

## **India Moves to Open Country to Foreign Retailers**

*Vikas Bajaj*

The Indian government decided on Thursday to allow foreign retailers like Wal-Mart and Tesco to open stores in the country, the first time that policy makers have moved to open India's vast and fast-growing retail market to outsiders.

The long-awaited decision by the cabinet of Prime Minister Manmohan Singh will allow retailers who sell multiple brands of products to own 51 percent of their Indian operations, with the rest held by an Indian partner. Previously, such retailers were not allowed to conduct retail business in the country.

Companies like Apple and Nike that sell only one brand of product in their retail operations will now be allowed to own 100 percent of their stores, up from 51 percent.

A spokesman for the governing Congress Party confirmed the move on Indian television but provided no details about the decision, which is opposed by small-store owners and many political parties, including one that supports Mr. Singh's government. A senior minister was expected to make a statement about the decision in Parliament on Friday.

Wal-Mart, Tesco, Carrefour and Ikea are among the multinational retailers that have expressed interest in investing in India if the rules were changed.

On Thursday, Wal-Mart welcomed the move as "a first, important step," adding that the company would study "the conditions and the finer details of the new policy and the impact that it will have on our ability to do business in India."

Analysts said the fact that policy makers went ahead to open the retail market in spite of opposition from other parties suggested they might be more willing to open up the broader economy further.

In the last seven years, the coalition government led by the Congress Party has delayed many proposals to open domestic industries like insurance and aviation to greater foreign investment and competition.

"One had almost given up hope that the government would make a big move," said Arvind Singhal, chairman of Technopak Advisors, a consulting firm that specializes in the retailing industry. "There is a big sense of relief."

Mr. Singhal and other analysts say India needs significant foreign investment to help establish a modern retail industry and a more efficient supply system. Modern stores make up about 5 percent of India's \$500 billion retail industry, with the rest made up of corner stores and other small enterprises.

Analysts have estimated that up to 35 percent of Indian fruits and vegetables spoil before they get to market, largely as a result of an antiquated supply system that includes many wholesale markets and middlemen.

Partly as a result, Indian food prices often rise quickly when there are minor disruptions in the supply or harvest of staple crops like onions and potatoes. Food inflation in recent months has been hovering near 10 percent.

While some companies have begun building supply networks in parts of India, Mr. Singhal said it would take three to five years of investment to establish a more efficient supply chain. Companies will need to work from the ground up, setting up warehouses, buying trucks and establishing relationships with farmers and other suppliers.

"I don't see any immediate impact in the next six months," Mr. Singhal said. "Supply chain development takes its own time. It moves from one state to another."

For the last two years, Wal-Mart, the giant American retailer, has been operating wholesale stores in India that sell only to other businesses; it now has nine such outlets. It has also established relationships with farmers in some states like Punjab to supply vegetables and other produce to the retail supermarkets of its Indian partner Bharti Retail. Metro, a German retail chain, has also opened wholesale stores in India.

The move will also help Indian companies like the Future Group, the country's largest retailer, and FlipKart.com, a fast-growing online store, that would like to raise money from foreign investors to expand their operations.

In many cases, Indian retailers, especially those that operate online stores, have been setting up separate retail and wholesale companies to get around the restrictions on foreign investment. Their American venture capital partners invest in the wholesale operations, which sell goods and provide services to the retail firms.

The decision will face stiff opposition from political parties, including partners of the Congress Party like the Trinamool Congress, an important party in the eastern part of the country.

The lead opposition party in Parliament, the Bharatiya Janata Party, said before the decision was announced that foreign retailers would merely displace domestic stores.

"Foreign direct investment with deep pockets entering this segment will have an adverse impact on our domestic retail sector, which is growing," the party said.

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