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Singular initiative

Liberalising FDI norms will enhance business confidence and boost investment inflows

The Cabinet has sent out a positive signal to foreign investors by removing the shackles to investing as a single brand retailer. As part of its overall effort to "put more and more FDI proposals on automatic route instead of Government route where time and energy of the investors is wasted" (the Centre's statement in August 2014), single brand retail trade (SBRT) has now been placed under the 'automatic approval' route. SBRT players can invest 100 per cent in their own venture without any hitch (they now require government approval beyond 49 per cent). What's more, they will no longer be encumbered by the 30 per cent local sourcing norm right at the outset; instead, they have been given five years to get there. This should put an end to the tug-of-war between the Centre and global brands such as Apple over local sourcing requirements, to the satisfaction of both sides. As a result of this major initiative to ease the terms of doing business, FDI flows could, in future, go well beyond the 2016-17 level of $60 billion, so far the highest ever. Besides, telecom goods and computers, food chains, consumer goods majors may wish to capitalise on a great branding opportunity in a $600-billion retail market, of which just 7-8 per cent comprises the organised segment. The Make in India policy rightly lays store by FDI flows as a means to spur jobs, more so at a time when domestic investment has been anaemic.

The apprehension that SBRT will displace jobs rather than create them is overstated, as is the view that the domestic players will be wiped out. To take only the example of India's food market, it has allowed for a diversity of players, small and large, desi and foreign, to coexist. Similarly, the existence of multi-brand retailers in the wholesale or 'cash and carry' segment has not cannibalised jobs the way many feared, including those within the Sangh Parivar. Indeed, when seen along with contract farming, the introduction of reforms at the retail end may provide primary producers with a choice of buyers. Likewise, with a burgeoning market for smartphones, there is enough room for a range of local players as well as suppliers to coexist, besides global brands. Enhanced exposure and competition will lead to better products, design and innovation. This could help Indian entrepreneurs link up to global supply chains and move up the value chain in time. The emergence of global brands out of China is to be seen as an outcome of its FDI policies, as well as its clarity in embracing globalisation on its terms.

India too needs to take a long-term view on developing global brands and attaining international standards in its manufacturing and services. Rather than place small players at a disadvantage, this transition would equip them to straddle the world stage.