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Single-brand retail: Relaxing FDI norms is fine, but the shackles remain

Why in News?

The government has proposed to relax conditions for foreign direct investment (FDI) in 4 sectors, including single-brand retail. To know more, click here.

Why are these reforms welcomed?

- The Centre's plan to relax the mandatory 30% local sourcing norm is of particular importance, as it was cited as one of the major stumbling blocks for the firms to enter India's retail market.
- The new rules call for calculating the 30% as a 5-year average to begin with. [The present system of considering local sourcing targets on a year-on-year basis].
- After the first 5 years, the local norm will apply on an annual basis.
- This change will provide foreign retailers some transition time, allowing them to adjust to local conditions and make financial adjustments.
- Single-brand retailers were mandated to source 30% locally every year if their FDI crossed 51%, even though 100% FDI is allowed in the sector.
- The new norms also say that a foreign retailer's export purchases from India would also be counted towards the mandatory 30%.
- Companies can source goods from India for global use directly or via group entities in India or abroad, or indirectly through a third party.

What will happen if the proposed norms are operationalized?

- The sector will get a boost now, since the window for local outsourcing has opened up a bit.
- Most single-brand retail companies can start online retailing before setting up a physical store in the country, something that was not allowed earlier.
- While it may still be difficult for players like Apple to set up shop in India, several other players, like furniture-maker Ikea and cellphone brands, could benefit from the new norms and start online stores.
- The new norms could help bring more FDI into the sector and boost local manufacturing as well as exports.
- India's integration with global value chains will improve, benefiting MSMEs

that have struggled for market access.

Why these reforms in single-brand retail are still an unfinished affair?

- The Centre should stop micromanaging the retail sector through curbs on legitimate competitive practices.
- It should review its restrictions on marketing practices in e-commerce.
- Marketplace entities won't be able to buy more than 25% from a single vendor or sell the goods of the companies in which the marketplace entity holds a stake.
- This would target the so-called foreign e-tailers at a time when distinctions between foreign and domestic companies have become increasingly hard to make.
- After all, the opening up of the retail space so far has not driven small stores to the wall, as was predicted by sceptics.
- To set terms for foreign investors is all very well, but not at the expense of throttling innovation.

Source: Business Line