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THE IMPACT OF PHASING OUT OF IMPORT LICENSING ON SMALL SCALE INDUSTRIES

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Foreword

Over the past year or so there has been an increasing concern in the country about the likely impact of the elimination of quantitative restrictions on Indian industry. In this context, ICRIER commissioned a market survey in the Delhi metropolitan area to collect information on the products manufactured by small-scale industry that are facing competitive pressure from imported products. Mr. Sridhar Krishna has identified some of these products of the small-scale units that have been affected by increasing imports. The reasons for such adverse impact are very complex. Imports through informal channels (which avoid paying customs duty), and high customs duty on intermediates compound the inherent non-competitiveness of the small-scale sector. Other factors that are responsible include: lack of economies of scale, infrastructural inadequacies, high cost of credit, burdensome labour laws, etc.

This market survey will provide a valuable input for the ongoing ICRIER research in the area.

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Quantitative Restrictions (QRs) in India, which took the form of import licensing, have been gradually removed beginning about four years ago but in a substantive form they were removed in April 2000, when 715 items were placed on the Open General License (OGL) list. Another 714 items will be placed on the OGL list in April 2001. Items being placed on the OGL list implies free import. The removal of QRs on 1,429 items was the direct consequence of the Indo-US agreement carried out within the provisions of WTO. Since India did not have a balance of payments problem the QRs could not be continued. The 'Restricted items' list which obtained earlier was in fact a negative list in as much as licenses pertaining to those items were never given.

The industries taken up for the study were those whose products had already been placed on the OGL list to make the study factual; and to observe the effects of imports that had already taken place on small scale units. Secondly, those industries were selected where there were indications that they had been adversely affected by imports. These indications were based on newspaper reports and inputs provided by CII which had held seminars on the subject in various parts of the country. They were confirmed in the case of industries dealing with watches and clocks, toys and plastics. They were however proved wrong in the case of those dealing with ceiling fans, ice cream and bicycles.

Mehta (2000:1667) has shown that there will only be a marginal increase in import demand amounting to 8.7 percent of the total imports as a consequence of removing the QRs on 1429 items. But the problem needs to be viewed on a selective basis, since certain industries have been hurt because of their own peculiar circumstances by the removal of QRs. Action to redress the situation has to be taken on a selective basis.

Small scale units were identified in accordance with the government's prevailing notion as those with a value of plant and machinery either equal to or below, rupees one crore. Tiny units are those with a value of plant and machinery below rupees 25 lakhs.

Owners of small scale units were interviewed together with the office bearers of industry associations who were often themselves owners of small scale units.

Watches and Clocks

Watches and clocks belong to HS chapter 91, with 22 lines, and were placed on the OGL list on 1 April 2000. Earlier watches and clocks could be imported by means of the Special Import License, which could be purchased in the market. The basic duty currently on watches and clocks is 35%, the surcharge on basic customs duty is 3.5%, the additional duty is 16%, the Special additional duty is 4%; and the total duty is 67.08%.[1]

The watches and clocks industry was not taken unawares by the lifting of import licensing and even the small scale units were fully cognizant of the consequences of signing the WTO agreement.

Imports since April this year, have adversely affected the industry, but they have hurt the relatively larger units more than the small scale units. This is because the small scale units have adapted themselves to the new situation and transformed their businesses in a manner that the relatively large scale units cannot do.

All tiny and small scale factories manufacturing time pieces, wall clocks, alarm clocks and watches have given up all manufacturing activities and instead they have switched over to importing (smuggled) ‘watch movements’, fixing glasses on them, encasing them and selling them in the grey market. A ‘watch movement’ is the basic machinery of the watch; and for all practical purposes it is the watch minus the case and glass. The assemblers have gone into the grey market. According to the President, All India Electronic Watch and Clock Manufacturers Association, one lakh smuggled ‘watch movements’ are being sold per day in Delhi alone. In the grey market there are no bills, so no taxes have to be paid.

The relatively larger units cannot obviously operate in the grey market and therefore have had to suffer on account of competition from imports. Jaina Time Industries, a prominent quartz watch manufacturer, which had a turnover of Rs. 9 crores, has seen its factory employing 900 workers being closed. Without sales, there is no production. It is a direct consequence of free imports. Other units which are closed are Bifora, Allwyn, Timestar and Action. Even Titan has reduced its prices.

MNCs are importing a wide range of watches and are selling them at a very low price. These watches are both at the high end as well as at the low end. Competition, however, is mainly from smuggled watch movements. Indian watch movements are actually cheaper than imported watch movements if they are imported officially.

The import duty as it obtains on watches is perceived by the industry to be enough. Currently a 16% Countervailing Duty (CVD) is being charged on ‘watch movements’ and components, but this should not be imposed as small scale units are importing them to produce watches with an M.R.P. of less than Rs. 500. This would enable parity between watches with an M.R.P. of below Rs. 500 which are domestically produced and on which there is no excise and watches which are being assembled domestically with imported ‘watch movements’ and components.

Because of flooding of imported watch movements the capacity utilisation in the industry as a whole, is only 25%.

While there is no problem of adequacy of credit, loans are available to the small scale units at interest rates between 16% and 18%. This needs to be compared with loans in China, which are available at between 4% and 6%. Imports of watch movements are mainly from China.

The industry has no problems of technological upgradation as even the small scale units are working with modern methods.

The infrastructure facilities available to the small scale units are grossly inadequate with power failures posing a big problem.

Small scale units perceive labour laws quite inconvenient. They want freedom to terminate the services of an employee, if the employee is not working properly. Labour laws apply to units with 20 workers with no power and units with 10 workers with power. Termination of services or retrenchment is not possible for units of these sizes. A change in labour laws would help the units face the stiff competition from China. Under the present system, their energies were drained away in satisfying government agencies like ESI rather than in running the factory. The record work for ESI and Provident Fund, was voluminous and therefore, what was perceived was a need for simplification of the labour laws.

The industry felt the government should set up R and D facilities, in particular for testing the product and raw materials, This would improve the quality of their products. If the small scale units could be certified by the government it would help them.

Dumping obtains if a product is sold in the foreign market at a price less than what is sold in the domestic market. The industry was of the view, that an anti-dumping duty, on imported quartz alarm and quartz clock movements should be imposed because these are being imported from China even below the cost of raw materials used in them.

Another phenomenon which is hurting the industry is that in Japan quartz ‘watch movements’ are being made by robots in terms of lakhs of pieces per day.

However, not every one is a loser in this industry. Some small scale units have gained from the MNCs. Those units manufacturing dial, case, winding crown, glass, hands, push pins, and movement holders are getting orders from MNCs.

One of the small scale units interviewed was Time Trading Corporation, which is both a manufacturer and trader of alarm clocks and toys. The value of plant and machinery of this unit was Rs. 30 lakhs. The unit was of the view that imports had affected its sales and imports would continue to hurt its sales in the future. Manufacturing costs overseas are lower, resulting in cheap imports and this was hurting the small scale units.

A phenomenon that was adversely affecting the small scale units was underinvoicing of imports by fake units. To illustrate, if for a genuine importer the basic cost of imports was Rs. 100, the import duty was Rs. 70 (at a rate of 70%) and the sales tax was Rs. 20, the total cost would add up to Rs. 190. For the fake unit, since the basic cost was underinvoiced at Rs. 30 instead of 100, the import duty would be Rs. 21; no sales tax would be paid (since it is a fake unit) and the total cost would work out to Rs. 121. A fake unit has a fake address, and while it escapes paying sales tax, it has to pay import duty otherwise it cannot import. There is connivance between the importer (dealer) and the customs staff to evade duty. Actual declared value is often 5% to 10% of the original cost. Even in the past the phenomenon of underinvoicing of imports used to take place but it was on a small scale, on imports of components by manufacturers. Over the last few months, ever since watches and clocks were placed on the OGL list, the underinvoicing of imports has grown even more.

In the present phase the competition was on account of price and not quality.

Small scale units had to buy labour according to government norms. This meant more administrative work. And government departments are far from honest. According to this unit bribery is rampant in the country. Unless they are bribed the officials will say there is falsification of accounts. In contrast, there is no inspector raj in China or Hongkong.

The second small scale unit interviewed was Standard Watches Pvt. Ltd. (Classic Watches) an assembling unit, with a value of plant and machinery worth Rs. 50 lakhs. Imports had marginally affected its sales. This unit had 75% capacity utilisation.

The unit wanted import duty reduction on plant and machinery and on tools and equipment used by it.

According to this unit the power situation was very bad. Communication was not seen as a problem. Sea port facilities were not adequate. The unit was getting its material through Bombay, and it took a long time. Airport facilities were considered okay but the government formalities were discouraging.

While at the moment imports were not hurting this unit, a lot of watches were coming from China, which was viewed as dumping since they were selling at a low price and the unit was worried about the future. This unit imports components.

The owner of this unit had visited China and seen at work a watch factory employing 350 people. The average Chinese worker puts in 10 hours per day as compared to 7 to 8 hours put in by Indian workers. The productivity in China is twice that of Indian labour. The Chinese also use better machinery.

The real market for watches in India is at the low end, provided by a population of 800 million, who in terms of income are below even the middle class. Superior watches like Omega, are not affecting Indian industry.

Plastics

Plastics, was placed on the OGL list in April, 2000; HS Chapter 39, with five lines. Plastic products are of three kinds : PVC, moulded and extruded. The basic import duty on plastics is 35%, the surcharge on basic customs duty is 3.5%, the additional duty is 16% and the special additional duty is 4%, making it a total duty of 67.08%.

Jewel Plastics is a small scale unit, with plant and machinery valued at below Rs. one crore, which manufactures extruded items, mainly packing material. The unit converts polymer into plastic bags.

What is affecting this unit is the import of smuggled High Density Poly Ethylene (HDPE), LDPE and Poly Propylene (PP) bags from Nepal. This unit which previously worked in three shifts is currently operating only one shift. Packing material manufactured in China is being routed through Nepal. Manufacture of plastic bags in China has certain advantages : there is no inspector raj in China; no customs duty on raw material and no excise either. In sharp contrast this unit had to face 53 inspectors. Further in China electricity is cheap. The Chinese get their capital goods from Germany without any import duty whereas Indian manufacturers do not have comparable machinery.

Many units have closed down and some are on the verge of closure. The plastic bags imported from China are about thirty percent cheaper than those manufactured in India. Plastic bag manufacturers in India therefore cannot compete with China.

The Association of Plastics Industries has made several representations to various ministries including Finance and Commerce but they have not received as much as an acknowledgement.

Working capital loans were available to this unit at 16%. To be able to compete effectively the unit needed cheap raw material and cheap finance. The unit wanted raw material to be available at international prices.

The Delhi Vidyut Board was charging the minimum but the unit was not getting power regularly. The unit was run on diesel.

The unit faced competition from those units in the rural belt which are not registered with the corporation and who in collusion with the department pilfered electricity without paying for it.

No import of raw material was possible because of the high protection given to indigenous raw material producers. The import duty structure on plastic raw material (polymers) is the same as that on plastic products, the total import duty being 67.08%.

Not all units manufacturing packing material in Delhi faced competition from imports. This phenomenon was explained as follows. Units whose buyers had found a source for importing from China, faced this competition. There were others, whose buyers had not found such a source, so they faced no competition.

A.P. Polyplast Pvt. Ltd. is another small scale unit, with plant and machinery valued at Rs. 15 lakhs, which makes packing material.

Import of Chinese packing material, routed through Nepal had an adverse effect in Eastern India, Bihar and U.P. In due course it would hurt other parts of India according to this unit. Not only is there import of smuggled Chinese packing material through Nepal, but also the import of packing material that is made in Nepal after value addition to imported polymer (After China and CIS, it's Nepal's turn to give India the jitters, *Economic Times*, 4 November 2000 : 1). At present while this unit was not directly affected by imports it was indirectly affected in as much as toy manufacturers had curtailed their demand for packing material.

The unit believed there were three reasons why it could not compete with imports: a) high electricity rates, b) high interest rates and c) high import duty on raw material (polymer).

While the unit had access to working capital, the cost was high at 16% and it was available only with collateral. If the unit could get credit without collateral it could also modernize. The unit argued that the limit should be raised from Rs. 10 lakhs for loans without collateral. Further, routine bank charges were high such as for cheque discounting.

Maman Chand Ramjidas is a small scale unit which does job work of lamination. This involves putting a plastic film on cloth or paper or jute, which is used for bags, collars and packaging. The owners of Maman Chand Ramjidas also own Poly Udyog, a small scale unit, whose plant and machinery are valued at below Rs. one crore, and which manufactures packing material. The unit was not able to modernize because cheap credit was not available. A good part of the unit's revenues went in bribing the inspectors. Inspector raj therefore has an economic cost which renders goods uncompetitive against imports from China.

For any plastic industry, the raw material - polymer, is crucial. Naptha is converted into polymers such as PVC, Poly Ethelyne and Poly Propylene. Reliance is the largest manufacturer of polymers in the country, followed by IPCL, GAIL and Haldia

Petrochemicals. Reliance sets the price and others follow suit. The price of polymer manufactured in Korea or Kuwait is between 600 dollars and 900 dollars per tonne, whereas in India it is priced equivalent to 1200 dollars. The import duty on polymers as noted above is 67.08%. The government is giving a huge protection to domestic manufacturers of polymers. Domestic manufacturers have priced polymers at par with the imported price, inclusive of import duty. One of the important reasons why the domestic plastic manufacturer is unable to compete with China is because of the high cost of polymers.

China is flooding the Indian market with plastic goods. China has mass production of goods on a scale which simply does not exist in India. The Chinese are able to realize economies of scale. Further, there are no export duties in China nor was there any inspector raj.

A cigarette lighter, also made of plastic, costs Rs. 7 or Rs. 8 in India, whereas one imported from China costs Rs. 1.50. Plastic pens made in India cost Rs. 5 whereas those made in China, cost Rs. 1 or 1.50. Chinese plants make 5 lakh ball pens per day as compared to 5000 per day in India.

China and Nepal have a trade agreement, and there is free movement of goods across the border. Made in China goods are being passed off in customs here as Made in Nepal goods. This includes plastic moulded products such as pens and plastic woven fabric such as packing material. However, it is not as yet common knowledge that Chinese goods are available at cheaper rates. If this knowledge percolates down it will hurt the industry. India has a free trade treaty with Nepal. There was a four percent special additional duty on imports from Nepal which has been recently removed (Goyal, 2000). According to industry association sources, 90% of the goods coming form Nepal are illegal, and only 10% is legal.

Very few people are into this smuggled goods trade as yet, but if it spreads, in the next couple of months it may become a major problem for the industry.

Since the Chinese do not know English, business contact between Indians and Chinese is limited or else the problem would have been more severe.

Poly Udyog also believed that cheap testing facilities for the product and raw materials should be provided by the government. The reasons why the unit could not compete with China were :

a) High import duty on raw material.

b) Lack of cheap credit.

c) lack of power.

and d) Inspector raj which has an economic cost.

P ‘n ‘A Industries is a tiny unit, with a plant and machinery valued at Rs. 19 lakhs, manufacturing PVC conduit pipes and accessories and moulded items. The conduit pipes are for electrical installations.

While working capital credit was easily available, the rate of interest was exorbitantly high at 19½% for this unit. Clearly this is one factor which works against its competitiveness. The unit was located in Haryana where power was a problem.

The unit believed that there should be a cluster approach for setting up tool-rooms for supporting programmes of technology promotion since every small scale unit cannot afford to have a tool room of its own. The unit was also of the view that the investment limit should not be raised as then the medium sized units would drive away the small scale units.

The unit had its own lab for testing the product. Quality marking centres existed in Haryana and there was a Regional Test House in Okhla but they were quite expensive.

The unit was not importing PVC resin and had 95% capacity utilisation. Imports had started affecting the market and the unit expected to be in a bad shape at the end of the year closes.

The unit faced a threat from the unorganized sector which was not registered, stole power and paid no sales tax. When even the unorganized sector with much lower costs was unable to withstand competition from imports, this unit was naturally in a similar situation.

The moulded plastic units have given up manufacturing and have started importing finished and semi-finished products and are selling them.

Toys

Toys were placed on the OGL list in April, 2000; HS Chapter 95 with five lines. The basic import duty on toys is 35% , the surcharge on basic customs duty is 3.5%, the special additional duty is 4%, making it a total duty of 44.04%. Two kinds of imports are taking place. One, those toys which have a brand name and two, those which do not. There is no threat to the industry from imports of products with brand names since in their case all the domestic rules and regulations are being observed. Products of Mattel, an American company, Lego a Danish company and Funskool an MRF company, which are the largest manufacturers in the world, are coming in this manner. But the proportion of toys being imported in this manner with all the domestic rules being observed is small.

It may be noted that since toys are reserved for the small scale sector, all the units in the toys industry are of small scale. The real threat to the industry is from imports of Chinese toys by professional importers, where products do not carry the address of the manufacturer or importer. The EXIM policy clearly states that all the rules which are applicable to domestic manufacturers also apply to imported products (EXIM : 11). Further Standards of Weights and Measures (Packed Commodity) Rules 1977 states that all prepackaged commodities imported into India must carry the address of the importer (Malik, 1999: 63). This means the address of the manufacturer should be given on imported products as is the case with domestic products. Since the address is not given no anti dumping investigations can be carried out. Further, there is no after sales service on these imported toys.

Prasid Toys Pvt. Ltd. has plant and machinery valued at Rs. 50 lakhs and manufactures electronic toys. Imports have hurt this unit and its present capacity utilisation rate is only fifty per cent. The imported toys are priced at about 75% to 80% of its price. Funds were available to this unit at 14.5% and this unit had been able to modernize.

The reasons why this unit was unable to compete with imports from China, was one, because there was severe underinvoicing on imported toys. Two, while this unit had to mention the Maximum Retail Price (M.R.P.) on each packaged commodity, imported toys were not mentioning the M.R.P. The Indian Weights and Measurement Act was not being followed in this respect either. This in turn had two consequences : a) if the M.R.P. is given it is possible to work back to the cost of the imported toy and this would check underinvoicing. b) Having stated the M.R.P., the price of this unit was fixed and the margin of the retailer was fixed, but the margin was not fixed in the case of Chinese products.

Toy manufacturing is a seasonal industry, with June to December being the Diwali and Christmas season and January to June being exam time is the lean season. Most of the work in the toy industry is done on a piece rate and contract basis. It is a sub cottage industry. But the unit was not able to terminate the services of contract labour because the unit was treated as a principal employer and had to pay minimum wages and termination benefits.

Even in the toy industry there is rampant underinvoicing of imports. No sales tax is paid since the company which imports does not exist.

Life Style Electronics Pvt. Ltd. has plant and machinery worth Rs. 50 lakhs and manufactures electronic musical toys. The owner of this unit thought that the WTO agreement would not be implemented according to schedule since the country was not in a position to face competition from imports, and that two or three extra years would be available to him.

In the case of toys there are three parameters which apply to competition in the market place. In addition to the conventional ones of price and quality, there is an additional parameter in terms of variety. China has tremendous variety. The Chinese toy industry is also much larger than its Indian counterpart. The sales of the Chinese toy industry stood at 42 billion dollars, whereas the Indian one had sales worth only 200 million dollars, making the former more than 200 times the size of the latter. China is a manufacturing base for the U.S. and European toy industry. The Chinese are contract manufacturers, which in turn means they get the latest designs from America and Europe. Variety counts, since a child wants to see variety. Indian manufacturers, being small cannot invest too much in creating variety.

The government has been responsive to the plight of the toy industry to a certain extent and has recently reduced the import duty on components from 25% to 5%.

The unit could not compete with Chinese toys, because across the board Chinese toys were 25% cheaper. The advantages for China are variety, the absence of administrative control over imports and third, under invoicing of imports. The valuation is not fair. The importer buys at one dollar but the billing is done at 20 cents. Correspondingly, the import duty paid is less. India does not have a strong anti dumping mechanism. Whatever is excess for the Chinese manufacturer, after selling in the American market, is dumped in India, in order to clear the stocks. What is sold in India may be even below cost because the manufacturer would have already made his money on his sales in America. Further, there is no sales tax collection on imported goods.

A few manufacturers in the toy industry have closed down. The capacity utilisation in this unit had come down from 100% to 25%. In this context, a change in labour laws is needed because the unit wanted to modulate its labour force in accordance with capacity utilisation.

The owner of this unit also did not want the reservation in toys to continue as he felt the unit could in the event of dereservation become a job contractor for larger units. Earlier, there was a lot of smuggling of toys from Dubai and Hongkong but after the imports were opened up this has come down.

There is laxity on the part of government and regulation of imports is called for.

Since the Indian toy industry is not export oriented, the latest designs are not available to it. Other reasons why the unit could not compete with China are the high cost of transportation in India and the fact that while the unit paid Rs. 4 per unit of power, in China the cost was the equivalent of Rs. 1.60 per unit of power.

Unless a level playing field is created by administrative controls, even those units which are competitive would have to close down. Further, there is no warranty on imported toys. The import duty of 44.04% was considered as adequate by this unit. The unit was getting working capital at 18% and was also not able to invest for purposes of modernization.

Even after five years toy city coming up in NOIDA has not been completed.

The absence of VAT was affecting this unit since it was not getting credit for sales tax paid on raw materials. This was relevant in the context of competition with the unorganized sector which accounted for more than 50% of the industry. The unorganized sector was not paying sales tax on raw materials or on the final product.

It is also possible that as in the watches and clocks industry, toy manufacturers are also turning into traders dealing in imported Chinese toys, (Rattled, *Hindustan Times* magazine, September 24, 2000: 1).

Ceiling Fans

Ceiling fans, pedestal fans and other fans (HS 84145102-3 etc.) were placed on the OGL list in April 2000. The basic import duty on ceiling and other fans, is 35%, the surcharge on basic customs duty is 3.5%, the additional duty is 16% and the special additional duty is 4%, making it a total duty of 67.08%. But no imports of fans have taken place since April. The only exception is import of decorative fans, but this constitutes less than one per cent of the market. The industry is largely small scale and cottage and no threat is feared from competition owing to imports. The domestic industry is perceived to be competitive.

Ice cream

Ice cream (HS 210500) was placed on the OGL list prior to April 2000. The basic import duty on ice cream is 35%, the surcharge on basic customs duty is 3.5%, the additional duty is 16%, the Special additional duty is 4% and the total duty is 67.08%. Kwality imported ice cream last year, but now international brands are being manufactured locally. Whatever imports took place accounted for an insignificant proportion of the market and domestic manufacturers such as the Mother Dairy do not perceive any threat from imports. In fact according to Kwality, imports of ice cream are not economically viable since they have to take place in cold storage form.

Bicycles

Bicycles were placed on the OGL list in April 2000 (HS 87120001). But no commercial imports of bicycles have taken place since then. The basic import duty on bicycles is 35%, the surcharge on basic customs duty is 3.5%, the special additional duty is 4%, making it a total duty of 44.04%.

Conclusion

Beginning 1 April 2001 all QRs will be removed. Self evidently some industries are going to be adversely affected as has been the case with removing QRs on 1 April, 2000.

In the watches and clocks industry the main problem is smuggling of ‘watch and clock movements’ from China. If ‘watch movements’ come through the official route Indian watches can take the competition. Since the small scale units have given up manufacturing and switched over to assembling smuggled watch movements, only the relatively larger units have been adversely affected, some of whom are closed. On watch and clock movements the duty structure is as follows. The basic import duty is 25% , the surcharge on basic customs duty is 2.5%, the additional duty is 16%, the special additional duty is 4%, making it a total duty of 53.8%. The solution to the problem of smuggling of watch and clock movements lies in reducing the overall import duty to zero or to 5% or 10%. Other problems afflicting this industry are underinvoicing of imports which lowers the incidence of import duty and hence lowers the price of the imported item. Needless to add, underinvoicing of imports must be checked. Inspector raj which has an economic cost affects this industry and ways should be found to either eliminate or reduce this.

In the case of the plastics industry part of the problem is import of smuggled Chinese goods through Nepal and partly, the import of packing material from Nepal, after value addition has been carried out in Nepal on imported polymer. In the case of the former what is called for is policing to check smuggling. In the case of the latter what is called for is a severe reduction in the import duty on polymers. Further what needs to be checked is what has been termed as legalised smuggling of goods from Nepal. Until recently the incidence of duty on goods imported from Nepal was the 4% special additional duty and the 16% Counter Vailing Duty. Now the special additional duty has been removed. Any Chinese good with 10 to 20% value addition can be brought in with payment of 16% CVD. The only way this can be checked is by insisting on 50 per cent value addition in the case of third country origin goods, which is the international norm. A problem which was severe experienced in this industry was the inspector raj, which has an economic cost. Furthermore, the plastics industry faces a threat from the unorganized sector which pays neither electricity bills nor taxes.

Preventing theft of electricity is part of a larger problem which should be addressed and ways should be found for bringing the unorganised sector within the ambit of the sales tax system.

The problem in the toys industry is lack of administrative control over imports. The toys industry needs administrative measures and control which, one, checks underinvoicing of imports; two, ensures that M.R.P. is mentioned on imported products and three, ensures that the name of the manufacturer or importer is mentioned on the imported products. The government has taken measures in respect of all these aspects (Dragon in dragnet : Imports of 131 goods under BIS standards, *Economic Times*, 25 November 25 2000). The toys industry also faced a threat from the unorganized sector. One reason why perhaps the toys industry does not want the import duty on toys to be increased is that manufacturers in this industry are themselves turning into traders.

The reasons why Indian goods cannot compete with Chinese goods, which have been the main source of competition in the industries adversely affected by imports, are one, poor infrastructure, in particular inadequate power. Two, the cost of power is relatively high. Three, the cost of transportation in India is high. Four, the cost of capital is high in India with working capital loans being available at rates between 16% and 19½%. Lack of cheap finance also meant that modernization was not possible. Five, the import duty on raw material, in particular polymers is high and needs to be reduced. Six, because of underinvoicing of imports, the prices of imported products are lower. Seven, because of inspector raj there is an additional economic cost. And eight, because labour laws prevent modulation of the labour force in accordance with capacity utilisation, small scale units have to bear with these costs even when levels of capacity utilisation are low.

In the case of all the products studied, the competition was on account of price and not quality.

All the units which were interviewed, were aware that the WTO agreement would lead to the lifting of import licensing, so the government's efforts in bringing about awareness have been successful.

Changes in labour laws are needed in two respects. One, a simplification of laws, such as those concerning ESI, is called for to reduce the administrative hassles of the manufacturer. Two, a change is needed which permits modulation of the labour force with varying levels of capacity utilisation at least for the small scale sector. If a change in labour laws results in an increase in overall employment levels, it should be viewed as desirable.

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Notes

The total import duty is not a simple addition of the various components. It is calculated as follows. If the basic duty is 35%, the surcharge on basic customs duty is 10% of 35%, which is 3.5%. Now let the value of the product be Rs. 100. To calculate the additional duty, first take the value of the product (Rs. 100) + basic duty (Rs. 35) + Surcharge (Rs. 3.5) thus equaling a sum of Rs. 138.50. On this sum apply additional duty of 16% and this equals Rs. 22.16. Now add this to the earlier sum to get Rs. 160.66. Then apply special additional duty (4%) on Rs. 160.66 which equals Rs. 6.42. Add Rs. 6.42 to Rs. 160.66 to get Rs. 167.08 or a total import duty of 67.08%. In the actual calculation there is one other element namely 1% wharfage, which means that in the initial calculation one takes Rs. 101 instead of Rs. 100.

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List of People Interviewed

1. Mr. K. C. Jain
   President, All India Electronic Watch and Clock Manufacturers Association.
   7/25, Darya Ganj, New Delhi - 110002.

2. Mr. Ashwini K. Jain,
   Time Trading Corporation
   234/235, New Lajpat Rai Market, Chandni Chowk, Delhi-110006.
   (Alarm clocks, Electronic toys etc.)

3. Mr. Suresh Gupta
   Standard Watches Pvt. Ltd.
   4827/24, Ansari Road, Darya Ganj, New Delhi - 110002
   (Classic Watches)

4. Mrs. Anju Bajaj
   P 'n' A Industries
   1296, M.I.E. Bahadurgarh - 124507 (Haryana)
   (PVC Conduit pipes, and accessories and moulded items).

5. Mr. J. P. Ralli
   President, All India Plastic Industries Association,
   Jewel Plastics,
   A-77/1, G.T. Karnal Road Industrial Area, Delhi - 110033.
   (100% LLDPE films, HM. HDPE and P.P. films, Flexo and Gravure Printed Shopping carry/Packing bags etc.)

6. Mr. Ajay Kumar Goel
   Mr. Ashok Bansal
   A.P. Polyplast (P) Ltd.
   K-3, Udyog Nagar, Rohtak Road, Delhi - 110041.
   (H.M., L.D. LLDP, Bag and Sheet and LD Shrink Film).

7. Mr. Ravi Kumar Aggarwal
   Maman Chand Ramjidas
   (Extrusion Laminators)
   Poly Udyog
   12, Rajasthani Udyog Nagar, G.T. Karnal Road,
   Delhi - 110033.
   (HDPE Woven fabrics and bags).

8. Mr. Raj Kumar
President, The Toy Association of India.
LGF 90, World Trade Centre,
Barakhamba Lane, New Delhi - 110001

9. Mr. R.K. Verma
Prasid Toys Pvt. Ltd.
B-36, Kirti Nagar, New Delhi - 110015
(Electronic, B/o and non B/o toys).

10. Mr. R.S. Vyas
Lifestyle Electronics (P) Ltd.
298/20, Ghitorni, Mehrauli, Gugaon Road, New Delhi - 110030.
(Electronic Musical Toys)

11. Mr. Shiv Narain
Chief Executive
Fan market Manufacturers and Traders Association
'Oriental Moulders'
WZ-47 B Tyagi Market, Basai Darapur, New Delhi - 110015
(Fans and Parts).

12. Mr. P.S. Dharamwal, Director
Kwality Ice Cream Co.
B-12, Lawrence Road, New Delhi - 110035
(Ice Cream)