A year on, ponder over why no FDI has come in

If there are no applications a year after FDI in retail was opened up, it is time for some serious introspection. Initially most blamed, and rightly so, the rule that 50% of investments had to be reserved for back-end infrastructure. After all, if a Walmart has other firms who invest in the back-end for it, how can Walmart invest so much? Theoretically, this has now been fixed but a $100 million back-end investment over 3 years is still a lot of money if Walmart's model precludes back-end investment. And many other retailers don't even need a robust back-end infrastructure, so what do they do? If this wasn't bad enough, there was the 30% SME sourcing clause. The argument against the 30% rule was that, were an SME to make the required investments to be able to supply top quality produce, it would immediately move out of the classification of SME. While the industry ministry fought on, in this case as well, for close to 11 months, a clarification has been issued and, once a company starts sourcing from an SME, that firm is to be considered an SME for life, even if its capital investment crosses $2 million (this was $1 million earlier).

But even this is not enough, and foreign retailers are still looking for clarifications. In the case of Walmart, given the corruption allegations it is battling in the US for its Indian operations, it has to look carefully at every law and see whether it is even possible for it to do business without contravening them. While getting a completely corruption-free business environment seems a bit of a long haul, Walmart has to ensure it has a hope of meeting at least the broad policy goals. And that's something it clearly cannot, even a cursory look at the sales basket of even a kirana shop makes clear. How much of what people buy on a daily basis is branded and how much isn't? If customers want a Britannia bread or a Coca-Cola or Maggi noodles—none of these are SMEs—what are the chances they will come into a Walmart that offers them only store brands as substitutes? FMCG firms spend billions of dollars on advertising and promotions to make consumers want their products and India's policy expects organised sector foreign retailers, not the local ones, to change consumer patterns over a period of 5 years. On average, apart from items like pickles and papads or brooms, and things are changing even here, what is the proportion of items sold by even kiranas that are made by SMEs? A simpler solution, if indeed the government believes foreigners will develop local suppliers only if forced to, is to put an export obligation—Walmart must export a third of the amount it buys locally. If Walmart has local sales of $2 billion each year, it will be difficult for it to sell $600 million of readymade garments of store labels in India each year—assuming that's all the supply chain it is able to build up—but these can still be absorbed across the global supply chain. Foreign investment brings a certain knowhow—just look at how Suzuki has made India's auto sector globally competitive. But even if the government is not convinced by this, let it not put any restrictions on FDI that it will not put on local players—how can a Best Buy compete with a Croma if the latter can keep all the top electronic brands while it mandatorily has to source 30% from SMEs?