**INTERNATIONAL CONFERENCE ON FREE TRADE**

**– OPPORTUNITIES AND CHALLENGES**

**12th -14th JUNE 2014**

# ***DUMPING – THE TOY STORY OF INDIA***

**Presented by:**

**Mrs.G.Naga Laxmi, M.com, MBA,**

**Senior Faculty, Dept. of Commerce**

**St. Pious X Degree & P.G.College**

**for Women, Nacharam, HYD.**

# DUMPING – THE TOY STORY OF INDIA


***Abstract:***

Indian toy industry is estimated to be around Rs 8,000 crore as on March 2013 and is expected to grow at 30 percent by 2015 because of the rising demands of toys by the middle class population, spending huge amounts for their children. Come any occasion and the Indian consumer is ready to make a beeline to purchase another of those Chinese goods. China has the largest toy market in the world and account more than 45 percent in the World's toy market whereas India's Toy Industry has a meagre share of 0.51 percent. The biggest threat to the Indian toy industry is the competition faced by the Chinese products which offer a wide variety of toys to the people in India and are also available at cheaper prices. The Indian market is flooded with Chinese toys which are destroying the Indian toys industry and small & medium toy manufacturers are almost on the verge of collapse.

Dumping is to sell ones country's products in other countries at unfair lower rates than the domestic rates prevailing in the country of Export leading to losses to domestic suppliers. China has indulged in large scale dumping all across the world; India being majorly affected. This paper focuses on the dumping of toys by China, the damage or not it can cause for the Indian domestic industry, the anti dumping tariffs adopted by the Indian government, the latest statistics and some suggestions for improvement of domestic toy market in India.



.**Key words:**

Toy Industry, China-India toy business, dumping, Anti-dumping measures.


## INTRODUCTION :

Come any occasion and the Indian consumer is ready to make a beeline to purchase another of those Chinese toys. For one, these Chinese toys are substantially cheaper than Indian toys and come in wide varieties. In very simple terms in Economics, one knows that anything like large scale dumping and imports can spell a disaster for the economy. In Keynesian terms, it is a leakage of Income from the Economy.

## OBJECTIVES:

- To focus on the dominance of China over the Indian toy business.
- To understand the damage or not that dumping can cause for the Indian domestic toy industry.
- To suggest some measures for improvement of Indian toy trade.

## RESEARCH METHODOLOGY:

This paper is purely based on secondary data from various research papers, reports, books, journals, newspapers and online data bases.

## INDIAN TOY INDUSTRY:

It is estimated to be around Rs 8,000 crore as on March 2013 and is expected to grow at 30 percent by 2015 because of the rising demands of toys by the middle class population spending huge amounts for their children. Only 20 percent of the Indian market is served by Indian manufacturers and rest by import of toys from different countries mainly from China and Italy. The major toy producing units/ clusters are located in Delhi. Around 50 percent of the toy units are in Delhi and NCR, 35 percent are in Maharashtra while the remaining 15 percent are scattered all over the country. The toy industry in India is concentrated mainly in the small and cottage sectors, with about 4000 manufacturers in all. Currently, the industry employs around 30 lakh people both in the organized and unorganized sector. With the industry growing, employment opportunities are also expected to accelerate. ASSOCHAM study anticipates the employment to be around 50 lakh by 2015.

Small toy shops cater to the masses, while branded ones like Fisher Price, Funskool, Hamleys, Lego and Mattel cater to the middle and high-class. Some large MNC toy manufacturing units like Mattel and Funskool have their presence in India. Funskool Toys is the largest toy producer in India.

The biggest threat to the Indian toy industry is the competition faced by the Chinese products which offer a wide variety of toys to the people in India and are also available at cheaper prices. These products attract the children of all ages with their wide range of fun games, electronic toys, board games, construction toys, stuffed toys, educational games, toy cars, etc. The Indian market is flooded with Chinese toys which are destroying the Indian toys industry and small & medium toy manufacturers are almost on the verge of collapse.

## CHINESE TOYS IN INDIA:

As the memory of an Indian consumer goes, this influx of cheap Chinese toys started in the late 90s and gained momentum thereon. Every article, be it an expensive Barbie doll or a painting to adorn the house with, has a Chinese alternate to it. The Chinese toys are priced so cheap since the cost of production is less. Chinese goods are known for their moderate quality, prompt delivery and affordable prices in comparison to Indian goods. Following are some of the reasons behind Chinese toys being cheaper than Indian toys:-

- China does not have stringent intellectual property rights (IPR) issues so come any new product in the world market; China is ready with a cheaper alternate. Thus there is no cost of research, designing and redesigning of any product.
- The labour is not demanding and does not go on strike.
- Where most Indian companies are striving for a Total Process Review (TPR) for quality satisfaction, Chinese companies are not so particular.
- China does not have any after sales tax on its products leading to a further lowering of costs.
- The cheap Chinese labour is another major reason for the dirt cheap Chinese goods especially like toys where intensive labour techniques are employed.
- With the removal of quantitative restrictions (QR) and Chinese accession to WTO, the dumping activity by Chinese has increased manifold.
- Lower currency value.
- Lower rate of Indirect taxes on Inputs
- High level of cash subsidies being offered by the Chinese government to its producers and exporters

Lower taxes enable the Chinese companies to participate in the world market at a lower margin and thus dominate it. Adopt the business model focused on higher volumes is a natural progression in this scenario. The advantages of the high economies of scale and higher level of Productivity achieved by highly skilled labour are seen in toy manufacture. The import of technology and Infrastructure from West has played a very important role. Had West not opened its gate to the Chinese products, China could not have boasted of such huge trade surplus. China imports very little from the rest of the world.

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

Since Chinese accession to WTO, China has been much more liberalized in reducing Tariff and Non Tariff barriers. The Liberalization measures taken by China have been more broad and deep in nature though it entered WTO in 1991 whereas India has been a member since Inception.

## DUMPING MEANING AND EFFECTS:

The simple meaning of dumping is to sell one's country's products in other countries at unfair lower rates than the domestic rates prevailing in the country of export leading to losses to domestic suppliers. China has indulged in large scale dumping all across the world; India being majorly affected. According to WTO, if Investigations prove for such goods falling in the anti dumping bracket that the exporter is charging a price below than what he charges in his domestic market or if the volume of imports is too high so as to cause a disadvantage to the local producers can be called as dumping.

Dumping wars have gained strong ground especially in the times of recession, with India filing maximum number of anti dumping cases against China. A growing insecurity for India in resorting to levy of high anti dumping duty is the current high trade deficit with China. Besides dumping is not the only way Chinese goods enter India, much of it enters through illegal route of Nepal.

China leads in the number of anti dumping cases filed against any country in the WTO. Between 1995 and 2005, India filed more anti dumping complaints against China than any of the developed nations of US and Europe. Anti dumping measures have become more popular today to offset unfair competition, in relation to other measures such as QR's and import quotas which are non discriminatory in nature and require injury in severest form. To India, the pinch is more in those areas where it is also a large producer such as chemicals, toys, electronics, leather and textiles. Recently anti- dumping Import duties have been filled on acrylic fibers, Analgin, potassium permanganate, paracetamol, sodium nitrite, caustic soda and green veneer tape. From 1995-1999, India initiated 140 anti dumping investigations which are highest for any country. Many feel this is not fair. It is also seen that the amount of anti dumping duties levied are against the basic rules. This also arises due to the non market economy (NME) status of China in countries such as US. The entire amount of duty which is levied against the Chinese goods is flawed. A Non Market Economy is one which does not operate on market principles of cost and pricing. For NME's, the value of its goods do not reflect the true price. In most cases in US, it is seen that where the Chinese companies fail to respond against the AD case, (Many a times due to Ignorance of the legal structure) it gets more of an unfair deal.

China is facing strong opposition of dumping from the European countries as well. These Countries are levying a high import duty on vast scales Chinese dumping of leather goods. To salvage their own domestic Industries countries like Japan are resorting to high level investment in China to sell back in their own domestic economies. This will soon be followed suit by many other Economies. FDI is playing a big role in China's technological process with China becoming an attractive destination. India and China are considered at par in terms of investments. India with its paranoid behaviour is lacking in many respects to provide a suitable ground to MNC's to invest in the country thus losing big on FDI.

## CURRENT STRATEGY – THE PROTECTIONIST PATH:

India's strategy on Chinese Dumping revolves around imposing high tariffs and taxes on Chinese goods whereas countries like Japan have resorted to a high level investment in China to counterfeit Chinese dumping. A high level of tariffs does promote a menace called smuggling and offers no solution. Indian consumers end up paying more for products they could have brought cheap. The simple theory of comparative advantage suggests that the two countries should produce and exchange products with each other in which they have a comparative advantage in. Also trade between two countries should be a multiple of their GDP's. Antidumping tariffs are not a solution, for one as suggested by many an economists, the line between protecting the producers and consumer welfare is very thin. Anti dumping games only prevent the competition rather than the competitors.

The Government imposed a 6 month ban on the import of Chinese toys to India and withdrew it within two months after Beijing warned of going to WTO. The Domestic industry is now alleging China of becoming a price predator (Price Predation refers to selling at lower prices to acquire market share and increasing prices in future) this time. Is it a case of artificial pricing or high intensity of competition amongst Chinese products which make similar products cost upto 70% less is to be seen. Another important fact is that anti dumping Investigations take long time for final settlement which can easily damage the domestic Industries. This has to become faster paced especially in authentic cases wherein the domestic producers are affected.

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

It is time the Government of India examines its own policies. All fallacies do not lie with the manufacturing sector.

- Indian manufacturers do not get adequate Infrastructure.
- They have to pay high level of taxes.
- To remain in the reserved sector to get certain privileges by the Government they have to remain small and can't then enjoy the "Economies of scale" as enjoyed by their Chinese brethren.

Time has come to develop and enhance inter industry trade with China; knowing that Chinese exports have substantial complementariness with Indian imports. FDI in India till now has not entered the way it has entered China; owing to Chinese tax breaks, business tax exemptions given to foreign firms which has not happened in India. These are few of the factors which raises the cost of production for Indian goods making it difficult to compete on price basis with Chinese. Imposition of anti-dumping and safeguard duties are not solutions; Time has come to raise the efficiency and competitiveness of our own Industries.

**Unfair Methodology adopted by US, India and other Countries** - Some unfair practices adopted by countries in the anti dumping war against China.

- The anti-dumping margins are grossly overstated.
- The domestic producers use them as a weapon to their advantages .
- The zeroing methodology is widely criticized.( Zeroing methodology means that when the Indian price is higher instead of assigning a negative value to this, it attaches a zero, thus eliminating the negative trade margin) This is against the basic rules of WTO.
- The going of the collected anti dumping duty to the domestic producer in the US doubly hurts the Chinese companies. They have to pay penance in the form of anti dumping duty and their revenue is dispersed to their domestic competitors.

**Market Economy status for China and Impact on India-** With China's entry into the WTO, there is much talk happening about granting of MES to China. When the exporting country is treated at par in terms of transparency and prices are known to be decided by the economic forces. What forbearing it has for India? For once a market economy status doesn't take the anti dumping prowess. It will be in the best interest if India does it earlier rather than becoming a mere follower to other countries. This has more political considerations rather than economic. It is also to be remembered that granting of MES to China will not have any effect on the trade deficit. On the upside, it will ensure that Indian manufacturers improve their efficiency at the earliest possible along with substantial developments in the infrastructural development. Investment linkages between India and China will also grow in coming times.

**Reforms need to be Implemented by WTO-** The need of the hour is not the complete dismantling of Anti Dumping duties but some reforms to be implemented at the WTO level.

The WTO rules and regulations in terms of the anti dumping measures are entangled with many rules and regulations. Re-examination of duties imposed after a certain time period, a maximum limit to the amount of duty imposed, making the concept of "Injury" clear, abolition of back to back cases, time taken for the finalization etc need to be worked upon.

## FUTURE PROSPECTS:

Over the time, toys and games sales in India are expected to continue to grow. With rising consumer affluence and sophistication, this is likely to impact the toys and games landscape with the operating environment expected to be much broader in 2017 than in 2012. It is anticipated that there will be more brands, more branded outlets, further penetration of internet retailers and greater revenue shares coming from small towns and villages. There is a high possibility of Indian manufacturers which sell unbranded toys and games shifting towards branded toys in order to grab the opportunity. This will intensify competition further.

As all good things come to an end so will the heavenly rights enjoyed by China. The price of Chinese products in near future will be more realistic as IPR is enforced. The west too is realizing the huge trade surplus of China. Though China has maintained the price of its goods as static to capture large share in world volumes but it is sooner or later going to face the rising cost of raw materials. China would soon increase its prices when it enters the market economy status which is 2016 for US. India and China produce similar kinds of goods in terms of their export basket to the West. China has highly skilled labour and a comparative advantage in the assembly stage of technology. India has to improve its manufacturing prowess. Non tariff measures such as Anti Dumping will only prove to be detrimental. In many cases, it has been observed that the mere filing of a case leads to a total disruption of trade. Trade relations in the coming years between these two BRIC giants are bound to improve, China's imports are surging into India on account of their product diversification and competitiveness. The reality is that 72% of the products imported are at par with Indian Quality or even superior. The World today sits back to notice that in 2050 the trade relations between India and China will be the most important economic relationship in the world and these countries will drive the growth of the entire world .

## REFERENCES :


- www.imf.org
- www.economist.com
- www.voxeu.org
- www.livemint.com
- bindu.menon@thehindu.co.in