Retail FDI Policy needs Review

What is the issue?

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- The impending Walmart-Flipkart deal provides the government with a useful opportunity to realign its retail sector policies.
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- Such realignment is critical for providing a better environment for retail "Foreign Direct Investment" (FDI).
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Why is a policy rethink needed in retail FDI needed?

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- 100% FDI is permitted in single-brand retail currently, whereas foreign investors can hold up to 51% FDI in multi-brand retail.
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- But the realities of the emerging retail paradigms globally are rendering these definitional differences illogical.
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- The world's largest retailer (Walmart) and India's largest online retailer (Flipkart) are expected to ink a deal for business collaboration in India.
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- This has highlighted the need for the government to embrace an overarching approach for an integrated online and conventional retail policy.
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- This is vital for maximising the value chain for investors and consumers.
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What are the irrational elements in the current policy?

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- **Single Brand -** The conditions like "Single-brand retailers have to source

30% of the value of their goods exclusively from India" are constraining.
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- Significantly, the original proposal was for 30% of the purchases to be made from small and medium units (SMEs), but this was relaxed for 5 years.
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- **Multi Brand -** FDI in multi-brand retail is even more restrictive through restrictions that stipulate a minimum investment of $100 million.
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- Further, at least half this has been mandated for invested in back-end infrastructure, and a 30% local sourcing requirement is also there.
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- Multi-brand stores are also allowed only in cities with populations of over 1 million – which restricts their establishment to just about 20 cities in India.
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- **E-commerce -** In the government's first ever e-commerce policy that was released in 2016, the government allows FDI in only "Marketplace Models".
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- Notably, "Marketplace Models" are aggregator platforms that connect buyers and sellers and have restrictions the platform's proprietors from directly involving in trade through the platform.
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- The impact of these convoluted riders is visible in the poor response by global retail investment in one of the world's largest markets.
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- **Contradictions -** Sourcing restrictions apply only to investors like IKEA, Apple or H&M that choose to set up wholly-owned chains.
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- But scores of brands from Marks & Spencer to Zara that opt to set up their chains via Indian joint ventures are free from all these conditions.
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- These restrictions raise barriers for investors without offering consumers tangible benefits.
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What is the status of companies that have tried to set shop in India?

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- French retailer "Carrefour" was early entrant into the "cash-and-carry business" (bulk retailer), but is has all but exited in less than a decade.
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- Tesco made an entry via a joint venture with the Tata group only in 2015 and currently has only back-offices in operations.

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- Walmart is making a 2nd attempt to enter India after over a decade of trying –significantly, it had exited a joint venture with Bharti about 5 years ago.
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- In food retailing, the government has permitted 100% FDI in 2017 but only 1 foreign entity (Amazon) has expressed interest thus far.
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- All this is very little for a market that offers a $650 billion opportunity.
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- The multiplier effect of retail FDI for employment generation and re-energising the agri-market are obvious – which calls for a policy revamp.
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Source: Business Standard

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