

## 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 2<sup>nd</sup> 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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