ISSN No. : 0975-8429

'A' Grade Accrdition by NAAC

Bharati Vidyapeeth Deemed University

IMED JOURNAL OF MANAGEMENT AND SOCIAL RESEARCH

The Research Journal of
Institute of Management and Entrepreneurship Development, Pune. (India)

Volume III Number 4 October 2010

In this issue :

IMED JMSR 2010

COROLLARY OF TRADE POLICIES ON ‘BROWN GOODS’ INDUSTRY IN INDIA

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ABSTRACT

This paper highlights the problems faced by the ‘Brown Goods’ Sector i.e. Small Home Appliances industry in India that was ‘reserved’ under the Small Scale Industries Sector facing investment limits. These products are subject to the cascading effects of taxation. They face intense ‘unequal competition’ from cheaper and better quality Chinese goods that are being churned out from highly sophisticated, vertically integrated factories having mass production. The macro-economic policies of our government are so favorable to the imports of Chinese finished products that they have not only welcomed large-scale imports of thee goods in areas where production is reserved in the small scale sector but also made them price competitive with falling custom duties and removal of special duties. Today the phenomenal growth in the demand for small home appliances, coming from the rising middle-class populations is unfortunately being filled by Chinese manufactured goods.

Introduction:

“Go global, young man. That was the advice from Theodore Levitt when his seminal article, “The Globalization of Markets” was published in 1983. Since then, globalization has become a dominant theme of international business strategy. The big difference is that what used to be national markets with local companies for business has become a global market with everyone competing for everyone’s business everywhere.

Since the declaration of the liberalization and globalization policy of the government, the last two decades of the Indian economy have witnessed phenomenal changes. The cumulative impact of all these developments is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to ‘compete’ in the international market. (PCMA Journal of Business). Today, competitiveness matters much more than in the past. Competitiveness has two dimensions – cost and quality. Firms should have superior quality but at a reasonable price because they are under constant pressure to cut down costs to sustain their competitiveness globally. (The Chartered Accountant September 2005). The process of globalization unleashed in 1991 has ‘created’ a new world - a world in which the domestic corporate sector for the first time saw itself as the ‘target’ rather than the ‘beneficiary’. The swiftness, vigor and aggressiveness with which the foreign investors sought to penetrate and capture the domestic market have caused serious worry to the Indian ‘Brown goods’ sector in particular.

The government has welcomed large foreign companies to market and compete with the local players. The Chinese manufactured Home Appliances have taken the markets with a storm. They provide a wide range of products that vary from highly sophisticated multifeatured goods to the very basic ones with an equally large spectrum of prices. The products are reliable, have international safety standards certifications and are price competitive. This appeals to the 300 plus Indian middle-class with their rising propensity to consume. They are unconcerned about the location of manufacture of the product. They provide a huge market for these products.

What has changed in business over recent decades is the amazing proliferation of product choice in just about every category. The Indian market place is transforming rapidly and the consumers are getting curious and knowledgeable. In the beginning choice was not a problem. But consumers today have a huge choice and variety to choose from every single item of use that they want to buy. . They are seeking out products which represent the best value to them. Unless a product stands out meaningfully it will never be bought. In fact Jack Trout rightly refers to this as ‘The Tyranny of Choice’ Jack Trout (2008): Differentiate or Die, Chennai, Westland Ltd. isbn 978-81-89975-72-2)

The Brown goods industry:

The ‘Brown goods’ manufacturing sector belonged to the small-scale units producing mixers, grinders, juicers, food processors, irons, room coolers, water heaters, ovens, toasters, etc. The ‘Brown goods’ sector manufacturing units sell to a handful companies under powerful and trustworthy brands like Usha, Phillips and Bajaj. These companies with big Brand names are more than 100 crores companies. They only market the products under their brands and did not directly invest in the Small Scale Industries. The criterion for differentiating small-scale enterprises from the large-scale was generally based on the size, capital resources, and labor force of the individual unit. Thus different industries were ‘reserved’ in watertight compartments. They were permitted a definite amount of capital investment only.

Definitions of Micro, Small & Medium Enterprises:

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) the Manufacturing Enterprise are defined in terms of investment in Plant & Machinery. as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under:

Definition of Micro, Small & Medium

Manufacturing Sector	
Enterprises	**Investment in plant & machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

Table 1

The Brands under ‘Brown Goods’ in India are divided into the organized and the unorganized sector. The organized sector has just about 10 to 12 players only on an all-India basis even up till today. They cater to more than 55% of market for brown goods. The unorganized sector where goods are sold under various unknown brands operate locally and are too many and too small to be considered of any significance.

With liberalized global dimension, the ‘Brown goods’ manufacturing units have come to face fatal competition. A large number of these units are today sick/weak, many of which are unviable. To name a few of the companies: Microtech producing microwave ovens with Headquarters in Bhopal and manufacturing in Bhopal and Pune has shut down completely. Lifelong appliances producing OTG (oven –Toaster- Grill) has also shut down, Sumeet is probably operating at marginal costs. Polar Sheffield now operates in manufacture of fans only. Others that have closed down for home appliances are Singer and Crompton Greaves. Inalsa is taken over by a Spanish company. Survival being difficult, many have sold out or almost closed down except for a few catering to the lowest and smallest market segment with a very insignificant existence. Those in the unorganized sector have also had a bitter experience.

A major proportion of the manufacturing enterprises in the Indian SME sector operate with obsolete technology. This lack of technology sophistication acts as a constraint in exploiting the opportunities presented by globalization. Further, a considerable number of these entrepreneurs would be either less qualified or lack both the resources and sources of information to access global opportunities. If appropriate steps are not taken, they will find it difficult to hold on to the market, which they currently have within the country. This is because both consumers and large firm producers (who currently obtain intermediate products directly or indirectly from these SMEs) might, sooner than later, become more quality conscious and look for better alternatives available globally. Therefore, the future survival of these Small and Medium Enterprises (SMEs) will be increasingly under strain.

Recently, the government has declared a number of excise-free zones like Gurgaon, Noida, Baddi, Kalaamb, Parwanoo, Mehatpur (H.P.) to encourage production at competitive prices. But the manufacturers realize that to shift to these places requires a lot of funds, training of labor, and development of infrastructure and transport facilities. All this does not happen with immediate effect and requires a lot of time and effort. In the meantime the Chinese products are strengthening their positions in the Indian market and are posing a big challenge to Indian manufactured goods.

Statement of the problem:

Since the changes in the trade policy instituted in 1991 almost all items are now freely importable. A careful examination of the import policy has shown that Quantitative Restrictions (QR) was almost completely done away with by April 2001, making almost all the reserved items freely importable. This meant that, whereas foreign companies, which produced these products, could sell them freely in India, large domestic companies were not free to manufacture such items. These facts give credence to the view that the government had allowed free competition between the Indian small-scale sector and the multinationals but not with the large Indian companies.

The tariff structure has at times contained some serious anomalies, such as finished goods attract lower tariffs than raw materials and components. Then, again, State has allowed imports from the multinationals in areas that are ‘reserved’ for the small-scale sector in India whereas Indian business (the large scale) was not allowed to produce in those areas. From the perspective of domestic manufacturers, the State has thus not been sufficiently vigilant about their interests, for it has allowed profit margins of domestic firms to be squeezed by cheaper imports.

The Indian manufactured goods are subject to multiple cascading taxations. Excise is followed by Central Sales Tax. Then there is VAT followed by Octroi or Entry Tax. So a series of taxes imply a hike in the cost of the product making it less competitive. Another important feature is that these taxes vary from state to state. There is no uniformity in taxes.

According to the Expert Committee on Small Enterprises, appointed by the Government of India in 1997, “reservation may have played only a limited role in promoting small-scale industries while restricting the entry of large companies into these industries. The issue of investment limit is of greater relevance for the items that are reserved for small-scale industries. In the case of industrial units manufacturing reserved items they are not permitted to cross the small scale investment limits and is therefore not able to grow. Thus the reservation policy acts as a powerful barrier to growth. Investment constraints prevent the use of latest techniques of production, research and product development which is so necessary in a highly competitive world today”.

Objectives:

1. To analyze how the falling Custom Duties have had repercussions on price.
2. To study the impact of cumulative taxation on prices of Brown Goods.
3. To understand why Indian manufacturers face unequal competition from China.

Hypothesis:

‘The Macro Economic Policies of the Government have worked in favor of the Chinese Brown Goods in India”

Research Methodology:

The subject in hand was subjected to the normally adopted research methodology in conducting research in Social Sciences. The choice of the topic was made as it is contemporary and no prior work has been conducted in this niche area in the past.

The subject matter is of great concern to the Indian economy as a whole because the Brown goods sector has in recent times seen a tremendous upsurge of demand. However, there exists a gap between demand and supply and this is being bridged by products outsourced from China.

This sector provides income and employment to a large number of people of India. But many firms belonging to the Brown goods sector are already closed down and some others have relocated themselves due to the invasion of products manufactured from China. It is the duty of a researcher to get into the depth of the problem and suggest recommendations.

Nature of research conducted:

This is a qualitative - quantitative approach. The Research design and steps adopted in the research methodology kept in focus the objectives set for the study as well as the hypothesis of the study.

The geographical location:

The geographical location for the study is quite wide. Data from consumers and retailers has been collected from Mumbai-Thane region. Data from Chinese manufacturers has been collected from the Special Economic Zones of China. While some data has also been collected from the excise free zones of Gurgaon, Baddi, and Parwanoo regions of India where some of the Indian manufacturers have relocated themselves.

Population and sampling:

❖ A total of two hundred questionnaires were filled by consumers and retailers of Brown goods. For this, the city of Mumbai and Thane was divided into five wards. 20 questionnaires for retailers and 20 questionnaires for consumers were conducted in each ward as follows:

1) Colaba – Dadar – Mahim (South Mumbai)
2) Byculla - Sion - Chembur - Ghatkopar - Vikhroli – Powai (Central Mumbai)
3) Nerul - Thane – Ulhasnagar – Dombivili (Dist.Thane & New Mumbai)
4) Bandra – Andheri -Versova–Juhu (Western Suburbs)
5) Jogeshwari – Virar (North Mumbai)

❖ Questionnaires were also sent to Indian manufacturers outside Mumbai in regions around Delhi like Noida and Gurgaon, Himachal Pradesh, Uttar Pradesh and Haryana

❖ Convenient sampling was done to obtain responses to questionnaires from the Chinese manufacturers in the Special Economic Zones of Guangzhou, Shunde, Shenzen,

Collection of data:

The primary data was collected by floating a structured questionnaire. The filled up questionnaires were later admitted for analysis and interpretation.

Primary (Questionnaires & Interviews)

❖ Indian Manufacturers

❖ Manufacturing Companies in China

❖ Indian Retailers

❖ Indian middle-class Consumers

It was not easy to approach the Chinese manufacturers to answer our questionnaire. The questionnaire was translated in Mandarin and sent to them. Many of them have replied through the internet, or fax and post. Some of the questions were not answered properly.

The data collected from the Indian manufacturers is also of a small sample size. The numbers of vendors are now very few and they are all relocated in various places like Noida, Gurgaon, Baddi and Parwanoo excise free zones. They were not easily approachable and reluctant to reveal quantitative figures relating to production and revenue.

Secondary Data:

Secondary data was collected from the following sources

- ❖ Global sources report of China
- ❖ Publication of forum of Free Enterprise
- ❖ Economic Survey 2000-2001,
- ❖ RBI Handbook of Statistics on Indian Economy 2000
- ❖ SIDBI report on Small-scale industries sector 1999
- ❖ Government of India Eighth Five Year Plan1992-97 Vol. II and the Ninth Five Year Plan 1997-2002
- ❖ Centre for Monitoring Indian Economy (CMIE),
- ❖ World Bank Economic Review,
- ❖ Publications of India–China Chamber of Commerce & Industry.
- ❖ SIDBI publications by the Ministry of Micro, Small and Medium Enterprises
- ❖ Datamonitor Research
- ❖ China Business Journal

- PCMA journal of Business
- The Chartered Accountant Publications
- Report by Francois Kanoi Research group
- Books and journals
- Various published and unpublished reports
- ***Various websites.***

Data Presentation and Analysis:

A qualitative-quantitative approach was adopted for the research. The questionnaires were recorded, subjected to tabular forms analyzed and interpreted. Statistical method adopted consisted of percentages and averages. Correlations were drawn between the Indian and the Chinese manufacturing units for drawing opinion and suggestions. A particular case was analyzed with respect to the fall of custom duties over a period of five years to examine and study its effect on its price. A similar product manufactured in India was taken to understand why price is higher and what macro economic factors create 'unequal' competition.

A case study of outsourcing Brown Goods from China:

Let us take an example of a product like toaster with an MRP of Rs1995 that was outsourced under any Indian Brand name from China at 10USD(f.o.b.). Let us examine the calculations for the year 2004 when the custom duties were 20% and the exchange rate was 1USD= Rs46

A 20 feet container can carry 2400 items of this product. The total bill of f.o.b. price would then be equal to 24000 USD (i.e.2400 toasters multiplied by 10 USD). We added to this the freight charges of 1200 USD from Shunde Port in China to Nhava Sheva in Mumbai. It worked out as 25200 USD (24000USD + 1200USD). When this was multiplied by the exchange rate (Rs.46=1USD) this amount became Rs1159200. To this we added insurance that was paid in Indian rupees (INR). This worked out to Rs2168 making a total of Rs1161368. This was the CIF (cost, insurance and freight) value of 2400 toasters in INR. The CIF value per toaster was calculated as Rs.483.90 (1161368 divided by 2400 pieces).

Before charging the custom duties the port levied refundable landing charges of Rs.11613 for a container of 20 feet (1% of the CIF value). When this was added to CIF value it became Rs.1172981.68. This amount was now assessable by customs for levying custom duties of 20%. The custom duty levied was Rs.234596=00. Adding the custom duty to the assessable amount we got the total amount worked out to Rs.1407577=68. (If this product was manufactured in India an excise duty of 16% based on maximum retail price (MRP) of the product after allowing 40% abatement would be levied on it. In lieu of this the custom authorities charge an additional duty). This additional duty worked out to Rs.191.52 per piece which when multiplied by the quantity of 2400 pieces amounted to Rs.459648. When this was further added to 1407577.68 (amount indicated earlier after paying custom duty) the total amount became Rs1867225.68.

The breakup of this amount if analyzed would be as follows:

F.o.b. cost of product	Rs.1104000=00 (59%)
Freight and insurance	Rs.57368=00 (3%)
Refundable landing charge	Rs.11613=68 (.6%)
Duty paid and additional duty	Rs.694244=00 (37.4%)
Total	Rs.1867225=68

When the goods reached the Indian seaport, the clearing and forwarding charges (CNF) of Rs17431=08 were paid. This included clearing and forwarding for container Rs.2800, agency attendance Rs.4645, terminal handling charges Rs.6850, stamp duty and registration Rs.1856, loading/unloading Rs.700, documentation charges Rs.120 and container insurance charges of Rs.460. All this amounted to Rs. 17431=08. The company then transported the goods from Nhava Sheva to its godowns in Bhiwandi for which they had to pay Rs.6000 as transportation of the container charges. When we added the above CNF and transportation charges the total cost of 2400 units came to Rs.1890656=76. From this the refundable landing charges of Rs11613=68 are deducted and the agency cost are added. The net amount landed in company’s godown worked out to Rs.1879043=08. When this amount was divided by 2400 pieces, cost per unit was realized at Rs.782=90. In terms of USD when this cost per unit was divided by Rs.46 it worked out to 17 USD per piece. This meant that whatever small appliance one bought from China its landed cost after adding all freight insurance, custom duties, etc increased by 70%.

Comparison with a domestically manufactured product:

The researcher compared the cost of the outsourced product to the same product that was produced by a factory in India. It was observed that if the manufacturing cost price of the toaster was Rs.750 then the MRP printed on its box was Rs.1995. The government gave an abatement of 40% on MRP (maximum retail price) at that time. Therefore the researcher calculated just 60% of MRP and levied the excise duty of 16% (year 2004). This worked up to Rs.191.52. Hence the cost price Rs.750 + excise Rs.191.52 equaled to Rs.941.52.

The researcher then added the CST. The CST charged was Rs.37.66. hence the total cost of the product became Rs.979.18. The researcher realized that there was unequal competition being promoted by the government between the Indian manufactured goods and the imported goods because while the domestic products paid CST no equivalent tax was being levied on the imported goods (year 2004).

The transportation of the goods to Bhivandi godown was at the rate of 2%. This amounted to Rs.19.58. Therefore the total cost per piece went to Rs.998.76. The researcher observed that the Indian product was already more expensive by Rs.216.76 (Rs.998.76 – Rs.782.90). When the goods crossed the Bhivandi check toll naka; octroi had to be paid. This increased the price of the product. And thereby the final amount for a product that was far poor in design and quality after adding taxes worked out to Rs.1150, i.e. costlier by Rs.368 per piece as compared to a product that was outsourced from China.

Cumulative taxation levels in India were very high. The Indian manufacturers paid Excise, Central Sales Tax, Octroi, VAT as tax. It therefore became cheaper to buy and sell a Chinese manufactured product. The Chinese manufactured goods on the other hand enjoy tax concessions, rebates, subsidies and a refund of capital invested for the first five years by a company. These helped to make their products very price competitive.

It is strange to note that although CST was to be removed with the levying of VAT, it still continues to exist. CST is presently levied at 2%. Another glaring fact is that VAT is not levied uniformly in all states. It is levied as follows:

Haryana	13.13%
East Zone	
Guwahati	13.50%
Kolkatta	13.50%
South Zone	
Hyderabad	14.50%
Bangalore	13.50%
Cochin	12.625%

Table 2

Also to be noted is that Octroi is levied for goods crossing state borders. This also varies from state to state. In some of the states it has been replaced by what is called Entry Tax. "New Wine in an Old Bottle". The Entry Tax in Orissa is levied at 2% and in MP @1%. Excise is levied @10.3% on (MRP less 35%). Presently custom duty is 10.3% +10.3% CVD in lieu of Excise duty for imports of Brown goods.

Fall in custom duties

One of the most significant features of our trade policy was the fall in the custom duties over the years. To examine how lowering of custom duties in India had actually worked in favor of Chinese companies, a product like an 'electric kettle' was examined for a period of five years from 2002-2007

A 20 feet container could accommodate a maximum upto 6800 units of a product an electric kettle that was priced at USD 3.50 and Rs1049 MRP in India. The rate of exchange was assumed to be constant at 1USD=Rs.46. All other charges like clearing and forwarding, agency attendance, handling charges, stamp duty and registration, loading and unloading, documentation and container insurance charges had been kept constant. The only variable under observation was the custom duty and other additional duty.

In the case of the year 2002, the custom duty charged was @30%. There was no additional surcharge but there was additional duty of customs @ 16%. The custom duty in 2003 dropped to 25% but there was additional duty of customs @ 16% and no surcharge. In 2004 the custom duty fell to 20% but there was a surcharge of 2% and the additional duty of customs went up by .32 paisa. In the years 2005, 2006 and 2007 the custom duty kept falling to 15%, 12.5% and then 10% respectively. But for all these years there was a surcharge of 2%. The special duty of 4% charged by the government in the years 2002 and 2003 was removed in the years 2004 and 2005.

It was observed that the per piece landed cost ex-Bhivandi to the company was Rs.347.57 in the year 2002, it was Rs.338.54 in the year 2003 and it was Rs.319.85 in the year 2004. This fall in cost to company continued in the following years. In the year 2005 it worked to Rs.310.99, in the year 2006 it is Rs.318.51 and in the year 2007 it went further down to Rs.315.43. Since imports are in large quantities the benefit to the Indian Brands that outsource these products was very large. They preferred the Chinese made goods to the Indian manufactured ones.

CASE OF CUSTOM DUTIES

PRICE CONSTANT @$3.50		PRODUCT : ELECTRIC KETTLE			EXCHANGE @ CONSTANT $1=RS 46.00	
YEAR	2002	2003	2004	2005	2006	2007
CUSTOM DUTY	30	25	20	15	12.5	10
PRICE	347.57	338.54	319.85	310.99	318.51	315.43

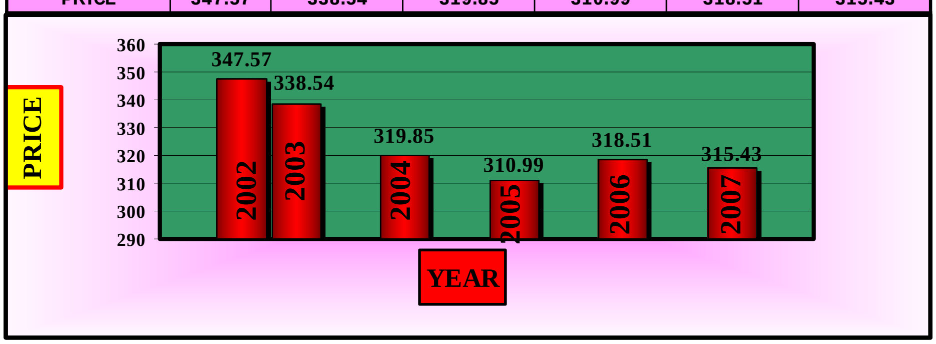


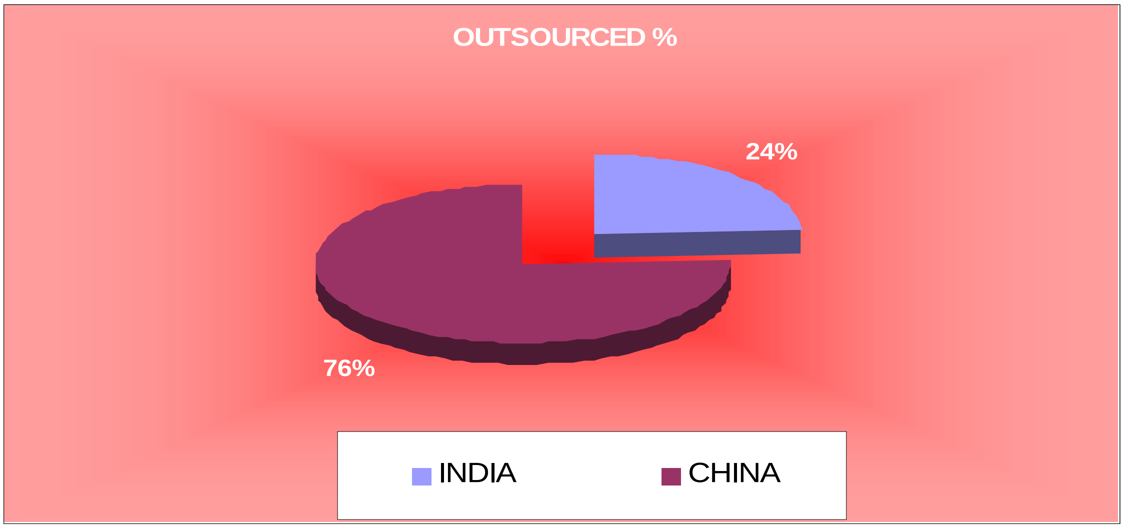
Table 3 Fig. 1

Indian manufacturers face unequal competition:

The Indian manufacturers lay in the small-sector of the Indian economy and were subject to 'reservation' and capital investment limits. They were not allowed to invest more than 3 crores and upto 5 crores (where up gradation was permitted and use of superior sophisticated technology was acquired by prior permission of the government). The limited capital available to them was not enough to produce products that were competitive in the global market. The quality suffered because of lack of superior technology and price suffered because of limited production. The Indian manufacturer was therefore unable to compete on terms of price with the large–scale mass producing, vertically integrated factories of the multinational Chinese companies.

Due to certain internal as well as external macro forces, the Indian manufacturers suffered from rigidities and controls and they were unable to supply the required quantity at the right time. On the other hand, the Chinese products were supplied in bulk quantity and that too in a short time-span. It was observed that besides the price of the product, its aesthetics, quality, design, and shelf life became an important determinant for its demand. The Chinese manufactured products have become the obvious choice of both the retailers as well as the consumers since they offer a superior quality and a lower priced product.

The large Indian Brands also preferred the Chinese products under their names for another reason. They were able to source the same at lower prices and earn profits while projecting a brand with products that competed with international ones. This induced them to outsource to India. It is estimated that the Indian Brands were outsourcing 76% of their products from China and only the balance 24% was purchased from Indian vendors. This has impacted our domestic industries adversely.



The government demarcated special regions as excise free zones for them. Many Brown goods manufacturing units re-located themselves in the new excise-free zones of District UNA Himachal Pradesh, Gurgaon in Haryana, District Sirmour Himachal Pradesh , Paonta Sahib Sirmour Himachal Pradesh, Parwanoo District Solan, Himachal Pradesh, Noida, Daman, Himachal Pradesh Thana and Baddi in Himachal Pradesh. But the manufacturers were faced with a lot of difficulties in these areas with respect to transport, skilled labor, infrastructure, etc. and this was vividly revealed from the responses given to the questionnaire administered to them.

In relocating a factory, a company had to make a lot of investment of money, time and effort. The risk and uncertainty in putting up new factories in such areas was very high. They faced a lot of difficulties because cheap and skilled labor was not easily available in these areas. But it was mandatory for the factories located in these areas to employ at least 50% of local people. In the opinion of the researcher, since the labor was ensured of its job security, the attitude towards work was taken for granted. They lacked professionalism and the rate of absenteeism was very high. As per the researchers discussion with the factory owners the researcher had been informed that there was also a lot of harassment meted out by local hoodlums and union leaders.

These zones suffered from infrastructural difficulties. Often Indian companies tried to compete on price by reducing their own profit margins as well as that of dealers, retailers or perhaps substituting with cheaper inputs or compromising quality of products. They could not produce new designs or spend much on Research & Development because of constraints by investment limits. As a result they were often left with spare capacity because of lack f demand.

Indian Manufacturer: Actual Production & Spare Capacity for Specific Products

Products	**Output produced per annum (Actual production)**	**Annual capacity for production**	**Spare capacity available**	**Nationally sold output p.a.**	**Internationally sold output p.a.**
Room Heaters	42000	92000	50000	42000	0
Iron Dry	491000	900000	409000	491000	0
Water Purifiers	40275	78000	37725	37643	2632
Room Coolers	60000	100000	40000	55000	5000
Geysers	224557	348000	123443	224557	0
OTG	6128	15000	8872	6128	0
Toasters	24600	26600	2000	24600	0
Juicer	80000	140000	60000	80000	0
Air Conditioner	2076	45000	42924	2076	0
Immersion Heater	45000	100000	55000	45000	0
Gas Stove	70000	140000	70000	70000	0
Mixer/Grinder	175000	500000	325000	175000	0
Food Processor	5100	70000	64900	5100	0
Total	**1,265,736**	**2,554,600**	**1,288,864**	**1,258,104**	**7,632**

Table 4

Although total production of Brown goods in India had increased 10 times in absolute numbers since 1991, no category produced more than 1.5 lakh units per annum in any of the factories surveyed. A very disturbing observation was that the percentage of production capacity utilized was only 47.67%. It was observed that there existed a spare capacity of almost 52.33% in production on an average in all the Indian factories producing Brown Goods. This shows that the competition faced from the Chinese goods is adversely affecting their demand.

The Indian manufacturing companies considered Sales volumes, Sophisticated technology, Infrastructure bottlenecks, High cost of power, Indian labor policy, Investment in R&D, very high cost of borrowings, Trade policy of the government and transport and connectivity as reasons to this unequal competition they faced from Chinese competitors. Percentages given below gives the gist of the survey taken.

Indian Manufacturer: Reason for unequal Competition

	Sales Volume	Sophisticated Technology	Infrastructure	Availability of raw material	Price of raw material	High cost of power	Labor policy	Financial constraints	Investment on R & D	Quality, finish and aesthetics	Government trade policy	Excise duties and local taxes	Transportation and connectivity	Investment limits on SSI sector	Vertical integration
Average.	**13.64**	**10.18**	**11.45**	**6.73**	**7.82**	**13.36**	**11.91**	**6.45**	**10.18**	**5**	**11.73**	**6**	**11.91**	**6.44**	**5.4**
%	**90.09%**	**67.86 %**	**76.33 %**	**44.86 %**	**52.13 %**	**89.06 %**	**79.4 %**	**43.0 %**	**67.86 %**	**33.33 %**	**78.20 %**	**40.0 %**	**79.4 %**	**42.93 %**	**36.0 %**

Table. 5

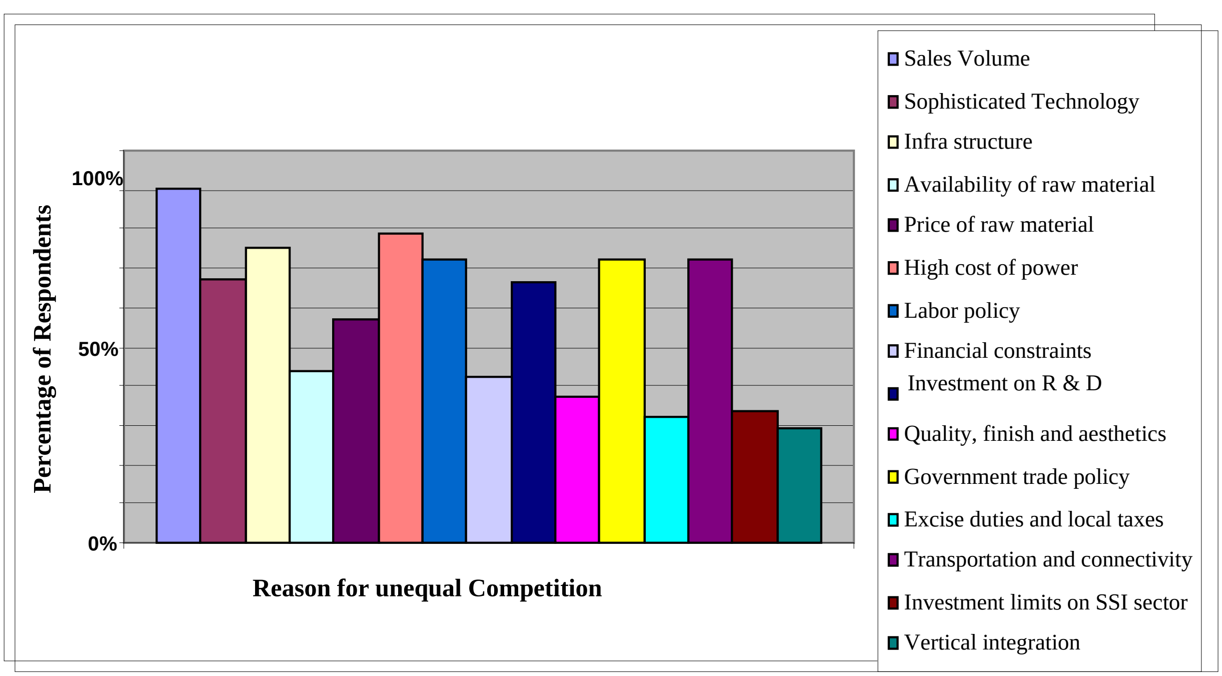


Fig. 3

Findings:

Indian Retailers:

Findings revealed that retailers rated the quality of the Chinese manufactured goods sold under Indian brand names as excellent. This showed high acceptability of these products. The retailers found a very obvious and perceptible difference in quality of Indian products manufactured domestically and those that are outsourced from China. More than 50% of retailers felt that the Chinese goods were of superior quality and in great demand by consumers. The retailers confessed that these goods brought higher profit margins.

Indian consumer:

According to the researcher, the mean age of the consumer respondents was around 25-40 years. This was of great significance to the researcher because this category of people made a decision with respect to the purchase of brown goods. 46% of them had a family income of Rs.50000-100000 p.a. and they constituted the middle income group in India. This middle class was now having rising incomes and their demand for comfort goods, in particular the household appliances was on the increase.

The respondents were not concerned about the location of manufacture of the product as they were sold by trustworthy Indian Brands like Bajaj Phillips Usha under their own names. The consumers felt that the most important parameter for the purchase of a product was quality, next was features of a product and this was closely followed by price. Consumers now planned to buy better quality and more sophisticated goods in the future. This was indicative of the rising financial status of the consumers and a growing market for brown goods. This meant that there was a good scope for this industry to flourish considering that India was a fast growing population.

Datamonitor Household Appliances in India[1], (reference Code: 0102-2078 Publication date: June 2009), a leading business information company specializing in industry analysis states that the market value of the Indian household appliances market grew by 9.4% in 2008 to reach a value of $4.8 billion. It forecasts that in 2013, the Indian household appliances market is forecast to have a value of $7.7 billion, an increase of 60.7% since 2008. Its market volume grew by 11.8% in 2008 to reach a volume of 34.7 million units. It claims that in 2013, the Indian household appliances market is forecast to have a volume of 52.2 million units, an increase of 50.4% since 2008. According to Datamonitor, India accounts for 8.3% of the Asia-Pacific household appliances market's revenue. (Asia-Pacific comprises Australia, China, Japan, India, Singapore, South Korea and Taiwan). The Indian household appliances market generated total revenues of $4.8 billion in 2008, representing a compound annual growth rate (CAGR) of 12.5% for the period spanning 2004-2008. The Indian household appliances market has grown at a strong rate since the last decade. Further strong growth is expected for the future.

Chinese manufacturers:

Chinese companies were worth more than dollar thirty thousand crores companies. They had large-scale production, vertical integration, enjoyed economies of scale and spent a large amount of funds on Research and Development. This made the price of their products highly competitive in the global market. The Chinese government encouraged large-scale production and employment in the manufacture of Brown Goods. The government also helped in setting up of the factories by giving land, power, investment in machinery and real capital etc. Almost 94% had their own design capabilities and according to the researcher, this was an inherent strength of a company. This according to the researcher helped them to introduce a new product or make changes in the features of an existing product.

Their products were manufactured in compliance with many national and international safety standards, such as GS, CE, LVD, EMC, BEAB, BS, SAA, UL and CSA. They were also environmentally conscious and almost all the companies had an ISO14001. Their exports and presence had increased not only in Asia, Eastern Europe, Middle East, South America, New Zealand, and Australia but also in North America and Europe. But many Indian companies were not even ISO certified as yet.

They were all engaged in mass production and reaped the economies of scale. A company called Galanz in China produced 60,000 units of microwave ovens in a day and catered to 45% of world market for microwave ovens and supplied to 248 countries around the world(data 2004). Another Chinese company BEP in Shenzen churned out 5 million pieces of home appliances every year. Still another Midea was getting twice as large as BEP. Most of the companies employed more than 2000 workers for their each factory producing different items. To give an example, the MIDEA Group of companies was a $16 billion company and employed 65000 staff.

The Chinese companies received a lot of benefits from the government. The capital invested for the first 5 years was refunded back to a successful company. There were also other benefits and subsidies for tariffs and duties and other export incentives. Banks in China gave credit at rates between 0-5 percent. The government in its efforts to encourage these industries tried to award them with titles at the election periods. They even rewarded them with cash prizes. Take for example in 2005 a company by the name of INSE, producing gas water heaters received $1 million cheque and a government certificate to buy more land and increase production just because it had done the best in that financial year.

As against this we have already seen the case given above that shows how falling custom duties in particular have worked in making Chinese goods price competitive. We have also seen how the escalation of taxes at every stage make Indian goods price uncompetitive. The Indian manufacturers face the brunt of excise, CST, VAT, Octroi and Entry Tax. The investment limits that were slapped on them in the past did not allow for production of highly sophisticated world-class products due to dearth of capital. Bank loans are having high rates of interest, power supply is subject to load shedding, and attitude of labour is not very conducive to higher productivity. Hence the Indian manufacturers are declining in numbers while faced with intense competition from the Chinese products outsourced into India. This research therefore endorsed the fact that 'Indian firms faced an unequal competition' and it proved the hypothesis 'The Macro Economic Policies of the Government have worked in favor of the Chinese Brown Goods in India"

Recommendations:

1. De-reservation and Investment limits:

All sectors must be given freedom to grow as per market demand. There should be no limitations to the amount of capital invested and number of people employed. Such restrictions did not allow for global competitiveness in the international market. In other words, there should be no 'investment limits' and no 'reservation' for the Brown goods sector in the SME. (Government has already realized this and has moved into the right direction)

2. Trade Policies:

We must remove the escalating tax structure. There must be simplicity and uniformity for payment for all states. The taxes must not escalate as goods move from one state to another. If VAT (Value added tax) is to be imposed then it should be levied by all states. There should be rationalization. In that case the Central Sales tax must be removed. Also there should not be different rates of octroi in various states. The newly levied entry tax in states like Madhya Pradesh and Orissa should be strongly opposed.

The duty on imports was negligible and it was cheaper to import finished goods than components from abroad. This should be reconsidered. We must encourage domestic production even if it was with the help of imported components like motor, etc.

3. Government Support:

The government must set up workshops to train the local workers so that skilled labour was easily available in the newly developed excise free zones where factories are now set up

The government should arrange for Conferences, Trade Fairs and Exhibitions where the industry can meet up and share new ideas, new technology, and new designs besides doing greater business.

Financial institutes and government banks must make special arrangement for funds for these industries as they are presently paying very high rates of interest.

The government must try to revive the sick units and those factories that have shut down due to severe competition from Chinese goods.

The government must set up departments that will encourage research and development of these goods. It was very expensive for a small Indian manufacturer to design new products or make changes in the existing ones. They so not have such a set up. The tooling and making of moulds was very expensive and beyond the budgets of the Indian manufacturers.

Backward and forward linkages of processes must be encouraged. When such vertical integration of operation takes place the quality of the product improves and so does its delivery time schedule. This would be possible with higher investments.

The government must give support to these industries in the form of subsidies and other incentives. They must help them with the purchase of raw materials and also with the adoption of sophisticated technology.

The existing policies must be revised to make it more growth-oriented, based on feedback collected from organizations such as SIDBI, State Level Directorates of Industries, Apex Chambers such as ASSOCHAM, FICCI and CII and regional Small-Scale Industry Associations. In addition, Regional SME Associations should be involved in the future planning of technology up gradation of the sector.

4. Infrastructure Support:

Infrastructure growth in India should keep pace with its rapidly growing economy. We must build more ports, international airports, rail terminals, and express roadways. The connectivity between all modes of transport should be synchronized to the extent that there was no wastage of time at any terminal.

We must build Special Economic Zones of the same quality and stature as it exists in China.

The goods once packed at the factory must be done under a government appraiser's supervision. Once packed and sealed they should be put into containers that go straight into the ports to offload the products directly into the sea vessels for transportation. This saves handling expenses plus the warehousing expenses and the cost of damages during transportation and distribution.

Our excise free zones must be well equipped and must provide all the basic amenities. There must be provision for continuous power supply at low cost. The transport system must be good and monitored by the government authorities so that the locals do not harass the factory owners. There must be provisions for stay in good hotels in these zones. Telecommunications must be stable as all these contribute to good business.

Conclusion:

The government should re-vamp its macro economic policies to suit the changing global environment wherein the Indian goods can thrive with prosperity and growth.

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