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A study about Foreign Direct Investment in Retail Sector in China

KEYWORDS: FDI, China, Retail Sector

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ABSTRACT *The word "Foreign Direct Investment (FDI)", where the foreign funds are injected into an enterprise in different country of origin of the investor is gaining its momentum globally. There were many questions and speculations in minds of many related to this. It makes people to fear first than to analyse the impact it will bring on the developing country. In this article we are going to discuss about the Foreign Direct Investment in China related to retail sector and how the Chinese were able to sustain their own retail markets by the induction of FDI in their country?*

1. Introduction:

China, one of the developing country in the world has a major share of FDI for the past 30 years. China initially utilized the official borrowing from the World Bank, Asian Development bank and through bilateral development. However, in 1990 it started FDI with a base of less than $19 billion. China's major two ways of FDI was in the form of Foreign Sole ownership and by joint ventures. The Government passed the Joint venture law in 1979 and establishment of Special Economic Zones (SEZ's) in 1980. The main role of FDI has been its involvement in production by means of foreign invested firms. It helped to develop the domestic industries, re-organize capital and labour within factories, improve the quality of existing products and the export factors. However, the investment policy was biased towards southeast coastal region – Hong Kong and Macau.

2. China – Factors favoured the foreign markets:

When the American and European countries decided to invest their funds in developing countries mostly the Asian countries, China attracted the most with its factors. In General, China had a huge manufacturing base which helped to improve their markets. The major factors are as follows:

The other important factors that attracted China was the preferential tax treatments, flexible contractual forms and establishment of Special Economic Zones (SEZ's) created by the Chinese Government.

Chart – 1:

Chart – 1 explains that China attracted $105.7 billion through FDI in 2010. This is the first time FDI in China crossed the $100 billion mark.

3. FDI in Retail Sector:

The Chinese government allowed FDI in retail sector in the year 1992 with a cap of 26%. After a gap of 10 years the cap was raised to 49% and in the year 2004 it was raised to 100%. The main motive of this gap was primarily to protect the local retailers and at the same time to enjoy the benefits out of the foreign markets and technology without harming the former. They allowed FDI only in selected cities like Beijing, Shanghai, and Shenzhen. Again it was permitted only in those places in these cities, where there will be no competition to the local retailers from them. In this way they achieved the success of protecting and establishing the local retailers also.

Chart – 2:

Preliminary Chinese Provincial Retail Statistics (2011)

Rank	Provinces	Retail sales (RMB)	Growth rate (%)
1	Guangdong	2.02 trillion	16.3
2	Shandong	1.67 trillion	17.3
3	Jiangsu	1.58 trillion	17.5
4	Zhejiang	1.19 trillion	17.4
5	Henan	910.0 billion	18.0
6	Hebei	803.6 billion	17.8
7	Liaoning	800.4 billion	17.5
8	Hubei	792.9 billion	18.0
9	Beijing	690.0 billion	10.8
10	Hunan	680.9 billion	17.9
11	Shanghai	677.7 billion	12.3
12	Sichuan	665.9 billion	17.9
13	Fujian	616.9 billion	18.2
14	Anhui	490.1 billion	18.0
15	Heilongjiang	470.5 billion	17.6
16	Jilin	411.6 billion	17.5
17	Inner Mongolia	393.7 billion	18.0
18	Guangxi	386.1 billion	18.0
19	Shanxi	377.4 billion	17.6
20	Shaanxi	373.0 billion	18.6
21	Jiangxi	345.8 billion	17.9
22	Chongqing	341.6 billion	18.7
23	Tianjin	339.5 billion	18.7
24	Yunnan	300.0 billion	20.0
25	Guizhou	175.0 billion	18.0
26	Gansu	161.6 billion	18.0
27	Xinjiang	155.7 billion	17.5
28	Hainan	74.1 billion	18.8
29	Ningxia	47.5 billion	18.0
30	Qinghai	40.5 billion	17.0
31	Tibet	21.8 billion	17.6

(Source: China's National Bureau of Statistics)

Chart 2 explains the list of provinces with their retail sales and growth rate for 2011.

4. Impact of FDI in Retail Sector in China:

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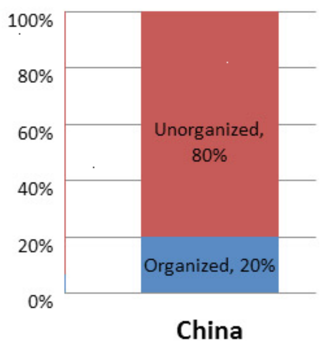
4.1 Farmers:
The introduction of foreign investments into retailing didn't have much impact on the share of the farmer. In fact it increased the size of the land holding of the farmers. The farmers in china had land about 0.6 to 0.13 hectare each. With the increasing employment opportunities in cities and growing development there, most of the farmers moved their shift base to cities for better work by renting their land to the necessary farmers who do agriculture for their living. Since the local farmers always had their own set of customers who purchased from them on the daily basis, it helped them to increase the production to meet the customers need with less price compared to supermarkets.

4.2 Local Retailers:
The Government's step to protect the local retailers by increasing the percentage of FDI with a gap of years, has definitely helped them. The introduction of FDI in retail in China is definitely a threat to local retailers as the foreign countries can provide cheap products with better quality and technology to the consumers which is absent in the former market. But with this step from the Government, the organised retail shops were able to understand and adapt the strategies from the foreign markets without hurry. Since 1992, retail sector has attracted huge investments, but without affecting the unorganised retail shops. In fact, number of small Chinese outlets has increased to around 2.5 million from 1.9 million. Today the major share of the retail market are enjoyed by the local retail companies and no more they consider the foreign investment as threat.

Chart - 3: China Retail Market Share



Source: 2011 A.T. Kearney Global Retail Development Index

Chart 3 explains about the retail market share of China which comprises of 80% unorganized market and 20% of organized market.

4.3 Technology:
Technology plays a vital role in the developed countries. With the introduction of FDI in China, the local retailers were able to understand the latest technology used by the foreign investors and in turn it helped them to develop the local markets by means of technology transfer.

3.4Export Market:
The latest technology, improved markets, efficient methods, quality products helped china to improve their export markets.

5. The retail giants in China:
The main foreign retail giants in China are Tesco (U.K.), Walmart (U.S.), Carrefour (France) and Metro (Germany). All these retail giants opened their hypermarkets which is a large store that combines a traditional discount store and supermarket. These hypermarkets attracted the Chinese as they provide food and general merchandise at low prices and under one roof.

Among these, Walmart and Carrefour are the two largest retailers in the world and pioneers in the globalization of the retail industry. Carrefour first opened its hypermarket in mainland China in the year 1995, and Walmart followed in 1996. By 2010, Carrefour operated 157 stores and Walmart 178 stores.

6. The current scenario of Retail market in China:
Shi Yongheng, an economics professor from Tsinghua University who has studied the role of FDI in China's retail sector, told *The Hindu* in an interview in Sep 2012, that he believed that farmers and small retailers had, on the whole, benefited from the allowing of FDI which had improved logistics and procurement in the supply chain, even if many had indeed moved out of their jobs to cities as the sector underwent a reorganisation.

Mr. Shi and most Chinese economists welcomed the reorganisation in the sector, seeing it as employing too many people and too inefficient. In 2011, China's urban population exceeded its rural population for the first time.

Chart – 4: China Retail Sales YOY

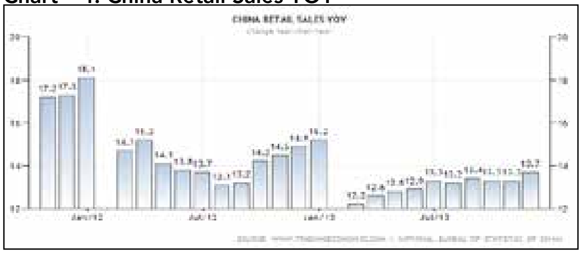


Chart 4 explains that according to National Bureau of statistics of China, the retail sales in China increased to 13.70% in November 2013. Whereas, the retail sales in China year-over-year averaged to 15.15% from 2010 until 2013, with the all-time high of 19.90% in January 2011 and a record low of 11.60% in February 2011. In China, the year-over-year change in Retail sales compares the aggregated sales of retail goods and services during a certain month to the same month a year ago**.**

7. Conclusion:
China, with a strong manufacturing base has definitely utilized the various aspects of FDI in terms of Technology, modern strategies, improved efficiency from the developed countries. Even though they were initially hesitant to allow the developed countries in retail sector due to the fear of survival of local retailers, they initiated a very good step of increasing their base with a gap of years. This really gave them to time to adopt the technology and strategies involved by the foreign investors and to improve their own retail outlets. Also the farmers were benefited with the increase in their land holdings due to the shift base to cities for employment. The FDI in retail sector has definitely helped the Chinese economy as they have developed as retail giants now.

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