

NOTE

Cheap Goods, No Buyers

Bharat Jhunjhunwala writes :

The government is considering allowing entry of Foreign Companies in multi-brand retail stores. Single-brand retail stores such as those of Nike or other brands are already allowed. But multi-brand retailers like Wal Mart of America, Tesco of UK and Carrefour of France are not permitted to open stores in India at present. Indian companies like Reliance, Spencers and Shoppers Stop are, however, allowed to engage in multi-brand retailing in the country. There is a fundamental difference between single- and multi-brand retailing. Single brand retailers have a limited reach in the market. They scarcely impact the *kirana* stores that provide many items of day-to-day use. Multi-brand retailing, however, competes directly with the *kirana* stores. The question at hand is whether to allow foreign companies to enter multi-brand retailing which is already being done by domestic companies.

Organized retailing by big companies-domestic as well as foreign-has two opposing impacts on the country. On the plus side, cheap and good quality goods become available to the consumer. Organized retailers procure goods directly from manufacturers and supply to consumers. They bypass the chain of suppliers, agents and wholesalers. Commissions being charged by these intermediaries is eliminated leading to reduction in price of goods. They have wide procurement networks. They can quickly compare the price offered for a product in China, Thailand and Mexico. They also have knowledge of global trends of consumption. They can more reliably predict goods which will sell in the coming season. In this way they can provide better services to the consumers. On the minus side, organized retailers provide jobs to a handful of workers while large numbers involved in *kirana* stores lose their livelihood. Economist Larry Mishel of the Economic Policy Institute sums up the problem as follows: "If people were only consumers, buying things at lower prices would be just good. But people also are workers who need to earn a decent standard of living. The dynamics that create lower prices at Wal-Mart and other places are also undercutting the ability of many, many workers to earn decent wages and benefits and have a stable life." Briefly, of what use are cheap goods lying in the shopping windows when there is no money in the pocket to buy them?

The negative impact of organized retail on *kirana* shops has already been verified in other countries. The share of organized retail increased globally from 10 to 40 percent between 1995 and 2005. The share in China increased from 10 to 20 percent in the same period. British MP David Amess says that one in six street corner retail shops have shut down in England in the last 10 years after the entry of organized retailer Tesco. Such impact does not appear to have occurred in India yet because only domestic companies are allowed to engage in this business. Such an impact is likely to take place with the entry of foreign retailers. No wonder the Standing Committee of the Parliament under the Chair of Dr Murli Manohar Joshi has recommended complete ban on entry of foreign companies in multi-brand retailing. But the Congress-led UPA-II government that is currently plagued by one scam after another, is unlikely to see reason. May be, Dr Joshi of Bharatiya Janata Party (BJP) is presently opposing this more because BJP is basically a traders' party in the north.

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