After backing FDI in retail, govt back-tracking Eight months ago, the government seemed to be so much in favour of allowing FDI in multi-brand retail, it was even willing to put its very survival at stake given how key allies were opposing this. But now that it has got Parliament's sanction, the government seems to be doing everything it can to prevent big players like Walmart and Carrefour from setting up shop. What makes this all the more perplexing is that the government has shown such flexibility in the case of single-brand retail—the mandatory 30% SME sourcing clause was relaxed and Ikea was even allowed to open store cafes in the manner it does overseas.

Foreign retailers in multi-brand retail didn't like the restrictions being put on the number of cities they could operate in given the logistical problems this created, but were willing to live with it. They just wanted three clarifications: could they outsource from group companies, did the 50% back-end infrastructure investment norm apply to all investment or just to the first tranche of investment, and could the 30% SME rule be relaxed. The first, for instance, was about whether a Walmart could buy goods from the wholesale venture it already had with Bharti? The second was vital since not all foreign retailers need such a lot of back-end infrastructure, and those that do often work with third party vendors who set up and manage the back-end. The third was critical since, as an SME vendor invests more while being brought up the value-chain, it ceases to fulfil the sourcing requirement.

Instead of providing clarifications on this while issuing new guidelines last week, the government added even more restrictions while saying the three issues were still under consideration. Foreign retailers, the new guidelines say, cannot buy back-end infrastructure from an existing retailer. But why? After all, if supply chain assets are on sale, they must have become redundant for the current owner, so where's the harm in utilising them productively? Going by the same logic, why stop foreign retailers from buying out existing stores since it gives domestic retailers a chance to cash out, deleverage and pay back the banks or plough back the proceeds into other businesses. Not allowing foreign retailers to use the franchisee route doesn't make sense either since franchising encourages local entrepreneurship and keeps rentals—so vital in this business—in check. In the case of the three issues that are still "under consideration", does it really matter that a Carrefour doesn't put 50% of its investment in back-end infrastructure — considering that it needs the infrastructure if it wants to sell in India, if Carrefour doesn't put it up, someone else will do it to cater to Carrefour's needs. If none of the big foreign players are applying for permission to set up shop in India, the government only has itself to blame.