

Don't want e-tail situation where rules changed after Wal-Mart paid \$16bn for Flipkart; open the sector fully

[Amazon](#) may or may not finally buy 10% of Indian retailer Future Retail—media reports suggest the deal is close to being finalised—but what is odd is that the discussions are taking place despite the NDA government at the centre being opposed to allowing FDI in multi-brand retail. While the deal will probably, like the one which saw Amazon buy 5% of Shoppers Stop, be concluded using an investment arm of the US major, the law is not wholly clear either. Before the UPA demitted office, for instance, it had allowed up to 49% FDI in multi-brand retail with a few caveats on minimum investment, local sourcing and the requirement to get specific permission from each state government before setting up shops there. While the [BJP](#) [P](#) said it was not in favour of the policy when it came to power, the policy wasn't scrapped either. In due course, under the NDA/BJP, FDI was allowed in the B2B space, but banned in B2C; foreign capital, including from Amazon, came into the country in billions using what is called the 'marketplace' model. Under this model, an Amazon could invest billions of dollars in a 'marketplace' where sellers—including some controlled by Amazon—could sell their products to retail customers.

While there was no explicit confirmation, the broad signal that everyone got was that allowing FDI in multi-brand retail would hurt the BJP's kirana support base, but the government was not averse to allowing multi-brand retail through the back door. It was in this context that Walmart spent \$16bn to buy [Flipkart](#), but within a short while of this, once elections were approaching, the government decided to tighten the rules dramatically. While FDI was still to be allowed in B2B ecommerce, suppliers that were controlled by ecommerce majors—like Cloudtail for Amazon or RetailNet for Flipkart—could not sell anything on the marketplace. While this was done to prevent these suppliers from using free foreign money to offer very deep discounts—the thrust of the new policy was to prevent discounting as this was hitting local players—it was a complete U-turn from the prevalent policy. While the new policy also prohibited e-tailers from exclusive tie-up with suppliers, like a mobile phone manufacturer for instance, oddly enough none of the rules—such as the ban on deep discounting, whatever that meant—did not apply to ecommerce platforms set up by home-grown chains like Reliance or Future Retail.

Given how any policy can be overturned so quickly, even though Amazon may not require explicit permission from the government to buy into Future Retail using some investment arm/firm, it would do well to get this formally cleared by the government; else, it will be in trouble if, at some point, the government wants such deals to be undone. Ideally, though, the government should give up its hostility to FDI in multi-brand retail as, once this is allowed, it will

attract large amounts of FDI and also create a lot of jobs. More important, from the point of view of the BJP's kirana constituency, given how much space most big-box retailers like Walmart require, they are unlikely to be able to set up shop in most neighbourhood markets and, to that extent, they are unlikely to pose a threat to kiranas. Etail operations, on the other hand, pose a real threat since they don't need to be located near the consumer.