have been the key motivating elements in the evolution and attitude of EMEs towards investment flows from abroad in the past few decades particularly since the eighties. This section reviews the FDI policies of select countries to gather some perspective as to ‘where does India stand’ at the current juncture to draw policy imperatives for FDI policy in India.

China

- Encouragement to FDI has been an integral part of the China’s economic reform process. It has gradually opened up its economy for foreign businesses and has attracted large amount of direct foreign investment.

- Government policies were characterised by setting new regulations to permit joint ventures using foreign capital and setting up Special Economic Zones (SEZs) and Open Cities. The concept of SEZs was extended to fourteen more coastal cities in 1984.Favorable regulations and provisions were used to encourage FDI inflow, especially export-oriented joint ventures and joint ventures using advanced technologies in 1986.
- Foreign joint ventures were provided with preferential tax treatment, the freedom to import inputs such as materials and equipment, the right to retain and swap foreign exchange with each other, and simpler licensing procedures in 1986. Additional tax benefits were offered to export-oriented joint ventures and those employing advanced technology.
- Priority was given to FDI in the agriculture, energy, transportation, telecommunications, basic raw materials, and high-technology industries, and FDI projects which could take advantage of the rich natural resources and relatively low labour costs in the central and northwest regions.
- China's policies toward FDI have experienced roughly three stages: gradual and limited opening, active promoting through preferential treatment, and promoting FDI in accordance with domestic industrial objectives. These changes in policy priorities inevitably affected the pattern of FDI inflows in China[5].

Chile

- In Chile, policy framework for foreign investment, embodied in the constitution and in the Foreign Investment Statute, is quite stable and transparent and has been the most important factor in facilitating foreign direct investment. Under this framework, an investor signs a legal contract with the state for the implementation of an individual project and in return receives a number of specific guarantees and rights[6].
- Foreign investors in Chile can own up to 100 per cent of a Chilean based company, and there is no time limit on property rights. They also have access to all productive activities and sectors of the economy, except for a few restrictions in areas that include coastal trade, air transport and the mass media.
- Chile attracted investment in mining, services, electricity, gas and water industries and manufacturing.
- Investors are guaranteed the right to repatriate capital one year after its entry and to remit profits at any time.
- Although Chile's constitution is based on the principle of non-discrimination, some tax advantages are extended to foreign investors such as invariability of income tax regime, invariability of indirect taxes, and special policy regime for large projects[7].

Malaysia

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[5] *Ali Shaukat and Wei Guo (2005), 'Determinants of FDI in China', Journal of Global Business and Technology, Volume 1, Number 2, Fall.*

[6] *Antràs, Pol, Mihir A. Desai and C. Fritz Foley (2007), 'Multinational Firms, FDI Flows and Imperfect Capital Markets', NBER Working Paper No. 12855, January.*

[7] *World Bank (2010), 'Doing Business' Various Issues.*

- The Malaysian FDI regime is tightly regulated in that all foreign manufacturing activity must be licensed regardless of the nature of their business.
- Until 1998, foreign equity share limits were made conditional on performance and conditions set forth by the industrial policy of the time.
- In the past, the size of foreign equity share allowed for investment in the manufacturing sector hinged on the share of the products exported in order to support the country's export-oriented industrial policy.
- FDI projects that export at least 80 per cent of production or production involving advanced technology are promoted by the state and no equity conditions are imposed. Following the crisis in 1997-98, the restriction was abolished as the country was in need of FDI[8].

Korea

- The Korean government maintained distinctive foreign investment policies giving preference to loans over direct investment to supplement its low level of domestic savings during the early stage of industrialisation. Korea's heavy reliance on foreign borrowing to finance its investment requirements is in sharp contrast to other countries[9].
- The Korean Government had emphasised the need to enhance absorptive capacity as well as the indigenisation of foreign technology through **reverse engineering** at the outset of industrialisation while restricting both FDI and foreign licensing. This facilitated Korean firms to assimilate imported technology, which eventually led to emergence of global brands like Samsung, Hyundai, and LG.
- The Korean government pursued liberalised FDI policy regime in the aftermath of the Asian financial crisis in 1997-98 to fulfil the conditionality of the International Monetary Fund (IMF) in exchange for standby credit.
- Several new institutions came into being in Korea immediately after the crisis. Invest Korea is Korea's national investment promotion agency mandated to offer one-stop service as a means of attracting foreign direct investment, while the Office of the Investment Ombudsman was established to provide investment after-care services to foreign-invested companies in Korea. These are affiliated to the Korea Trade Investment Promotion Agency.
- Korea enacted a new foreign investment promotion act in 1998 to provide foreign investors incentives which include tax exemptions and reductions, financial support for employment and training, cash grants for R&D projects, and exemptions or reductions of leasing costs for land for factory and business operations for a specified period.
- One of the central reasons for the delays in the construction process in Korea is said to be the lengthy environmental and cultural due diligence on proposed industrial park sites. (OECD, 2008).

Thailand

[8] *World Bank (2010), 'Investing Across Borders - A Survey of 87 Economies'.*

[9] *Ahn, Choong Yong (2008), "New Directions of Korea's Foreign Direct Investment Policy in the Multi-Track FTA Era: Inducement and Aftercare Services", OECD Global Forum for International Investment, March.*

- Thailand followed a traditional import-substitution strategy, imposing tariffs on imports, particularly on finished products in the 1960s. The role of state enterprises was greatly reduced from the 1950s and investment in infrastructure was raised. Attention was given to nurturing the institutional system necessary for industrial development. Major policy shift towards export promotion took place by early 1970s due to balance of payments problems since most of components, raw materials, and machinery to support the production process, had to be imported.
- On the FDI front, in 1977 a new Investment Promotion Law was passed which provided the Board of Investment (BOI) with more power to provide incentives to priority areas and remove obstacles faced by private investors (Table 4). After the East Asian financial crisis, the Thai government has taken a very favourable approach towards FDI with a number of initiatives to develop the industrial base and exports and progressive liberalisation of laws and regulations constraining foreign ownership in specified economic activities.
- The Alien Business Law, which was enacted in 1972 and restricted majority foreign ownership in certain activities, was amended in 1999. The new law relaxed limits on foreign participation in several professions such as law, accounting, advertising and most types of construction, which have been moved from a completely prohibited list to the less restrictive list of businesses[10].

To sum up, the spectacular performance of China in attracting large amount of FDI could be attributed to its proactive FDI policy comprising setting up of SEZs particularly exports catering to the international market, focus on infrastructure and comparative advantage owing to the low labour costs. A comparison of the FDI policies pursued by select emerging economies, set out above, suggests that policies although broadly common in terms of objective, regulatory framework and focus on technological upgradation and export promotion, the use of incentive structure and restrictions on certain sectors, has varied across countries. While China and Korea extend explicit tax incentives to foreign investors, other countries focus on stability and transparency of tax laws. Similarly, while all the countries promote investment in manufacturing and services sector, China stands out with its relaxation for agriculture sector as well. It is, however, apparent that though policies across countries vary in specifics, there is a common element of incentivisation of foreign investment[11].

India's standing: Where does India stand?

Case Studies:

In the *Case Study of Reliance*[12], it has been observed that though the customers appreciate the value but the quality of products is not up to the mark as the small fruit and vegetable sellers get fresh stock every day from the *mandi* while in reliance mart the vegetables are not changed every day rather are refrigerated at night, also it was observed that few vegetables appeared as they had been sprayed in order to make them look more attractive and shiny. Even the customer

[10] *Brimble, Peter (2002), The Foreign Direct Investment: Performance and Attraction The Case of Thailand, 2002. Workshop on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Laos and Vietnam in Hanoi, August.*
[11] *http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2513*
[12] *Fortune, June 27 2007: 12:57 PM EDT*

service as claimed is not that efficient because the staff in red shirts were mainly checking to see if people were shoplifting and didn't seem to know much about the products or company. There was a long queue that moved very slowly. VAT or value added tax was added to the bill which increased the cost of the vegetables just bought. Reliance has been able to eat into small retailers' business in big ways as its quality has improved and its stock has widened to include household items, which is now happening across all its stores.

Also, studies show that Indians like to bargain and bully - Bargaining and getting freebies like chilly or coriander is not allowed at supermarkets like Reliance Fresh.

Entry of giant retail chains invariably leads to the elimination of competition and the concentration of monopoly power in the retail market.

In the *Case Study of Wal-Mart*[13], it was seen in the year 2002 that the retail chain had an estimated market share of 30% in hair care, 26% in toothpaste, 20% in pet food, 13% in home textiles, 15% in Cd's and DVDs and 15% in magazines. In 1955, *Fortune* began to publish its list of top 500 companies; Wal-Mart did not even exist. By 2002, it had moved to the top of the list. The CEO of the company *Sam Walton* had approached *Ben Franklin*, a leading retailer of the time. Walton believed that price reduction could be compensated by an increase in sales volume. Even during the recession of 1991, Wal-Mart reported a return on equity of more than 32%. Statistics show that by 1979 Wal-Mart grew at an annual rate of 35%, triple the growth of the entire retail industry. Also, Wal-Mart recorded tremendous growth in profits making it the most profitable retail chain in America surpassing K-Mart. In 1990, it became America's largest retailer with sales reaching $25.8 billion. Walton primarily focused on the bargaining nature of the consumers**.** Among his strategies, one of the strategies was to compensate the price reduction through an increase in sales which is evidently shown through Walton's meeting with Ben Franklin. Thus, through these strategies, Wal-Mart created monopoly.

CONCLUSION

An analysis of the recent trends in FDI flows at the global level as well as across regions/countries suggests that India has generally attracted higher FDI flows in line with its robust domestic economic performance and gradual liberalisation of the FDI policy as part of the cautious capital account liberalisation process. Even during the recent global crisis, FDI inflows to India did not show as much moderation as was the case at the global level as well as in other EMEs. However, when the global FDI flows to EMEs recovered during 2010-11, FDI flows to India remained sluggish despite relatively better domestic economic performance ahead of global recovery. This has raised questions especially in the backdrop of the widening of the current account deficit beyond the sustainable level of about 3 per cent.

[13] *Rahul Gupta, Food Retailing: Emerging Trends, Pg.119-137*

In order to analyse the factors behind such moderation, an empirical exercise was undertaken which did suggest the role of institutional factors (Government's to implement quality policy regime) in causing the slowdown in FDI inflows to India despite robustness of macroeconomic variables[14].

The main apprehensions in India, however, are that FDI in retail would expose the domestic retailers – especially the small family managed outlets - to unfair competition and thereby eventually leading to large-scale exit of domestic retailers and hence significant job losses. A balanced and objective view needs to be taken in this regard. Another important sector is the generation, transmission and distribution of electricity produced in atomic power, where FDI is not permitted at present, may merit a revisit[15].

Against this backdrop, it is pertinent to highlight the number of measures announced by the Government of India on April 1, 2011 to further liberalise the FDI policy to promote FDI inflows to India. These measures, inter alia included (i) allowing issuance of equity shares against non-cash transactions such as import of capital goods under the approval route, (ii) removal of the condition of prior approval in case of existing joint ventures/technical collaborations in the 'same field', (iii) providing the flexibility to companies to prescribe a conversion formula subject to FEMA/SEBI guidelines instead of specifying the price of convertible instruments upfront, (iv) simplifying the procedures for classification of companies into two categories – 'companies owned or controlled by foreign investors' and 'companies owned and controlled by Indian residents' and (v) allowing FDI in the development and production of seeds and planting material without the stipulation of 'under controlled conditions'. These measures are expected to boost India's image as a preferred investment destination and attract FDI inflows to India in the near future.

[14] *Rajan,Ramkishen S., Sunil Rongala and Ramya Ghosh (2008), 'Attracting Foreign Direct Investment (FDI) to India', April.*

[15] *Shah, Ajay and Ila Patnaik (2007), India's Experience with Capital Flows: The Elusive Quest for a Sustainable Current Account Deficit, in Sebastian Edwards(Eds) 'Capital Controls and Capital Flows in Emerging Economies: Policies, Practices and Consequences', University of Chicago Press.*