

Shobhana column

While finance minister Nirmala Sitharaman has said in her Budget speech that sourcing norms for single-brand retail will be eased, media reports suggest the government is planning to allow exports by a single-brand retailer out of India to be set off against the local sourcing norms. The current policy allows a single brand trading entity (SBRT) to set off its incremental sourcing of goods from India for global operations during the initial five years against the mandatory 30% sourcing requirement. From the looks of it, the policy is being re-framed to accommodate the likes of Apple, which has, for long, resisted local sourcing rules on the grounds that there is little it can buy locally right now; it can procure locally only after a vendor base is established, and that will take time. It is not just Apple, which makes very high technology products, that is finding it difficult to comply with these rules; any global brand wanting to maintain certain production standards would not find it easy.

Imposing onerous local-sourcing conditions on global corporations sounds tempting, but it does not really help. Single-brand retailers may be tempted by the large Indian market, but they are not going to be willing to compromise on production standards. Instead, let MNCs set up businesses here without any restrictions. Over time, since it is always better to have local suppliers—to be able to lower costs, to shorten the time-to-market, etc—the vendor ecosystem will develop, a supply chain will get built and exports will also get a boost. A look at how Suzuki's operations have grown in India is testimony to this.

Indeed, encouraging single-brand retailers can also help boost India's exports. Once big companies start operating out of India, and find it easy and cost-effective to do so, they will also work towards developing vendors, creating business opportunities for locals and jobs.

Rules that compel companies to buy from artisans, cottage industries and so on are stifling, and should be altogether scrapped. It is no surprise that the investment in India by single-brand retailers over the last five or six years is negligible. In fact, apart from Ikea, most of the single-brand players—like a Marks & Spencers—that have set up shop in India have done so via the joint venture route with Indian companies. Had the sourcing norms not been so onerous, they might have brought in more capital. It is not just the single-brand retail sector, rules for other sectors too need to be eased. With global growth slowing, it will not be easy to attract FDI except perhaps in the e-commerce sector. At just over \$44 billion, FDI flows into India were stagnant. Tweaking the norms every six months doesn't help, the controls must go.

Just free up producers

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