

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), the 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 the retail sector, DTZ presents an analysis of the key drivers of this new policy initiative by the government and possible measures to mitigate the impact on local economy:

Key Drivers

Inflation: India experienced high inflation at 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 rises, 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 an easing of the supply side constraints - not just in agriculture but also for seamless distribution systems in consumption goods. FDI in retail will bring much needed competition that would propel supply chain efficiency by cutting intermediaries, reducing waste and making available new technology to the sector. It is thus seen as an important way forward for bringing supply side retail transformation in India.

Policy momentum: We believe it to be a right time for

expanding domestic economy which can be well supported only by an organised and fast-growing retail sector. Moreover, allowing FDI in multi-brand retail is likely to ease the pressure on fiscal deficit (albeit in a small way). FDI is expected to act as an alternative source of finance for the development of retail infrastructure, which otherwise the government would have also contributed to. Despite this 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.

Possible Measures to Mitigate

In order to mitigate the adverse impact on the unorganized retailers and smooth the implementation of the yet to be proposed policy change, the following measures could be a part of the discussion paper:

- Restrict FDI in multi-brand retail to larger cities, defined by a threshold population. Thus, under its current phase, smaller cities and towns in India may remain insulated from this structural shift.
- Ensure benefits throughout the supply chain, including small retailers. Strong backward linkages may be mandated which would benefit the farmers in terms of both scale and a firm market for produce. Back end cash and carry may also be mandated to widen the efficiencies to small retailers.
- Impose conditions on the minimum scale of operation (built up space requirement) for FDI led multi-brand retailing. This would ensure adequate investment in the sector and create sufficient jobs while at the same time not compete directly with the smaller unorganized retailers.

policy makers to bring about a structural change in the retail sector. In today's policy environment, it is pertinent, more than ever, to have an efficient and

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 is likely to provide additional impetus to growth of retail real estate in India.