

## **AAP's retail FDI move will make investors wary**

While the Aam Aadmi Party's decision to not allow FDI in retail was only to be expected considering the party had made this clear in its manifesto, the problem is the signals this sends to prospective investors. Apart from being the capital, Delhi accounts for 12-13% of the market for organised retailers today and, given its relatively better-off population, is a natural habitat for up-market retailers especially in the initial few years. When looked at in terms of the limited number of cities that foreign retailers are allowed to enter, the share of Delhi is a lot higher. In which case, it is very likely that foreign retailers looking at setting up shop in India would postpone their decision till there is more clarity on the road ahead—that means waiting for the general elections as well as assembly elections in key states.

It doesn't help that BJP leader and former finance minister Yashwant Sinha is already on record advising foreign retailers to not execute their plans since the BJP has also made it clear it is against allowing FDI in retail. What makes the AAP's action worse than Sinha's threat, however, is that Parliament passed the law which allowed FDI in multi-brand retail and, to that extent, much as the BJP dislikes FDI, it is not going to be easy for it to get a Bill through Parliament to rescind the earlier approval.

Theoretically, foreign retailers can come in through the structure that Press Note 2 provides. The press note, reissued in 2013, states that if a foreign company invests 49% in a joint venture controlled by an Indian company, any downstream investment by the JV—in setting up retail shops for instance—will be considered Indian. So even if the JV, in turn, takes a large loan from the foreign firm, it will still be considered an Indian investment. And since it will be an Indian investment, it will not even be bound by the restrictions that apply to FDI investments. This is the reason why the authorities finally cleared the Walmart investment into Bharti Enterprises' Cedar Support Services—the matter, though, became redundant since Bharti and Walmart split up. But while that may satisfy the letter of the law, it seems unlikely any large foreign retailer will come in and invest on the comfort of a technicality in the law. More so, since one of the questions foreigners like Walmart wanted comfort on was whether the policy would change if the ministers changed or if parties in power in various states changed—they were assured that it was a central government policy and once a state—like Delhi—had signed on, it would remain signed on. Given how AAP has shown this is no longer true, the signals to investors are hardly reassuring. While AAP's decisions on electricity and water subsidies have already signaled a backward move as far as investors are concerned, the BJP would do well to keep in mind the consequences of what it is threatening to do. After all, if it hopes to come to power, the last thing it can afford is to spook investors.

## Wholesale trouble

Wednesday, 15 January 2014 00:38 -

---