GST, land reforms, direct sourcing required urgently

Apart from the fact that it has finally opened the doors for FDI in retail, the most important lesson from the retail-FDI vote is that, should it so desire, the government has the capacity to push almost any policy measure/reform. Conventional wisdom has it that the lack of majority in the Rajya Sabha is what kept the government on the defensive, as did the fear of the CAG/CVC/CBI. Recent events, however, have shown this simply isn't true. The government, for instance, reduced the reserve price for 2G spectrum from R18,000 crore for a 5 MHz slot to R14,000 crore—yesterday, reserve prices for 4 circles including Delhi and Mumbai were further reduced by 30%—without any fear of the infamous 3Cs, and no one even protested this. Similarly, the government announced a 42% discount on the market price of Hindustan Copper without worrying it would be hauled up for some impropriety. That has to augur well for the government being able to hike FDI limits in insurance and pensions despite the BJP's opposition.

Having got Walmart into the country, getting it to work will take similar will on the part of government. There is little doubt that limiting the geographical areas a Walmart can set up shop in is restrictive, and the SME capital investment limit of $1 million—retail FDI players have to source 30% of their requirements from local SMEs—makes it that much more difficult for retailers to develop local suppliers who can offer good quality produce. But that is something foreign retailers have accepted, so there's little point in revisiting the argument. What's important now is to push other reforms. Without a GST, all multi-state retailers, not just foreign ones, end up paying large sums of taxes as they move goods from a central warehouse across states. Similarly, it is important to allow direct procurement from farmers instead of through arhatiyas in state-controlled mandis who take 8-10% of a farmer's income for conducting a 5-10 minute auction. The most important reform, of course, is to rationalise land laws, including allowing higher FSIs, to allow modern retailers to set up shop in inner cities—right now, with rentals eating up 30-35% of top line, modern retail simply cannot survive. That's why India's biggest retailer, Pantaloon, has a completely unviable debt-ebitda ratio of 5.5. FDI in real estate laws, similarly, that restrict FDI to only new projects and to projects with more than 5 lakh square feet of space, need relooking. More so given the high proportion of poorly-designed shopping malls in the country that remain unoccupied. Finally, the government has to make life easier for kiranas by making credit available at reasonable rates, by helping modernising the supply chain and just simplifying procedures—the first ICRIER report on retail points out 33 clearances are required for a retail store. Without this, Walmart may soon be accumulating Pantaloon-type debts.