

COMMENT

Cheap Chinese Goods

CHEAP CHINESE GOODS ARE giving sleepless nights to Indian businesses. Government of India had imposed restrictions on imports of toys recently allegedly due to the presence of harmful chemicals like lead in the toys. But knowledgeable sources indicate that similar levels of lead and other harmful chemicals are to be found in Indian toys too. The true reason for imposing these restrictions, perhaps, was that Indian manufacturers were unable to face competition. The same story is likely to unfold in many other products in the coming times.

The three reasons for Chinese goods being cheap are production in large factories with automatic machines, low prices of natural resources and low wages. Large scale production of standardized products begets what economists call 'economies of scale'.

Customers tread between shops till they find what they want. Such choice cannot be provided by the Chinese manufacturers. Therefore, it is likely that the attraction of cheap Chinese goods will wane because of the standardization and lack of variation and creativity inherent in that system.

The second reason for Chinese goods being cheap is the low price of natural resources charged by the Government of that country. For example, low rates of royalty on coal lead to low price of electricity and lower the cost of production in China. This too does not appear to be sustainable. The environment of the country will be adversely affected by over-exploitation of natural resources. Chinese government is behaving like the farmer who sells the topsoil of his fertile land to the brick kiln owner. He gets more money now but loses the stream of income in the long run. The third reason is low wages.

Absence of labour laws means long working hours and excessively hard working conditions. This also is not sustainable. The low wages will lead to helplessness and social unrest of the same type as occurred in England of the yesteryears as described in Charles Dickens' novels. Resistance to these policies is likely to emerge in the same fashion that Mao Zedong led the peasants against the cruel policies of the Kuomintang. In conclusion the Chinese policy of selling goods at artificially low prices does not appear to be sustainable. The ill effects of this policy will become visible in 10-15 years, if not earlier, and this approach will collapse under its own weight. But this is in the 'long run'.

The solution is to impose adequate import duties to neutralize the impacts of these policies. The trade between India and China is favourable to use at present. Indian exports in 2004 were \$7.5 billion against imports of \$5.9 billion. While this appears favourable there is a problem. The bulk of Indian exports were of iron ore. If China is exporting low-end goods to India, Indians are exporting lowest-end goods to China. Government of India should impose tax on exports of iron ore and provide subsidy on export of high-end products. □□□

[Contributed]