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Need of Reforms of Indian Products due to Invasion of Chinese Products

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Abstract

Come any occasion and the Indian consumer is ready to make a beeline to purchase another of those Chinese goods. For one, these Chinese goods are substantially cheaper than Indian goods and come in wide varieties. In very simple terms in Economics, we know that anything like large scale dumping and imports can spell a disaster for the economy. As the memory of an Indian consumer goes, this influx of cheap Chinese goods started in the late 90s and gained momentum thereon. Every article, be it an expensive Barbie doll or a painting you want to adorn your house with has a Chinese alternate to it. Why the Chinese goods are priced so cheap? The cost of production being less in China is an obvious answer but when we dwell deeper into the world of Chinese manufacturing, the reasons abound. Chinese goods are known for their moderate quality, prompt delivery and affordable prices in comparison to Indian goods.The Chinese entrepreneurs have infiltrated the market in a very systematic manner with their well-planned marketing strategies and continuous innovations. They study the demand patterns and the market trends and work out the lowest price that they can offer to attract a huge section of the consumers while still maintaining a profitable margin. As the Indian market is price-oriented, the domestic players are slowly losing their share to the strategic Chinese entrepreneurs. The only way the above problem can be solved up to an extent is by introducing SME favourable policies. The Indian Government should understand the basic fact that SMEs are the backbone of Indian economy and their growth will in turn add to the development of India. Indian SMEs should also continuously study the market needs and come up with innovative and cost effective products to tackle the burning issue. Because of cheaper prices products made in China are becoming more popular among the Indian masses. This has had a very negative effect on our own manufacturing units and as a result many of them have had to shut shop.
Keywords: *Impact, Chinese Products, Reform And Suggestions.*

1. INTRODUCTION

Here seems to be no way to escape the DRAGON! Yes, the Chinese goods have invaded almost all the sectors of Indian market and seem to be bringing tougher times for the Indian Industry. Because of wide availability of cheap and apparently technologically advanced Chinese goods, many economists fear decline of local manufacturing units or the small-scale industry in India. The rise in demand and sudden popularity of Chinese products, which are available at cheaper prices, is giving nightmares to the Indian industry to the extent that they have started sticking "Made in China" stickers on their products to boost their sales.

Chinese manufacturing units produce goods on a large scale. They are using the big Indian market merely to dump their products and by doing so they are killing the Indian units. For example last year during Diwali, China made crackers were sold in the Indian market. These crackers reportedly contained Sulphur. Sulphur is more harmful than Nitrate, which is used in India to make crackers. Since the Chinese crackers were cheaper than the Indian crackers, so they managed to attract gullible and largely illiterate Indian lot. As a result the Indian cracker industry saw a decline in the revenue.

China is our major competitor in sectors like software, hardware, electronics etc. We should not allow China to dump their excess produce here. The small-scale industry (SSI) contributes 35-40 per cent to the total manufacturing in India. So it is the SSI, which suffers most because of Chinese goods. For *instance, data reveals that 60 per cent of the industrial units in the industrial belts of Thane and Bhivandi near Mumbai have been closed down*.

Many small-scale Indian companies have stopped manufacturing their own goods as now they import them from China. That's why many Indian workers have lost their jobs. This shows that the objective of SSIs of providing employment to the rural youth of India is defeated completely.

In the last one decade Chinese labour has developed the skills of manufacturing electronic goods like semi-conductors, telecom equipment, power equipment etc, which helped them to capture big markets of America and Europe. It is no surprise that they have been successful in capturing the Indian market too. Although Indian labour can meet these challenges by improving their skills, the Indian manufacturing scenario is hampered due to stringent and weak labour policies.

It is the high time that our political leaders change their mindset and bring about the right kind of reforms without losing precious time in endless discussions. We must take necessary steps so that we do not fall prey to the DRAGON's designs of capturing a major share of our growth, which could prove to be a setback for our economy in the future.

2. PROFILES OF INDIA & CHINA

a) India Country Profile

Country Facts Area: 3,287,623m sq km (1,269,219 sq miles)
Population: *1,170,938,000* – Till 2010
Capital City: New Delhi
Languages: The official language of India is Hindi, written in the Devanagari script and spoken by some 30% of the population as a first language. Since 1965 English has been recognised as an 'associated language'. In addition there are 18 main and regional languages recognized for adoption as official state languages.
Religions: India is a secular state and freedom of religion is protected under the Constitution. The main religious groups are Hindus (81.3%), Muslims (12%), Christians (2.3%), and Sikhs (1.9%).
Currency: Rupee
Government: United Progressive Alliance, a Congress-led 20-party coalition
.Head of State: President Pratibha Patil
Prime Minister: Prime Minister Manmohan Singh
Membership of international groupings/organizations: Commonwealth; United Nations and the United Nations Human Rights Council; World Trade Organization; South Asian Association for Regional Co-operation (SAARC); ASEAN (dialogue partner); G4.

b) China Country Profile

Country Facts Area: 9,956,960 sq km (3.7m sq miles)
Population: 1330141295 (July 2010 est.)
Capital City: Beijing
People: Han Chinese make up around 92% of the population. The remaining 8%is comprised of 55 minority ethnic groups.
Official Language: Mandarin (Putonghua) with many local dialects.
Religion(s): China is officially atheistic, but there are 5 State-Registered religions: Daoism, Buddhism, Islam, Catholic and Protestant Christianity.
Currency: Yuan or Renminbi (RMB)
Major political parties: Chinese Communist Party

Government: There are 4 major hierarchies in China: the Chinese Communist Party (CCP), the National People's Congress (China's legislature), the government and the military. The supreme decision-making body in China is the CCP Politburo and its 9-member Standing Committee, which acts as a kind of 'inner cabinet', and is headed by the General Secretary of the Chines.

3. HISTORY OF CHINA'S ECONOMIC RELATIONS WITH INDIA: AN OVERVIEW

The history of bilateral relations between China and India dates back to mid 1980s. The process of dialogue initiated by the governments of the two countries at that point of time was quite helpful in identifying the common trade interests. Efforts were initiated to make the most of their economic strengths so as to further the economic relations between India and China. In the year1984, China and India entered into a Trade Agreement, which provided them with the status of Most Favored Nation or MFN. It was in 1992 that the China and India got involved in a full-fledged bilateral trade relation. The year 1994 marked the beginning of a new era in the China-India economic relations. In this year a Double Taxation Avoidance Agreement was signed between India and China. The governments of both the countries also took the necessary initiative to turn into dialogue partners in the Association of Southeast Asian Nations (ASEAN).

Both India and China hold more or less same positions in the global economic scenario. This in turn has further enhanced the economic relations between the two countries. In 2003, Bangkok Agreement was signed between the two countries. Under this agreement both China and India offered some trade preferences to each other. India provided concessions on 188 products exported from China. On the other hand, China provided preferences on tariff for 217 products exported from India. The economic relations between the two nations is expected to improve aided by the flourishing IT and ITES sector, biotechnology industry, health sector, and financial sector. The bilateral trade between the two countries is expected to reach 20 billion US dollars by the year 2008. The projected figure for 2010 is 30 billion US dollars. In 2003, China and India entered into an agreement to initiate open border trade via the Silk Route. The two countries have also shown interest to take part in a multilateral trade system as per the WTO commitments.

Around 90 Indian companies have set up branches in China. These companies mostly operate in the pharmaceutical sector, IT and ITES sector, and automotive industry. Some of these companies are Satyam, Wipro, TCS, Ranbaxy, and many more. China has already been the top trading partner of India in the recent time. The economic relation between the two countries is considered to be one of the most significant bilateral relations in the contemporary global economic scenario and this trend is expected to continue in the years to come.

4. THREATS OF CHINESE PRODUCTS TO INDIAN MARKET

With the world turning into a global village and competition getting stiff, countries like China are ruling the roost in many a market in varied spheres. India is the hub of diverse business opportunities, and slowly yet steadily, Chinese products like electronics, crackers, idols, apparels, etc. are predominating similar Indian products.

The festive season is the season of business especially filling the pockets of traders. But instead of the domestic sector holding sway over the market, the opportunities are grabbed by Chinese manufacturers with their variety of exquisite products. Whether it is SMEs (Small and Medium Enterprises) or cottage industries, they are not able to provide a stiff competition to the cost effective offers provided by the Chinese. Due to this relentless import of Chinese products, most Indian cottage industries have closed down, and the future of the existing ones looks very bleak.

The Chinese entrepreneurs have infiltrated the market in a very systematic manner with their well-planned marketing strategies and continuous innovations. They study the demand patterns and the market trends and work out the lowest price that they can offer to attract a huge section of the consumers while still maintaining a profitable margin. As the Indian market is price-oriented, the domestic players are slowly losing their share to the strategic Chinese entrepreneurs.

Chinese electronic goods like radio, torch, DVD players, etc. are reigning supreme in the Indian market. Decorative items, fashion accessories like slippers, jewelries, hand bags, etc. receive huge responses during festive seasons. This year, one saw the flooding of the Indian markets with Chinese made idols which were welcomed with open arms by the Indian consumers.

Commenting on the change of the market scenario, Mr. S.P Agarwal, President of Delhi Exporters Association, said, "Chinese manufacturers have created a big problem for the Indian manufacturers. Especially the cottage sector which produces goods like handicrafts, decorative items, gift articles, idols etc. has been drastically affected, by the dominance of Chinese products in the market. This has raised a question mark against the various marketing policies that the Indian Government is making."

The need of the hour is to address whether the products are fully duty paid or illegally imported to India. In the long run, with globalization and free trade becoming the norm of trade, Indian SMEs need to buckle up and get ready to face these challenges. No doubt SMEs have been affected, yet they need to be educated on latest market trends and technologies. SMEs should be encouraged and guided for the marketing of their products.

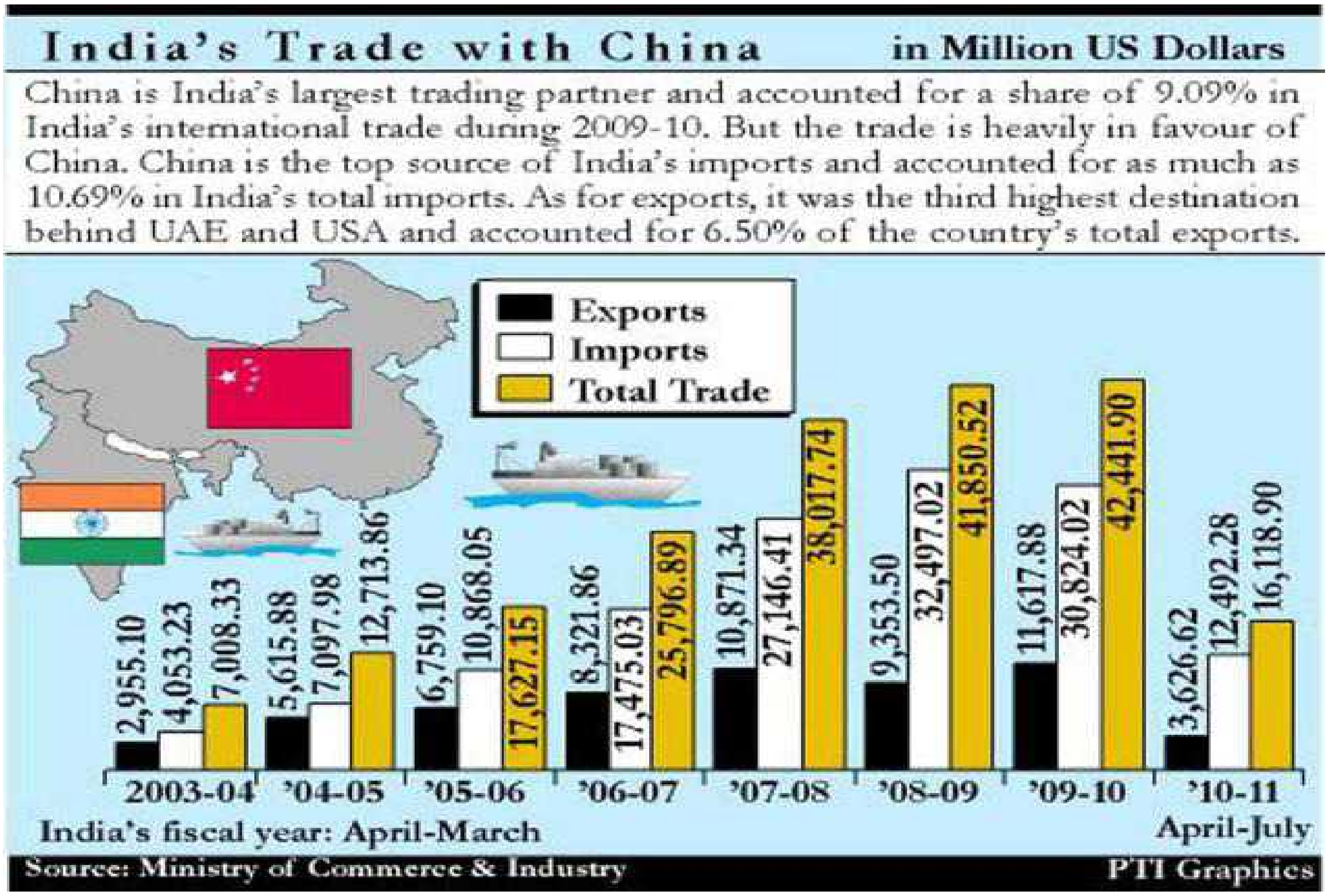
Indian SMEs should learn from China about various marketing strategies undertaken by them. Rather than comparing the two countries, the Government should first focus on its policies and work on the ways to ensure that these products from China are heavily taxed so that the Indian craftsmen's only livelihood don't get affected due to the unrestricted import of Chinese made products."

The only way the above problem can be solved up to an extent is by introducing SME favourable policies. The Indian Government should understand the basic fact that SMEs are the backbone of Indian economy and their growth will in turn add to the development of India. Indian SMEs should also continuously study the market needs and come up with innovative and cost effective products to tackle the burning issue.

Because of cheaper prices products made in China are becoming more popular among the Indian masses. This has had a very negative effect on our own manufacturing units and as a result many of them have had to shut shop.

5. IMPORT OF CHINESE PRODUCT IN INDIAN MARKET

There has been an increasing hype to buy electronic items such as phones, cameras and other electronic items at a much lower price than the manufacturers are selling it. Individuals are looking to buy items for three times lower than the original market price .The flood of Chinese imports has raised temperatures all around, questions have been asked in Parliament, and the many chambers of commerce have beseeched the government to protect Indian domestic industry from the new Chinese invasion. Quite naturally, Indian producers claim the Chinese are "dumping" their products in Indian markets. Dumping refers to the practice of selling products abroad at artificially low prices. Under the World Trade Organization, the recipient country can levy anti-dumping duties in order to protect domestic industry. It is also true that most Chinese goods are sold at dirt-cheap prices. For instance, a Chinese Fan with a built-in inverter is available for Rs. 800-900, whereas Indian Fan costs about Rs. 1150. Bicycles are about Rs. 500 cheaper than Indian ones. Similarly, most electronic goods are significantly cheaper than products of comparable quality available in India. Third, it is also undeniably true that the sheet volume of Chinese imports will soon have an adverse effect on Indian manufacturing industries. A newspaper report mentions that Bajaj Electricals has started importing items like Chinese Toasters and fans into India and providing brand support and after-sales service. While this is good news for the Indian Consumer, this can only be disastrous for the Indian worker. Of course, the difference in price is not a sufficient proof of



dumping. Chinese labour is certainly cheaper than in countries such as India, from where we import significant volumes of electronic items. China also has a much lower rate of indirect taxes on inputs. These could well account for a large part of the difference in prices. Another contributor factor underlying the price differential is the general inefficiency of Indian manufacturing. A recent confederation of Indian Industry seminar in Calcutta focused on the large distance which Indian manufacturing industries have to traverse in order to catch up with international norms in prices and quality. India has a rather dismal rating in competitiveness. It ranks a low 53 out of 59 countries ranked by the World Economic Forum and 40 out of 46 countries ranked by World Bank. As a wide range of cheap Chinese products flooded the Indian market, some local industries were adversely affected, while others benefited by using these products as raw materials. The Chinese are exporting to India a wide range of low-cost consumer goods that have amass market in India such as kitchen-ware, textiles, electronic items, furniture, toys, cosmetics, footwear and accessories. In fact in the last four years, there has been a deluge of cheap imports From China tyres, bicycles, watches and clocks, toys, plastics and dyes, and bulk drugs In the very near future Indian scooter and motorcycle manufacturers are going to face stiff competition from the Chinese. The sector that will be worst hit will be the small scale sector. The Chinese export import corporations are financially stronger, have more efficient processes and turn out goods at extreme.

Indian government Okays import of low-priced Chinese solar cells: The Indian government has made it clear that it has no objections to imports of low priced Chinese solar cells, so long as they meet predetermined quality standards. The news has made ripples in the domestic manufacturer's community, which are in the midst of combatting the cheaper Chinese imports as well as US manufactures who are dealing with the World Trade Organisation over the dumping claims of solar cells and panels, Panchabuta reports.

"The market will always bend towards the products which are low-priced. But, yes the quality matters," said Tarun Kapoor, joint secretary, ministry of new and renewable energy. "We support what is legal, this is a case and we support WTO-accepted norms. It is not country specific, its rule specific." While India's National Solar Mission gives preference to domestic manufacturers, it is not a mandated law and only governed on a central level, allowing states to choose whether or not to follow the policy. Kapoor confirmed the detail stating, "There's only one scheme that offers this provision and it's not a law. We give the projects to developers who in turn are free to choose the products. If the prices are low and quality is good, then obviously, anyone would go for it."

The ministry officials advised that the thin-film technology is facing the most threat in the current market. "Given that over 90% of the installed global solar cell capacity is based on the more reliable crystalline silicon technology, the government may well consider further extending the domestic content requirement to sustain the momentum of solar manufacturing in the country," said Rupesh Agarwal, advisory lead at Cleantech at Ernst & Young.

6. REASONS BEHIND INVASION OF CHINESE PRODUCTS

Following are some of the reasons behind invasion Chinese goods:

a) China does not have stringent intellectual property rights (IPR) issues so come any new product in the world market; China is ready with a cheaper alternate. Thus there is no cost of research, designing and redesigning of any product.
b) The labor is not demanding and does not go on strike.
c) Where most Indian companies are striving for a Total Process Review (TPR) for quality satisfaction, Chinese companies are not so particular.
d) China does not have any after sales tax on its products leading to a further lowering of costs.
e) Are we enjoying the cheap Chinese goods because the Chinese currency is undervalued leading to purchase of cheap Chinese goods? This needs to be carefully studied.
f) The cheap Chinese labor is another major reason for the dirt cheap Chinese goods especially like toys where intensive labor techniques are employed
g) With the removal of quantitative restrictions (QR), the ending of the textile quota regime and Chinese accession to WTO, the dumping activity by Chinese has increased manifold.
h) Lower rate of Indirect taxes on Inputs
i) High level of cash subsidies being offered by the Chinese government to its producers and exporters
j) Lower taxes enable the Chinese companies to participate in the world market at a lower margin and thus dominate it. Adopt the business model focused on higher volumes is a natural progression in this scenario.

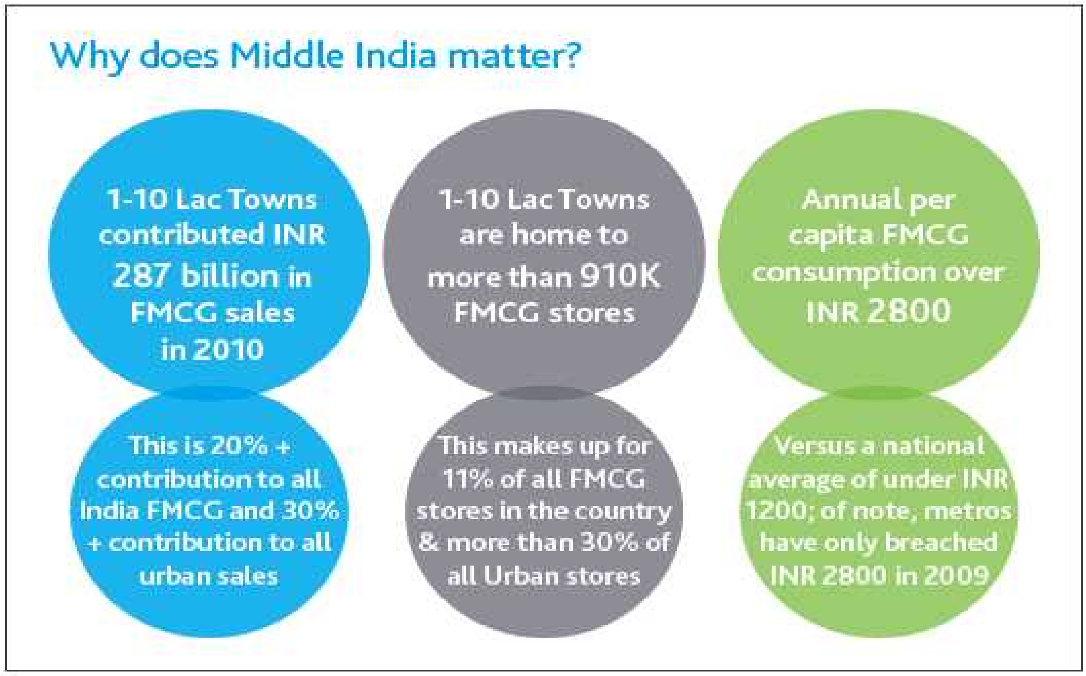
7. REFORM OF INDIAN PRODUCTS

India set to gain as China losing manufacturing edge due to rising labour costs. "As China loses its edge, buyers have started looking at India for competitive prices," said John Baby, CEO, Funskool India, a leading manufacturer of toys.

Imports of electrical goods from China into India dropped 26% last year, as cost pressures made them less competitive in the price-sensitive Indian market. Worker wages have appreciated more than 100% between 2003 and 2009 in China compared with a more sedate rise of around 40% during the same period in India.

Indian manufactured goods ranging from mobile phones to garments and toys are gaining greater global acceptance as their Chinese counterparts become more expensive, but these are still very early days.

The steady appreciation of the yuan-3% this year itself-has further made Chinese goods costlier, opening doors for India to push its electronic goods,



Source: Nielsen

garments and other labour-intensive products into global markets.

India's export of electronic goods rose 56% while its import of Chinese electronic goods fell 32% during 2010-11. "Some customers have started buying less from China due to its rising costs. This has brought incremental business to us," said Sudhir Dhingra, chairman and managing director of Orient Craft, one of the largest Indian garment exporters. China's one-child policy, in force for more than 30 years, has started pushing up wages as the workforce shrinks— average age of its population is around 35 years, compared with India's 25 years. Even big MNCs are planning to expand production in India to cater to domestic and foreign markets, as rising Chinese costs make India more attractive. "Owing to the growing potential of the Indian market, we have been expanding our production capacities and manufacturing investments. Going forward, linked with the development of the vendor eco system in India and its cost competitiveness, we are looking at making India the global manufacturing hub for the region," said JS Shin, CEO, Samsung, and southwest Asia. Trade expert Biswajit Dhar emphatically endorses the trend, predicting a 'Made in India' phase in world trade.

To India's advantage, this has left a vacuum in the lower and middle end of the value chain, which was earlier predominantly occupied by China. Experts believe this is an unprecedented opportunity for India, as no other country has comparable human resources.

8. CONCLUSION

It is noteworthy to mention the reverse Chinese model of manufacturing. China produces in bulk and sells in bulk. Rather than waiting for the orders and then producing, Chinese have mastered the art of producing first and selling it later. This is possible due to low interest rates and low taxes Chinese government imposes. This model helps the buyers as they do not have to wait for the produce. They can inspect, pay and ship the delivery in a single day!

The Government recently imposed a 6 month ban on the import of Chinese toys to India and withdrew it within two months after Beijing warned of going to WTO. The Domestic industry is now alleging China of becoming a price predator (Price Predation refers to selling at lower prices to acquire market share and increasing prices in future) this time. Is it a case of artificial pricing or high intensity of competition amongst Chinese products which make similar products cost upto70% less is to be seen. Another Important fact to be mentioned here is that anti dumping (strong opposition to sell your country's products in other countries at unfair lower rates than the domestic rates prevailing in the country of Export leading to losses to domestic suppliers) Investigations take long time for final settlement which can easily damage the domestic Industries. This has to become faster paced especially in authentic cases wherein the domestic producers are affected.

Where does the solution lie? Are not increasing the Tariffs an easy solution for India or does it needs to work on its own domestic problems? How competitive is Indian manufacturing? Why are we not able to offer price parity with the Chinese? India has a rather dismal rate of competitiveness. The World Bank gives India a low rank of 40 out of 46 countries in terms of its manufacturing prowess. What is it that is holding the manufacturing sector? These are but a few questions we may ask in context of the given study. It is very clear that there is a tradeoff between the benefits to the consumers and the producers and a balance has to be maintained for the sanctity of justice in trade is to prevail but easier said than done, the solution isn't that simple.

China is our major competitor in sectors like software, hardware, electronics etc. We should not allow China to dump their excess produce here. The small-scale industry (SSI) contributes 35-40 per cent to the total manufacturing in India. So it is the SSI, which suffers most because of Chinese goods. For instance, data reveals that 60 per cent of the industrial units in the industrial belts of Thane and Bhivandi near Mumbai have been closed down.

Many small-scale Indian companies have stopped manufacturing their own goods as now they import them from China. That's why many Indian workers have lost their jobs. This shows that the objective of SSIs of providing employment to the rural youth of India is defeated completely.

In the last one decade Chinese labour has developed the skills of manufacturing electronic goods like semi-conductors, telecom equipment, power equipment etc, which helped them to capture big markets of America and Europe. It is no surprise that they have been successful in capturing the Indian market too. Although Indian labour can meet these challenges by improving their skills, the Indian manufacturing scenario is hampered due to stringent and weak labour policies.

It is the high time that our political leaders change their mindset and bring about the right kind of reforms without losing precious time in endless discussions. We must take necessary steps so that we do not fall prey to the DRAGON's designs of capturing a major share of our growth, which could prove to be a setback for our economy in the future. Time has come to develop and enhance inter industry trade with China; knowing that Chinese exports have substantial complementariness with Indian imports. FDI in India till now has not entered the way it has entered China; owing to Chinese tax breaks, business tax exemptions given to foreign firms which has not happened in India. These are few of the factors which raises the cost of production for Indian goods making it difficult to compete on price basis with Chinese. Imposition of anti-dumping and safeguard duties are not solutions; Time has come to raise the efficiency and Competitiveness of our own Industries.

9. SUGGESTIONS

a. Chinese Market is all about second grade Chinese Products. None of the Indian Products can be found in the Chinese Market.
b. Chinese Products are cheaply priced but they have no guarantees. It's up to you to buy them.
c. All the Electronic items sold in the Chinese Market, come with one agenda - use and throw. Toys can be purchased from here.
d. Some of the average Restaurants and eating Joints can be found here. But its preferable to have food in your Hotel.
e. If you are coming to the Chinese Market, then make a half day plan to see the entire Market. As there will be all time walking, then there should be some time to rest.

f. If you are shopping in the months of March to June end, then its best to shop in the evenings after 6 o'clock.

g. Beware of the Thugs in the Chinese Market. Things once lost cannot be recovered because of the huge Crowd in the Market. Its better to leave the Valuables like passport in the Hotel Locker.

h. Money Converters can be easily found in Delhi City. However, its difficult to find them in Chinese Market and the around areas. However, you may find one or two Branches of Western Union in the corners or else you can go to Bank of India and State Bank of India for Money Conversion.

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