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CONTENTS

Impact of Outsourcing 'Brown Goods' From China

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ABSTRACT:
There is a phenomenal growth in the demand for small home appliances, in other words, the 'Brown Goods sector', from the rising middle-class populations in India. Unfortunately, the gap between demand and supply is today being filled with the import of Chinese products that are cheaper and of better quality. These products today threaten to wipe out the Indian manufacturers of these products. Indian manufacturers of Brown goods face unequal competition due to the unfavorable policies like the 'reservation' policy that demarcates industries into segments like the small-scale sector, the medium and large-scales sector and the 'investment limiting criterion' attached to it. On the other hand, it is observed that the macroeconomic policy of our government has been quite unfavorable to the Indian manufacturers in this sector. Due to the liberalization policy of the government, the custom duties have been declining over the years making it profitable to import finished goods. At the same time the Indian manufacturers are not provided any relief from taxation. Today it is cheaper to import a finished product than to import spare parts and assemble the same product in India. It is also definitely cheaper than manufacturing the same in India as our factories are neither large-scale using sophisticated technology nor are they vertically integrated. Indian units therefore face 'unequal competition' from China the large-scale mass producer of these goods. This paper highlights the problems faced by this industry and is a humble attempt at recommending changes in the macroeconomic environment.

INTRODUCTION:

The last two decades of the Indian economy have witnessed phenomenal changes after the declaration of the liberalization, privatization and globalization policy of the government. 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). While the government has welcomed large foreign companies to market and compete with the local players, our macroeconomic policies concerning tax structures and 'reservations' for small scale industries make them highly uncompetitive. This study is a humble attempt in exploring the problems faced by the 'Brown goods sector' or the 'Small Appliances industries' reserved under the SSI in particular.

SMALL-SCALE SECTOR IN INDIA:

Small-scale industries have an important role in India's industrial and economic development of India. Their development has been given a lot of emphasis because of a number of avowed objectives such as promotion of entrepreneurship, generation of employment opportunities, development of decentralized development, prevention of concentration of economic development, utilization of local resources, protection of interests of artisans, preservation of craftsmanship and heritage of the country etc.

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

Enterprises	**Manufacturing Sector** **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 1.1

The criterion for differentiating small-scale enterprises from the large-scale is generally based on the size, capital resources, and labor force of the individual unit. Thus different industries are 'reserved' in watertight compartments. It is permitted a definite amount of capital investment only

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THE BROWN GOODS INDUSTRY:

The 'Brown goods' manufacturing sector belongs 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 are more than 100 crores companies. They only market the products under their brands and cannot directly invest in the SSI. This creates uncompetitive Indian products in the market since multinationals especially Chinese companies in particular have entered the market with a storm.

The 'Brown Goods' Indian companies is divided mainly into two segments: 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.

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. Those in the unorganized sector have also had a bitter experience. 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

Globalization has facilitated two major developments, both of which have significant implications for SMEs in developing countries. 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. As a result, globalization affects almost every economy, favorably or adversely. (The Chartered Accountant September 2005).

What is required today is large-scale production of high quality goods to meet the growing demand of the 300 million middle class Indians.

Indian SMEs comprise not just factory enterprises but a considerable number of predominantly rural based, un-organized manufacturing enterprises. As and when the level of income goes up, particularly in rural India, this sub-sector is bound to diminish gradually due to lack of demand on the one hand and transformation through modernization, on the other. Therefore, this sub-sector is unlikely to benefit from the globalization process. Rather, it may get affected adversely. (The Chartered Accountant September12005).

A major proportion of the manufacturing enterprises in the Indian SME sector operate with obsolete technology. This lack of technology sophistication will act 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:

The process of globalization unleashed in 1991 has 'created' a new world - a world in which not only there has been an inflow of substantial foreign capital, but also the domestic corporate sector for the first time saw itself as the 'target' rather than the 'beneficiary' of the heightened activities of foreign investors. 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 corporate sector, the 'Brown goods' sector of the small-scale sector of India in particular.

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) is 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.

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 means that, whereas foreign companies, which produce these products, could sell them freely in India, large domestic companies are not free to manufacture such items. These facts give credence to the view that the government has allowed free competition between the Indian small-scale sector and the multinationals but not with the large Indian companies.

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 also 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.

SIGNIFICANCE OF THE PROBLEM:

Small-scale units do not need protection by 'reservation' and can survive in free markets. The removal of 'reservation' will also pave the way for greater equity participation from large Indian companies and foreign investors along with greater sub-contracting. It would be easier to establish interdependent relationships between large, medium and small industries as subcontractors, ancillaries and suppliers of components as well as for marketing network.

OBJECTIVES:

1) To understand why Indian manufacturers face unequal competition from China
2) To examine why Indian marketing companies of Brown Goods prefer Chinese manufactured items rather than Indian manufactured products.

HYPOTHESIS:

'Outsourcing of Brown Goods from China have phased out its Indian manufacturers"

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 area in the past. The subject matter is of great concern to the Indian economy as a whole because the Brown goods sector is a subset of the small-scale sector of the Indian economy and if it is being adversely impacted; then one has to look for the reason and try to recommend changes. This sector provides income and employment to a large number of people. Many firms belonging to the Brown goods sector are already closed down and some others have relocated themselves due to the invasion of Chinese manufactured products that are being outsourced to India today. 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 from 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 Chinese 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, and 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

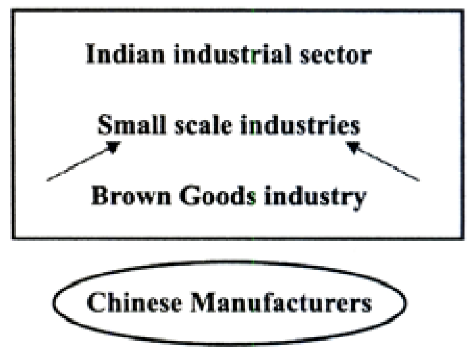
- Global sources report of China
- Publication of forum of Free Enterprise
- Economic Survey 2000-2001,
- RBI Handbook of Statistics on Indian Economy 2000
- SIDBI report on Small-scale industries sector 1999
- Government of India Eighth Five Year Plan 1992-97 Vol. II and the Ninth Five Year Plan 1997-2002
- 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
- Data monitor 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.

FINDINGS:

The entire industry in the Browns goods sector (small appliances like gas stoves, geysers, air coolers, irons, mixer grinders, micro wave ovens, etc.) constituted only 12-14 important players who market these products. They did not manufacture the Brown good themselves. They outsourced the products from the domestic or foreign vendors and marketed them under their own brand names. Manufacturing of these brown goods had been reserved in the small-scale sector (SSI). Post 1991 the Indian marketing companies got an opportunity to purchase and outsource products from other countries. This was found most profitable from China as most of these 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.



Their prices were most competitive and quality superior than the Indian manufactured goods. The supplies were good and made available on time even at a short notice.. The Indian manufacturers/vendors tried to give the same features for their products but could not match either quality or aesthetics since they did not have enough Investments in design capabilities or R&D as their counterparts. In packaging, having zero defects and timely delivery also, the Indian goods were far behind the Chinese. Where sophisticated technology, frequent up gradation of models percentage spent on R&D and where environmental friendly products were concerned the Chinese products were far ahead of Indian counterparts.

Since the Chinese goods had ISO certifications and other standardizations such as EU, UL, BS and others, as they catered to western advanced countries. All western advanced and developed countries had a mandatory clause for such certifications. These countries had very strict safety and precautionary measures for their consumer products. But many Indian companies were not even ISO certified as yet. Cumulative taxation levels in India were very high. The Indian manufacturers paid excise, central sales tax, octroi, VAT as well as sales 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.

Fall in custom duties: Indian custom duties had been falling. And this has also worked in favor of the Chinese made goods. In the year 2002 the new import duty (customs) was 30%. In 2003 this became 25%. In 2004, it fell further to 20%. In the year 2005 it was slashed further down to 15% and in 2006 to 12.5% and in the year 2007 it further fell to 10%. As the imports were in large quantities the benefit to the marketing companies under whose brand names these products get imported was therefore very large. fact that the per piece .
The result is that Indian marketing companies today were outsourcing 72% of their products from China and only 28% was either manufactured or outsourced from Indian vendors. This has impacted our domestic industries adversely.

Parameters compared: China & India

Parameters	CHINESE CO. Company: Crastal Appliances Ltd.	INDIAN CO. Universal Industries Ltd.
		32,000 pieces per year largest seller supplier to Bajaj
Sheet metal pressing	Inhouse	Outsourced
Element	Inhouse	Outsourced
Design	World class and economical	Copy and outdated
Labor wages	$ 100	Rs. 3500
Labor productivity ratio	2 times of India	Low
Subsidies from govt.	4%	Nil
Power	25% cheaper to India	Expensive and inconsistent

Table.1.2

The researcher drew a comparison between two companies one Crastal Appliance Ltd. in China and the other Universal Industries Ltd in India producing the same product. The comparison was made on different parameters to see how and why it was cheaper to import from China than to buy an Indian domestically produced good. The findings revealed that China had mass-production in great volumes of million pieces per year. As compared to this only thousand pieces per year are being produced by the Indian company. Besides this it was revealed that the Chinese companies were vertically integrated and had in house facility for inputs used. But the Indian companies purchased all inputs from other firms.

The Chinese firms created world-class and economical designs. They had a separate department for designing. A large part of investments went for research and development. They tried to innovate continuously. On the other hand, in the opinion of the researcher, the product manufactured by the Indian company was a copy of a foreign brand. The original piece was outdated as per the international standards.

Labor productivity ratio was two times that of India. Besides the subsidies received from government constitute almost 4% whereas no such facility was available to the Indian company. Power available to the industries was also 25% cheaper than India. Power supply in China was at least regular for these industries. In the opinion of the researcher, in India there were a lot of power cuts and load shedding even for the industries. Besides this, power was also more expensive and inconsistent.

Increased Outsourcing: The most dominant firm in this industry, Bajaj Electricals Ltd. .and its subsidiary business unit Morphy Richards revealed that the imports from China had phenomenally grown over the years. The findings depicted a growing demand for Brown goods in India. It was observed that there was an increase in the imports of water heaters, hand blenders, juice extractors, kettles, irons, micro wave ovens, Oven Toaster Grillers, kettles, steam irons, mixer grinders, etc. In the opinion of the researcher, every individual product had increased over the years. This in the opinion of the researcher was a matter of great concern as this affected the income and employment of a number of Indians.

THE INDIAN MANUFACTURERS:

It was observed that the Brown goods manufacturing units had 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.

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. 0-5% of the manufacturers used imported components as inputs. As it was more costly to import components than to import finished goods to India.

Although total production in India had increased 10 times in absolute numbers but no category produced more than 1.5 lakh units per annum.. A very disturbing observation was that the percentage of production capacity utilized was only 47.67%. There existed a spare capacity of almost 52.33% in production on an average in all the companies.

The findings from primary data revealed that all of the Indian manufacturing companies agreed that they were facing unequal competition from China and more than 50% of the companies had attributed the following reasons to this unequal competition: Sales volumes, Sophisticated technology, Infrastructure bottlenecks, High cost of power, Indian labor policy, Investment in R&D, Trade policy of the government and transport and connectivity. Another important observation was that the Indian manufacturers had very high cost of borrowings. This led to an escalation of prices of their products.

INDIAN RETAILERS:

Findings revealed that one third of retailers rated the quality of the Chinese manufactured goods sold under Indian brand names as excellent, the rest found it good or satisfactory. This showed high acceptability of these products. According to the researcher, the retailers found a very obvious and perceptible difference in quality of Indian products manufactured domestically and those that are outsourced from china. Almost 50% of retailers felt that the Chinese goods were of superior quality. In the opinion of the researcher, quality but also the price of these goods that would ultimately make a difference in the choice of the consumer.

INDIAN CONSUMER:

According to the researcher, the mean age of the consumers 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 our respondents had a family income of Rs50000-100000 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 brown goods that was the household appliances has also increased. The respondents were not concerned about the location of manufacture of the product.. Since the goods were sold by Indian marketing companies like Bajaj Phillips Usha under their own names. So it did not bother the consumer. But the marketing companies benefited by purchasing from vendors in China. The most important parameter for the purchase of a product. was quality, next was features closely followed by price. People were now planning 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.

CHINESE MANUFACTURERS:

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. According to data collected, 69% of the Chinese companies spent about 3%-6% on R&D while 25% of the companies spent 6%-10%. 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.

Chinese manufacturers of Brown Goods had become very quality conscious. Not a single company claims that it had less than three quality checks on an assembly line as answered in question 7. It was seen that 25% respondents said that they had more than 3 but less than 5 quality checks per assembly line. While a majority of them i.e. 57% respondents had claimed that they had more than five quality checks per assembly line. 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.

In the opinion of the researcher, the cost of power in China as compared to that in India was quite low especially for commercial use. 75% respondents said less than 5 yuan (Rs. 8 =1yuan) and 19% of the respondents paid less than 1(one) yuan per unit.

In the opinion of the researcher, more than 31% of the companies employed more than 2000 workers for their each factory producing different items. To give an example, the MIDEA Group of companies that was visited by the researcher was a $16 billion company and employed 65000 staff.

According to the researcher, salary given by 31% of Chinese companies was around $100 per worker while 44% of the companies paid a worker around $100-$150. The researcher observed that the salaries were attached to productivity in China. It was attached group production and also to individual productivity, innovation and individual incentives are given. The break up was thus: Basic salary constituted 56%, Individual performance 69% and group activity 50%. This ratio was 32 Basic salary: 40 individual Performance: 38 group activity. This according to the researcher promoted motivation and incentive to work hard for the company.

In the opinion of the researcher, there was a communist regime discipline followed by workers .Some of the companies granted only a half an hour break time interval in an 8-hour shift. 56%of the companies had at least two shifts a day. But there were companies like Galanz where they worked in three shifts. Labor was generally migrated from North China and 75% of the companies gave them free lodging and boarding facilities. In the opinion of the researcher, this again ensured the duty hours were followed strictly.

They were in constant fear of cancellation of their work permits in the special economic zones subject to a complaint by their employers.. They claimed that they were working in the service of the nation. An element of communism still existed under the garb of capitalism in China. In the opinion of the researcher this positive attitude led to higher productivity and output.

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

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.

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. As observed by the researcher, there was a port at every 4 to 5 kms distance along the seacoast of China.. All the ports of China especially along the south-west coast were well developed and very well connected to all the road and rail terminals. This enhanced the distribution of supplies. It also became easy and economical to trade without unnecessary loading and unloading and halts at warehouses.

Another important feature of the Chinese economy according to the researcher was that its infrastructure development was fast growing to keep pace with the overall growth of the economy. The rapidity with which the number of flyover bridges and expressways had been created in China in the last decade was incredible.

As compared to this India was far behind. This research therefore endorsed the fact that "Indian firms face an unequal competition' and it proved the hypothesis also that 'globalization has adversely affected the SSI in India in the case of the brown goods sector of the economy.'

RECOMMENDATIONS:

1. DE-RESERVATION AND INVESTMENT LIMITS:

The Indian industrial sector must not have water tight compartments of large-scale, medium -scale and small scale sector. All sectors must be given freedom to grow as per market demand. There should be no 'reservation' for the brown goods sector in the SSI.

It was suggested that 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'.

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 labor 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 entire package available to a Chinese was highly advantageous as compared to an Indian who was crushed between bureaucrats and policies of the government. The Chinese companies received a lot of benefits from their government. This research therefore endorsed the fact that Indian firms faced an unequal competition and that the policy of liberalization had a severe and an adverse effect on the small scale industries' 'Brown Goods' sector in India because of increased outsourcing of these goods from China.