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Open another channel for consumer goods

The threat from MNCs is not the gift of liberalisation. Instead, it is the culmination of the continuous neglect of the need to improve indigenous capabilities. The former has merely precipitated the process, says Uttam Gupta.

Mr Rahul Bajaj, CMD of Bajaj Auto Limited, the most vociferous critic of external liberalisation, recently expressed serious concern for the Indian consumer thus: "...why should the government introduce competition in the consumer goods sector as eventually it would go against the Indian consumer". Mr Bajaj may have his reasons, but that needs to be shared with the general public.

From the viewpoint of Indian consumers, however, the question needs to be asked as to how much they benefitted during the past 40 years when Indian industry was kept under a totally regulated regime with high levels of protection. All along the Indian consumer has been the loser, with high prices, poor quality and inadequate post-sales services. The period has witnessed proliferation of monopolies or at best, oligopolies in a majority of the industrial sectors.

If Indian industrialists' case is that, but for the import substitution strategies adopted in the past, establishment of a large industrial base within the country would not have been possible, there may be some merit in it. This is because, in the beginning, we were at a clear cost disadvantage and an open policy from the word go would have prevented our industries from being established. And, complete absence of domestic industrialisation and resultant dependence on imports would have led to our exploitation by suppliers from abroad. But, that does not mean that Indian consumers should have been subject to exploitation at the hands of Indian businessmen.

Given that the protection given to Indian industry was 'open ended', with no time frame for reduction in its degree, there was persistent neglect of efficiency, cost optimisation, technological upgradation and R&D. Such neglect was a consequence of there being plentiful opportunities for making easy money.

The threat now being increasingly perceived by Indian industry is not the gift of liberalisation; instead, it is the culmination of the continuous neglect of the need to improve indigenous capabilities and strive for excellence; the former has merely precipitated the situation and has exposed these weaknesses. The points Mr Bajaj has made about inadequate and poor quality infrastructure and high interest rate etc, are valid; but these weaknesses too have not surfaced overnight and were in fact, building up over the years. Why did Indian industry not raise its voice and concern over these prior to the 1990s; simply because, in the absence of any competition, they felt the hapless consumer would have to pay for the consequential higher cost, and that their profit margins would remain untouched.

The question of internal competition before external competition has been raised by Indian indus-

Alternatively, are we talking of competition amongst the likes of HLL and Tomco say, in the soaps and detergents market. In such cases also, the concerned companies have merged or formed strategic alliances to ensure that one does not undercut the other.

The only way one can hope for improvement in the situation on the price front and better quality of products is by injecting a certain degree of competition, not only internal but external as well. This is particularly relevant to consumer goods, both durable and non-durable categories.

There is a mistaken notion that opening of industry to foreign direct investment alone has provided a conducive environment for improving the lot of consumers. In fact, the situation is much worse after their entry. This is because MNCs have entered either through joint ventures with Indian companies (who controls how much equity is irrelevant from the standpoint of consumers) or, where it has entered independently, with a broader understanding with other major players. Precisely in view of this, even four years after liberalisation, prices of major daily use items have been on the rise. For a while, in what may be described as a one time battle between Pepsi and Coke, the selling prices of their respective brands of cola declined a bit. But that was for a very brief period.

All this drives home the need for opening one more channel for augmenting supply of consumer goods, to ensure that the Indian consumers have alternative options if the domestic manufacturers or even the multinationals on the Indian turf are not willing to bring down prices. Liberalisation of consumer goods imports has to be viewed in this perspective.

A majority of consumer goods items still continues to be on the 'negative' list. In the recent modifications to the export-import policy, holders of special import licenses and Vabals etc, have been permitted to import consumer goods. But, that is not of much consequence as Indian consumers will still be at the mercy of the license holder. Let us not forget that the premium on these licenses is an incentive that the government allows to encourage exports. The license holder will simply not forego this through allowing lower prices to the ultimate consumers.

There is, indeed, a strong case for taking consumer goods off the negative list. Customs duty, determined on a reasonable basis, may however be imposed to prevent a situation of dumping by suppliers from abroad.

Indian industry should also recognise that there are certain 'natural' barriers to imports in terms of the logistics of the importation, handling facilities at ports, constraints of internal transportation and distribution. Consequently, there is absolutely no question of domestic industry being decimated. As regards the small-scale industries, the medium and large size players are not justified in arguing on their behalf as the big players themselves constitute a major threat to the small guys. In fact, even without opening up, a number of small units have been forced to down their shutters.

The infrastructural industries, however, need to be put on an altogether different footing. Considering that services like power or telecommunication cannot be imported, the desired goals of achieving low cost, good quality and reliable services require adoption of a rigorous competitive bidding process at the time of selection of the operating agencies. The entire exercise must be conducted in a transparent manner and in accordance with clearly laid down guidelines. A heavy