FDI in Retail
Opening new avenues
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Foreign Direct Investment (FDI) in retail has been a sensitive issue in India's political economy. While some see this as a threat to millions of neighbourhood retail stores of India, at a macro level it is increasingly seen as an essential part of the overall growth and efficiency of domestic consumption story.

At present 100% FDI is allowed in cash and carry wholesale formats; 51% in single brand retailing and none in multi-brand. Recently, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce announced that it will be circulating a discussion paper on allowing 100% FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India.

Based on the interactions with various stakeholders in retail sector, DTZ presents an analysis of key drivers and likely implications of this new policy initiative by the government:

Key Drivers

- **Inflation:** India witnessed high inflation rate in the beginning of the year primarily driven by higher food prices, which threatened the nascent economic recovery. Supply side constraints were seen as the main reason for price spike, and an efficient and well integrated supply chain in agriculture was widely accepted as a long term solution by many policy makers. It was also debated that with the maturing of an efficient retail sector, India could see easing of supply side constraints – not just in agriculture but also for seamless distribution system in consumption goods. FDI in retail is seen as an important way forward for bringing supply side retail transformation in India.

- **Fiscal deficit:** A prominent feature of the current year budget is the keenness of the government to reduce the fiscal deficit to 5.5%, which hovered at 6.9% of the GDP in the last fiscal year. Thus, allowing FDI in multi-brand retail would act as an alternative source of investment that would ease the pressure on fiscal side.

Key Implications

- **Supply Chain Efficiency:** FDI will bring much needed competition that would propel supply chain efficiency by cutting intermediaries, reducing wastages and making available new technology to the sector.

- **Unorganised Retailers:** Despite a strong economic rationale to allow FDI in retail, there is a growing concern about its adverse impact on survival of small neighbourhood retail stores and street vendors.

Key Measures

To limit any adverse impact on local economy, the government may propose a series of steps such as:

- Limit the operation in a city, based on the size of its population.
- Encourage strong backward linkages to benefit the farmers and the mandatory back end cash and carry requirement to benefit small retailers.
- Impose conditionality for a minimum scale of operation (built up space requirement) for FDI led multi-brand retailing. This would ensure sufficient jobs be by the sector and at the same time not compete directly with the small format unorganized retailers.

As FDI imperatives ease supply side constraints, it is expected to generate new demand, brought forward by the coverage of the yet underpenetrated domestic market for retail in India. Further, this mutually reinforcing phenomenon would signal a multiplier effect that can fuel the growth of retail real estate development in India.

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