FDI IN INDIA – Mr. Mustafa Sapatwala

**What is FDI?**

Foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country.

Foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facilities.

**What are the Types of FDI?**

**Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

**Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

**Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country

**Opportunities and Threats of FDI**

Opportunities of FDI:

1) Capital Infusion

2) Boost Healthy Competition and check inflation

3) Improvement in Supply Chain

4) Improvement in Customer Satisfaction

5) Improved technology and logistics

6) Benefits for the Farmers

7) Creation of More And Better Employment Opportunities

8) Human Resources Development

9) Economic growth

10) Technology diffusion and knowledge transfer

11) Long term cash liquidity

12) Cheaper production facilitiesEtc.

Threats of FDI:

1. Domination of Organized Retailer
2. Creates Unemployment
3. Loss of Self Competitive Strength
4. Indirectly Leads to Increase in Real Estate Cost
5. Distortion of Culture
6. Small Retailers & Kirana Store Owners May Suffer Huge Losses

**FDI LIMITS SET BY GOVERNMENT OF INDIA**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sector Specific Limits of Foreign Investment in India** | | | |
| **Sector** | **FDI Cap/Equity** | **Entry Route** | **Other Conditions** |
| **A. Agriculture** 1. Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture, Cultivation of vegetables & mushrooms and services related to agro and allied sectors. | 100% | Automatic |  |
| 2. Tea sector, including plantation | 100% | FIPB |  |
| ***(FDI is not allowed in any other agricultural sector /activity)*** | | |  |
| **B. Industry** 1. Mining covering exploration and mining of diamonds & precious stones; gold, silver and minerals. | 100% | Automatic |  |
| 2. Coal and lignite mining for captive consumption by power projects, and iron & steel, cement production. | 100% | Automatic |  |
| 3. Mining and mineral separation of titanium bearing minerals | 100% | FIPB |  |
| **C. Manufacturing** 1. Alcohol- Distillation & Brewing | 100% | Automatic |  |
| 2. Coffee & Rubber processing & Warehousing. | 100% | Automatic |  |
| 3. Defence production | 26% | FIPB |  |
| 4. Hazardous chemicals and isocyanates | 100% | Automatic |  |
| 5. Industrial explosives –Manufacture | 100% | Automatic |  |
| 6. Drugs and Pharmaceuticals | 100% | Automatic |  |
| 7. Power including generation **(except Atomic energy)**; transmission, distribution and power trading. | 100% | Automatic |  |
| ***(FDI is not permitted for generation, transmission & distribution of electricity produced in atomic power plant/atomic energy since private investment in this activity is prohibited and reserved for public sector.)*** | | |  |
| **D. Services** 1. Civil aviation (Greenfield projects and Existing projects) | 100% | Automatic |  |
| 2. Asset Reconstruction companies | 49% | FIPB |  |
| 3. Banking (private) sector | 74% (FDI+FII). FII not to exceed 49% | Automatic |  |
| 4. NBFCs : underwriting, portfolio management services, investment advisory services, financial consultancy, stock broking, asset management, venture capital, custodian, factoring, leasing and finance, housing finance, forex broking, etc. | 100% | Automatic | s.t.minimum capitalisation norms |
| 5. Broadcasting  a. FM Radio  b. Cable network; c. Direct to home; d. Hardware facilities such as up-linking, HUB.  e. Up-linking a news and current affairs TV Channel | 20%  49% (FDI+FII)    100% | FIPB |  |
| 6. Commodity Exchanges | 49% (FDI+FII) (FDI 26 % FII 23%) | FIPB |  |
| 7. Insurance | 26% | Automatic | Clearance from IRDA |
| 8. Petroleum and natural gas :  a. Refining | 49% (PSUs).  100% (Pvt. Companies) | FIPB (for PSUs).  Automatic (Pvt.) |  |
| 9. Print Media  a. Publishing of newspaper and periodicals dealing with news and current affairs  b. Publishing of scientific magazines / speciality journals/periodicals | 26%      100% | FIPB      FIPB | S.t.guidelines by Ministry of Information & broadcasting |
| 10. Telecommunications  a. Basic and cellular, unified access services, national / international long-distance, V-SAT, public mobile radio trunked services (PMRTS), global mobile personal communication services (GMPCS) and others. | 74% (including FDI, FII, NRI, FCCBs, ADRs/GDRs, convertible preference shares, etc. | Automatic up to 49% and FIPB beyond 49%. |  |
| ***Sectors where FDI is Banned*** | | | |
| 1. Retail Trading (except single brand product retailing); 2. Atomic Energy; 3. Lottery Business including Government / private lottery, online lotteries etc;  4. Gambling and Betting including casinos etc.;  5. Business of chit fund; 6. Nidhi Company; 7. Trading in Transferable Development Rights (TDRs);  8. Activities/sector not opened to private sector investment;  9. Agriculture (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Piscicultureand cultivation of vegetables, mushrooms etc. under controlled conditions and services related to agro and allied sectors) and Plantations (Other than Tea Plantations);  10. Real estate business, or construction of farm houses; Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco or of tobacco substitutes | | | |

**DEFINE THE PROBLEM**

**(1) Adverse Impact on the Employment:**

In the absence of any substantial improvement in the employment generating capacity of the manufacturing industries in our country, entry of foreign capital in the retail sector is likely to play havoc with the livelihood of millions. Let alone the average Indian retailer in the unorganized sector, no Indian retailer in the organized sector will be able to meet the onslaught from a firm such as Wal-Mart when it comes in full swing. With it’s incredibly deep pockets Wal-Mart will be able to sustain losses for many years till its immediate competition is wiped out. This is a normal predatory strategy used by large players to drive out small and dispersed competition. This entails job losses by the millions. A back-of-the-envelope calculation can substantiate the point. If we take the case of India, it has 35 towns each with a population over 1 million. If Wal-Mart were to open an average Wal-Mart store in each of these cities and they reached the average Wal-Mart performance per store-we are looking at a turnover of over Rs.80, 330mn with only 10,195 employees. Extrapolating this with average trend in India, it would mean displacing about 4,32,000 persons and if we suppose that the large FDI driven retailers take up 20% of the retail trade in India, it would mean a turnover of Rs. 800 billion and displacement of eight million persons employed in the unorganized retail sector.

**(2) Threat on Organized Retail Players:**

Entry of global players would increase internal rivalry among the players than promoting business of overall industry. Their economies of scale will allow them to reduce their margin to provide value for money products in the beginning to grab the market share which is not possible for domestic players to reduce incomparison to global players because of huge investment. Majority of the Indian players have not attained even break-even point as organized retail is still at the nascent stage in India.

**(3) Huge Spread of Retail Chain Stores:**

Financially strong giants will spread their function at multiple location to cater to maximum markets with full fledge infrastructure which is not possible for domestic player to cater.

**(4) Predatory Practices of the Multinational Retail Chains:**

FDI in retail is often supported on the basis of the need to develop modern supply chains in India, in terms of the development of storage and warehousing, transportation, logistic and support services, especially in order to meet the requirements of agriculture and food processing industries. While the infrastructure and technology needs are undeniable, the belief that the entry of multinational food retailers is the only way to build such infrastructure is unfounded. It is often argued that the Indian farmers and manufacturers are going to enjoy access to international markets by supplying commodities to these multinational retailers. However, the experience of the producers, especially those producing primary commodities in the developing world, is not encouraging in this regard. The International market access available to the global retailers do not benefit the producers from the developing countries since they are unable to secure a fair price for their produce in the face of enormous monopsony power wielded by these multinational giants.

**(5) Monopoly in the Customer Market And Creation Of Cartels By The Global Players:**

Foreign players may create monopoly by providing products at discounted rates in the beginning to grab the market share by displacing domestic giants and after getting good market or monopoly in the market may create a cartel of global giants to exploit the customers by inducing price hike and customers would not get any option than to purchase at the available prices.

**(6) Setback to the Trade Balance:**

FDI in retailing can upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in the local markets.

**(7) Towering Effect on Real Estate Prices:**

The entry of global players may have towering impact on the real estate prices. With intensified fight for space in cities, the race may result in steep rise in real estate prices which could be counterproductive for the domestic players.

**(8) Distortion of Urban Development and Culture:**

The promotion of large retail stores with huge retail space also fosters a different kind of urban development than what we have followed in India till date. Large shopping malls with all known retail chains with their showrooms as a part of urban development is familiar in the US where the consumers live in suburbs, drives long distances for his/her shopping and lives in a community that hardly knows each other. The problem with this model is that it neglects the simple Indian reality where most households do not have cars and need local markets. The myth of a huge and fast growing affluent middle class is counter to the reality that this section is still too small to support the remodelling of the urban landscape as is being planned with malls, large retail chains and branded products.

**Objective and Literature Review:**

Effect on Traditional Mom and Pop Stores- Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations. Because of this, such businesses are usuallyvery low-margin, are owner-operated, and have mostly negligible real estate and labour costs. Such small shops develop strong networks with local neighbourhoods. The informal system of credit adds to their attractiveness. Moreover, low labour costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighbourhood shops and towards large-scale retailers may be a major challenge. The experience of large Indian retailers such as Big Bazaar shows that it is indeed possible. The oppositions, on the other hand, believe that local kirana shops will not be affected. The kirana stores operate in a different environment catering to a certain set of customers and they will continue to find new ways to retain them.

**Case Study of China:**

FDI in retailing was permitted in China for the first time in 1992. Foreign retailers were initially permitted to trade only in six Provinces and Special Economic Zones. Foreign ownership was initially restrictedto 49%. Foreign ownership restrictions have progressively been lifted and, and following Chinas accession to WTO, effective December, 2004, there are no equity restrictions. Employment in the retail and wholesale tradeincreased from about 4% of the total labour force in 1992 to about 7% in 2001. The numbers of traditional retailers were also increased by around 30% between 1996 and 2001. In 2006, the total retail sale in China amounted to USD 785 billion, of which the share of organized retail amounted to 20%. Some of the changes which have occurred in China, following the liberalization of its retail sector, include:

(i) Over 600 hypermarkets were opened between 1996 and 2001

(ii) The number of small outlets (equivalent to “kiranas‟) increased from 1.9 million to over 2.5 million.

(iii) Employment in the retail and wholesale sectors increased from 28 million people to 54 million people from

1992 to 2000.

Thus the above discussion and case of China suggest that it is too early to predict the erosion of mom and pop stores in India with opening of multi-brand retail sector in India to foreign investors.

2. Effect on Farmers- It is being claimed by the advocates of FDI in retail that the elimination of intermediaries and direct procurement by the MNCs would secure better prices for the farmers. The fact is that the giant retailers would have far greater buyer power vis-à-vis the farmers compared to the existing intermediaries. The entry of giant MNCs into agricultural procurement would make the problems worse for the farmers. As against the „mandis‟ that operate today, where several traders have to compete with each other in order to buy the farmers‟ produce, there will be a single buyer in the case of the MNCs. This will make the farmers dependent on the MNCs and vulnerable to exploitation. On the contrary, the advocates of FDI believe that FDI in retail in the agriculture will help in improving supply chain, infrastructure and ensure economic security for farmers through the elimination of middlemen in the country.

**Case Study:**

Case 1- PepsiCo India- Helping Farmers Improve Yield and Income-

Today PepsiCo India’s potato farming programme reaches out to more than 12,000 farmer families across six states. We provide farmers with superior seeds, timely agricultural inputs and supply of agricultural implements free of charge. They have an assured buy-back mechanism at a prefixed rate with farmers. This insulates them from market price fluctuations. Through our tie-up with State Bank of India, we help farmers get credit at a lower rate of interest. They have arranged weather insurance for farmers through our tie-up with ICICI Lombard.

**HYPOTHESIS:**

Many foreign companies have already entered into Indian market through the available modes suchas, Franchising and Exporting. They are much eager to change their entry to FDI that would strengthen their operations in India. However, if FDI in retail is liberalized by considering the following suggestions it is expected to bring in more of benefits than threats to the country.

* FDI should be initially allowed in less sensitive sectors and also in the sectors wherein the domesticcompanies are established strongly.
* Then FDI in retail should be liberalized in a phased manner like the case with China.
* Entry of foreign players must be gradual with social safeguards so that the effects of labour dislocation can be minimized.
* Adequate attention should be paid to procuring, staff recruitment, investments in warehouse, cold storage, infrastructure, competition and retail formats so that not only does the money comes in but also it's a win win situation for the current national retailer as well as “mom and pop” stores who account for 70% of theretail business even after the arrival of national retailers from the corporate giants like the Tata, Reliance,Future Group and the Birla's.
* The government should take initiatives to improve the manufacturing sector. If the manufacturing is strengthened, the displaced employees of the retail industry could be well accommodated there.
* A National Commission should be set up to study the problems of the retail sector which should also evolvea clear set of conditionality on foreign retailers on procurement of farm produce, domestically manufacturedmerchandise and imported goods. This conditionality must state minimum space, size and other details likeconstruction and storage standards.

**RESEARCH DESIGN:**

This Is the Review Taken From A Local Trader In Gharkopar East Name : RITA BROTHERS FDI in retail is very much debatable issue which needs to be resolved by taking into consideration the interest of the stakeholders. The decision to allow entry to foreign players in Multi Brand Retail is clearly a game changer for Indian retail sector. By allowing FDI in retail trade, India will significantly benefit in terms of quality standards since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers and marketers in all the segments. It will also help in integrating the modern Indian retail market with that of the global retail market On the other hand, FDI in multi-brand retailing must be dealt cautiously as it has direct impact on a large chunk of population. Foreign capital, if unchecked, may widen the gap between the rich and the poor. Thus, the entry of foreign capital into multi-brand retailing needs to be anchored in such a way that it results in a win-win situation both for India and global players Should there be more regulations to anti-trust laws against big market dominating businesses like Wal-Mart to protect smaller businesses from failure? There has always been a strong push against Wal-Mart from various organizations and people who have had their business defeated. On the other hand, there are also organizations defending Wal-Mart from people who work for the company India may consider writing laws to prevent foreign retailers like Wal-Mart from having a high concentration of business in the country. For example, in Argentina provincial lawmakers passed legislation that no business could control more than 30% of the market in one sector. Given the global experience, it is important to keep the foreign food supermarket expansion slow by using mechanisms such as zoning, business licences, and trading restrictions. There are several instances in other countries where large stores are kept away from the traditional markets. Hypermarkets are not allowed within 3.5 km of housing estates or city centres in Malaysia. Indonesia prohibits hypermarkets within 500 m of traditional markets, and large stores of more than 40,000 sqft are to be at least 2.5 km from traditional markets. FDI is a great boon for the economy and the consumers as they will get the products in best prices. But it is an Curse For retailers and Semi Retailers Like Us.

**INTERESTING FACTS ABOUT FDI IN RETAIL SECTOR OF INDIA:**

[**Assocham for allowing FDI in e-commerce retailing**](http://economictimes.indiatimes.com/industry/services/retail/Assocham-for-allowing-FDI-in-e-commerce-retailing/articleshow/44790649.cms)

India's Foreign Direct Investment (FDI) policy restricts e-commerce companies from offering services directly to retail consumers.

[**A sensible FDI retail policy is good for kirana stores, farmers, and consumers**](http://economictimes.indiatimes.com/opinion/comments-analysis/A-sensible-FDI-retail-policy-is-good-for-kirana-stores-farmers-and-consumers/articleshow/44831787.cms)

As these large-format stores and ecommerce sites raise global capital and use their buying power to negotiate deals with FMCG suppliers.

[**FDI in multi-brand retail remains a concern: US expert**](http://economictimes.indiatimes.com/news/economy/policy/FDI-in-multi-brand-retail-remains-a-concern-US-expert/articleshow/45578544.cms)

One of the big concerns that investors in the US have about India is lack of decisiveness on FDI in multi-brand retail, says a US expert on India.

[**Retail FDI nod led to terror bids, says National Investigation Agency**](http://economictimes.indiatimes.com/news/politics-and-nation/Retail-FDI-nod-led-to-terror-bids-says-National-Investigation-Agency/articleshow/44903998.cms)

The NIA says the accused prepared three pipe bombs and Thiruselvam planted the first bomb beneath acarout side Narayanswamy’s residence.

[**Government considering 6 FDI proposals in single-brand retail**](http://economictimes.indiatimes.com/news/economy/policy/Government-considering-6-FDI-proposals-in-single-brand-retail/articleshow/45535392.cms)

As per the current policy, 51 per cent FDI is permitted in multi-brand retail trading. When the UPA-led government announced the policy, BJP had strongly opposed it.

[**India attracts $259 mn FDI in single brand-retail since April 2010**](http://economictimes.indiatimes.com/industry/services/retail/India-attracts-259-mn-FDI-in-single-brand-retail-since-April-2010/articleshow/45617437.cms)

Government permits 100 per cent foreign direct investment (FDI) in single brand retail and 51 per cent in multi-brand retail trading.

**Retail grows to $560 billion in 2014; FDI hopes hang in balance**

Since a BJP-led new government came to the power in May 2014, the hope of FDI being allowed in the multi-brand retailer has taken a backseat.

[**Our government helped traders, so they gave us funds: AAP**](http://economictimes.indiatimes.com/news/politics-and-nation/Our-government-helped-traders-so-they-gave-us-funds-AAP/articleshow/45345561.cms)

AAP said that post the fund raising lunch, a large number of traders have contacted it, pledging their support and giving donations.

**ARGUMENT COUNTERARGUMENT AND RECOMMENDATION’S:**

A lot has been discussed about the entry of FDI in the retail sector. Clearly there are some arguments for and against the theory. Let us try to explore them.

*Argument 1:* Foreign retail majors will ensure supply chain efficiencies. This will have a salutary impact on food inflation. Also food will not be wasted due to the introduction of adequate infrastructure.

*Counter Argument 1:*There is no hard and fast rule for the retail players to [INVEST[http://cdncache-a.akamaihd.net/items/it/img/arrow-10x10.png](http://anirbankar.com/category/solution-to-fdi-in-retail/)](http://anirbankar.com/category/solution-to-fdi-in-retail/) in infrastructure.

*Argument 2:* At least quite a million [JOBS[http://cdncache-a.akamaihd.net/items/it/img/arrow-10x10.png](http://anirbankar.com/category/solution-to-fdi-in-retail/)](http://anirbankar.com/category/solution-to-fdi-in-retail/) will be created within three years of entry. Huge [INVESTMENTS[http://cdncache-a.akamaihd.net/items/it/img/arrow-10x10.png](http://anirbankar.com/category/solution-to-fdi-in-retail/)](http://anirbankar.com/category/solution-to-fdi-in-retail/) in the retail sector will have gainful opportunities in agro-processing, sorting, marketing, logistics, and front-end retail.

*Counter Argument 2:* This move will lead to large scale job losses, in terms of blue collar [JOBS](http://anirbankar.com/category/solution-to-fdi-in-retail/). International supermarkets primarily dissolve the power of small retailers. Individual shops, mom and pop shops will be a loss making unit. India which is the hub of small retailers, will suffer a setback.

*Argument 3:*FDI in retail will eliminate the exploitive middlemen, and hence allow the farmers to have the benefits of pricing strategy.

*Counter Argument 3:*Fragmented market gives a wider range to the customers. Consolidated market will make consumer captive. Allowing foreign players will lead to consolidation. Also, there will be a loss of jobs for middlemen.

*Argument 4:*A strong legal framework can be made for anti-competitive practices, and predatory pricing. Policy will mandate sourcing from Indian micro and small industry. At least half the profit should go into infrastructure development.

*Counter Argument 4:*Even if the policies existed, there may not be any binding law for the retail segment around the dissipation of the profit for further infrastructure development.

*Argument 5:*In countries where FDI in Retail in 100%, there has been a tremendous growth in infrastructure and process, especially in some of the Asian countries like China, Thailand and Indonesia.

*Counter Argument 5:* China is primarily a manufacturing country, based on which manufacturing is exported. We cannot compare China and India.

Recommendations

*Recommendation 1:*There has to be an adequate inflow of funds from the Centre to nurture and grow this sector. The funds may be linked with proper knowledge dissipation of the various elements of this sector.

*Recommendation 2:*An adequate control has to be present for predatory pricing and anti-competition pricing, irrespective of the entry of the foreign entrants, to save guard against inflation and monopoly/ oligopoly.

*Recommendation 3:* Even if the stake is allowed, the entry should be allowed with a clear circumspection, and results should be weighted. No lawful binding must be made on the tenure of the foreign entrants, so that they can be controlled over the tenure.

*Recommendation 4:*In the food retail sector, creation of co-operatives and unions of small scale industries must be made to ensure the safeguards of the farmers producing crops. For that proper [INVESTMENT](http://anirbankar.com/category/solution-to-fdi-in-retail/) in the process like sorting, marketing, logistics, and front-end retail must be done.

In simple words, without allowing FDI into India, proper planning and execution is required to harvest the boon of this sector. In fact a percentage of the profit of middlemen and farmers including front-end retailers should go back as an infrastructure fund for the process, to ensure an internal growth engine for sector sustainability. National banks should also be open to micro-finance farmers adequately.

**FDI PROVED BENEFICIAL IN OTHER COUNTRIES:**

1. Carrefour Korea fined US$1.5 million Carrefour Korea unfairly saved 1.74 billion

won (US$1.9 million; euro1.4 million) on supply orders in 2005 by forcing its

suppliers to agree to pacts that allowed Carrefour to purchase goods at heavy

discounts for extended periods.

2. In 2003, Mexico's antitrust agency, the Federal Competition Commission,

investigated Walmart for "monopolistic practices" prompted by charges that the

retailer pressured suppliers to sell goods below cost or at prices significantly less

than those available to other stores. Mexican authorities found no wrongdoing on

the part of Walmart.the federal agency however insisted that Wal-Mart agree to a

new "code of conduct" for dealing with its suppliers

3. In January 2008, PT Carrefour Indonesia, the Indonesian arm of the French

hypermarket, acquired 75% of the shares of a local minimarket operator, PT Alfa

RetailindoTbk,for a reported price of Rp. 674 billion (approximately US$71

million). This acquisition was seen by many as not just an expansion by Carrefour

into the minimarket business, but also an effort by Carrefour to strengthen its lead in

the profitable and fast-growing Indonesian mass grocery retail market.

Following Carrefour's acquisition of Alfa, the KPPU commenced an investigation

into whether the acquisition was in contravention of the Anti-Monopoly Law. In

February 2009, the KPPU found the acquisition to be in contravention of the AntiMonopoly

Law because:

i. It increased Carrefour's share in the market for hypermarkets and supermarkets from 44.75% to 66.73% hence giving Carrefour a dominant position in that market; and

ii. Carrefour used its dominant position to dictate unfair trading terms to suppliers and vendors in contravention of Article 25 of the Anti-Monopoly Law.

Carrefour was fined Rp. 25 billion (approximately US$2.7 million) and ordered to

divest its stake in Alfa within a year. But the Supreme Court has rejected the

Business Competition Supervisory Commission’s (KPPU) appeal of its ruling that

voided sanctions against French-based retailer Carrefour for unfair market practices

on the ground that KPPU had erroneously limited the determination of market share

to retail solely through hypermarkets and supermarkets

4. In 2003 Federal Cartel Office of Germany accused Wal-Mart and two other large

supermarket chains of selling goods below cost and ordered the companies to raise

their prices. The items in question included about a dozen staple products like milk,

butter, and vegetable oil. Wal-Mart appealed the regulator's decision through a state

court, which ruled in the company's favor. The Cartel Office then appealed to the

Supreme Court, which ruled that below cost pricing harms independent competitors

and reduces competition over the long-term.Wal-Mart has since sold its stores in

Germany.

5. Wal-Mart Stores, Inc. had a DVDs-by-mail rental business that was in competition

with Netflix. In May 2005, Wal-Mart decided to pull out of the DVDs-by-mail

rental industry and struck an agreement with Netflix: Wal-Mart would encourage its

members to transfer their service to Netflix and in exchange Netflix would encourage its members to buy Wal-Mart DVDs. Wal-Mart was expressly

authorized to re-enter the DVD-by-mail rental industry anytime it wanted. In 2009,

a group of disgruntled Netflix users filed a lawsuit alleging that the two companies

had an agreement to carve up the DVD rental and sales market and to not compete

with each other in their respective markets. The plaintiffs filed claims under bothSection 1 and Section 2 of the Sherman Act. The case was certified as a class action in 2010 and Wal-Mart decided to settle in September 2011. Wal-Mart agreed to

setup a $27.25 million settlement fund in cash and Wal-Mart gift cards. The class

includes anyone who had a Netflix subscription between May 19, 2005 and

September 2, 2011

**THE CASE OF WALMART**

From the beginning Walmart focused on increasing the volume of customers’ visits to realize economies of scale. By keeping prices low, it increased sales so much more than just to compensate for the decrease in markup. When Walmart enters a market, prices decrease by 8 percent in rural areas and 5% in urban areas. This unrelenting drive to keep prices low puts pressure on all the stakeholders: workers, managers and suppliers. Wal-Mart procures goods directly from manufacturers bypassing all intermediaries and always drives hard bargain from suppliers. It spends a significant amount of time meeting vendors and understanding their cost structure. Once satisfied, it establishes long term relationship with vendors. This ruthless pursuit of cost and price cutting strategies of Wal-Mart made it to grow into a gigantic corporation. Fishman (2006) observes “The Wal-Mart effect is the suburbanization of shopping; the downward pressure on wages at all kinds of stores trying to compete with Wal-Mart; the consolidation of consumer product companies trying to compete with WalMart’s scale; the relentless scrutiny of unnecessary costs that allows companies to survive on thinner profits; the success of a large business at the expense of its rivals and the way in which that succeeds builds on itself… In the same decade that Wal-Mart has come to dominate the grocery business in the United States, 31 supermarket chains have sought bankruptcy protection; 27 of these chains cite competition from Wal-Mart as a factor. That too is the Wal-Mart effect.”

**CONCLUSION**

Given the WTO regime India is a party to, the entry of FDI in the retail sector is inevitable. But with the instruments of public policy in its hands, the government can create conditions that slow down their entry. Japan has done this quite effectively. In this fashion, the Government can try to ensure that the domestic and foreign players are approximately on an equal footing and that the domestic traders are not at an especial disadvantage. While it is true that some dislocation of traditional retailers will be felt, the government must ensure that retail does not remain concentrated in a few foreign hands.

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