Thousands of Hindu Gods – Made in China. Seven Reasons Why India's Manufacturing Competitiveness Lags China's

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Abstract

Despite a supply chain extending 7,367 kilometers, and Chinese labor costs that significantly exceed those in India, thousands of Hindu gods are manufactured in China and shipped to the Indian market, outcompeting local producers. This article asks if China subsidizes its exporters, and identifies seven bottlenecks impeding the competitiveness of Indian manufacturers. India has had a more than 2000 year history of entrepreneurship. Yet, it was only in 2014 that the Modi government launched its "Make-In-India" campaign to further Indian manufacturing and exports. The issue is critical because each year around 20 million Indians attain the age of 18, and most look for jobs. The Modi government needs to do something stronger to avoid turning the vaunted "demographic dividend" into a demographic time-bomb. With rising labor rates in China, and a strengthening Yuan, can (or should) India try to take over from China the mantle of "factory of the world"?

Wander the dusty bazaars of India's 645,467 towns and villages, and you will soon light upon a tiny shop selling gaily colored polyester resin Hindu gods.[1] The smaller ones, just a few inches high, retail for $4 USD or less, while larger sizes may be offered at $15 or more (see Figures 1, 2, and 3). The shopkeepers usually do not know where the images originated—or if they do know, they will not tell.

Indians are religiously observant. Most Indian Hindu households will have a prayer area, or at least a niche in a wall where a daily *pooja,* or prayer, is offered.[2] *Puja* may be accompanied by an oil lamp, *prasad (*sanctified food), and *kumkum* (red paste made with saffron and turmeric). To many Hindus,

the idol is not the deity, but only its representation, a means of connecting to the divine.

Figure 1. Images of Deities Saraswati, Laxmi, and Ganesh, Approximately 3 Inches High, Retailing for $3–$4.

Photo Credit: Farok J. Contractor

Incomes, as well as a spirit of Hindu nationalism, are increasing in India, which explains the growing demand for household images. For the very poor (around 500 million Indians earning less than $2.75 per day), idols made locally from brass or clay were previously unaffordable. However, over the past 15 years, mass-produced idols of Hindu deities imported from China—retail prices starting at $3—may well number in the low millions.

Hence, certain questions arise:

- Why don't Indians manufacture images of their own gods?
- How can a Chinese producer's costs—including profit margin, transportation expense over 7,367 kilometers, and a tariff of 10%—underprice local Indian manufacturers?[3,4]
- Does the Chinese government subsidize exporters?

China-India Trade Imbalance

Many Indians are among the most talented, entrepreneurial, and hard-working people as anywhere. As manufacturing labor costs have sharply escalated in China, India should, logically, take over the mantle of "manufacturer for the world." However, many impediments remain from India's socialist and colonial past, which the current Modi government is in the process of removing. In 2016, Indian merchandise exports to the world were only $264 billion, while China's were $2,098 billion.

Figure 2. Alibaba.com Advertisement to Prospective Indian Importers from China Willken Company

Figure 3. One-foot High Bust of Shivaji, a Historical Hero-king in the State of Maharashtra, Retailing for $10.

Photo Credit: Farok J. Contractor

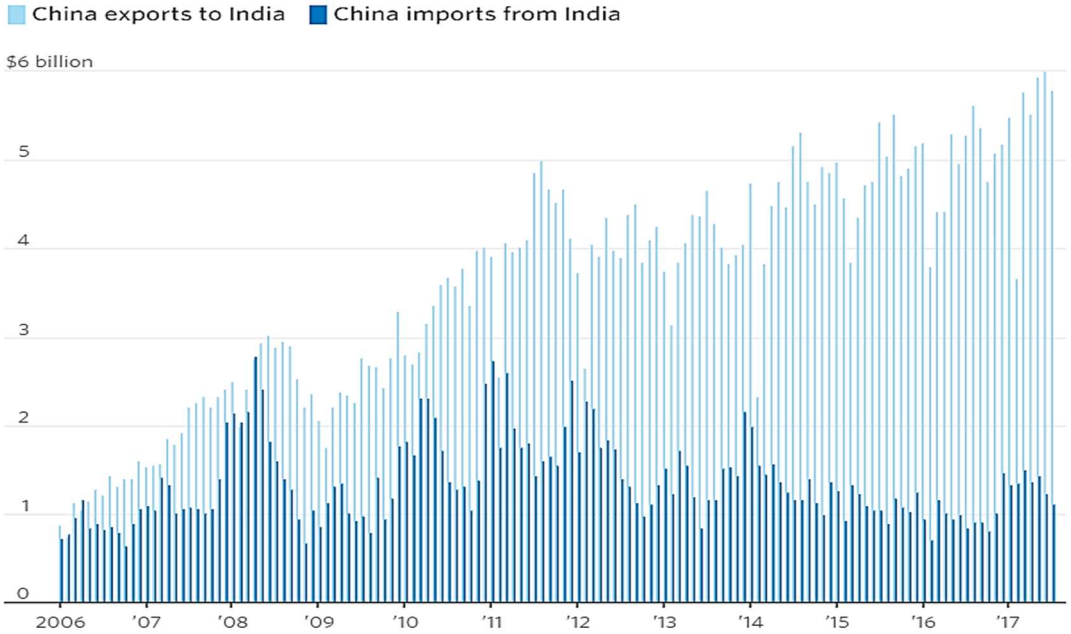
The streets of India are often laid with a cloth on which a lone seller, squatting on the sidewalk, displays China-made quartz watches. Hard bargaining can reduce the price to as low as $1.25 USD. (I once wore such a watch for 18 months, and it kept perfect time. But once the battery was exhausted, I threw it away since the cost of a battery—in India or the US—exceeded the cost of the watch.) Perfectly functional locks made in China carry an asking price of Rs. 25 ($0.38) for the smallest sizes, but can range up to Rs. 400 ($6) for a large, multi-lever version carrying the famous brand

name of an Indian firm, Godrej, which specializes in such hardware. Many contain Indian raw materials such as iron ore shipped to China, only to return in the form of finished goods at amazingly low prices. India's total import of locks from China could exceed 75 million annually— Godrej & Boyce, Ltd. alone imports more than 10 million Chinese-made locks for distribution all over India.[5]

Indian shops are awash with inexpensive, reasonable-quality, attractively packaged Chinese products, ranging from deities, to LED lighting, to locks, to electronics, to dual-SIM smart-touch mobile phones (some retailing for less than $30).

The China-India bilateral trade balance is skewed in favor of China by a ratio of 4 to 1 overall, as the Figure 4 and Table 1 illustrate. In goods, or merchandise, the imbalance is worse at around 6 to 1. Worse still, the goods trade has India mainly exporting raw or semi-finished materials and importing finished products from China, including high-technology items such as computers, machine tools, and power-generation equipment—uncomfortably reminiscent of the colonial past when Indian cotton exported to England would return to India in the form of imported British textiles and garments.

Figure 4. China-India trade, 2006–2017



Graph and data source: *Wall Street Journal*[6]

Table 1. China – India trade ($ billions) and China's trade surplus, 2010-2017

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
India's exports to China	14.2	18.1	13.5	14.8	11.9	9.0	10.2
India's imports from China	43.5	55.3	52.2	51.0	60.4	61.7	61.3
China's Trade Surplus Ratio	**3.06**	**3.06**	**3.87**	**3.45**	**5.08**	**6.86**	**6.00**

Data source: *India Times*[7]

Indian Compared with Chinese Labor Costs

According to The Conference Board, the average Indian manufacturing labor costs (at less than $0.92 per hour) are said to be one-quarter those in China (at over $4 per hour).[8] This is a bit misleading as $0.92 appears to be an all-India average, while the $4 figure for China applies mainly along the eastern seaboard where most Chinese manufacturing takes place. Nevertheless, the comparison raises embarrassing questions for economists and the Indian government, which launched the "Make-in-India" campaign in September 2014 under Prime Minister Modi, intended to turn India into the next "factory-for-the-world" (see Figure 5).

Figure 5. Make-in-India Campaign

Source: *Wall Street Journal*[9]

Seven Bottlenecks to Indian Manufacturing: Sociopolitical and Economic Explanations for Why Thousands of Hindu Gods Are Produced in China

What then can explain India's ballooning trade deficit with China and its moribund reverse flow of manufactured goods exports? Below, I detail underlying sociopolitical factors that inhibit the productivity of the Indian economy despite the native entrepreneurial talent of many of its people. However, I end on a hopeful note as the Modi government appears to be gradually addressing these impediments. Many also ask whether China's success in manufactured exports is partially explained by subsidies given by the Chinese government. I address this issue below, but it may be the least part of the explanation.

1. **Scale**

   Most manufacturing in China is done on a large scale. Where an Indian producer may have three plastic injection-molding machines, the Chinese counterpart may have 70 to serve its large domestic market and its clients all over the world. A larger scale means that the same overheads and fixed costs can be spread over more units of production, thereby reducing the cost per unit produced.

   The Indian market is not as large as China's (and lacks China's export reach). But it is still huge, with 1.08 billion Hindus (80.5% of India's population), most of whom can afford a $3 statuette. So what has prevented Indian manufacturers from reaching the scale of their Chinese counterparts?

2. **Labor**

   The following three primary labor factors contribute to India's trade deficit with China:

   Labor Productivity

   The Indian worker can be as motivated and hardworking as any in the world, given the right incentives. However, a McKinsey report notes that "…workers in India's manufacturing sector are almost four and five times less productive, on average, than their counterparts in Thailand and China, respectively."[10] Chinese workers may be paid four times the Indian hourly wage. But if their output per worker is more than five times greater compared with workers in India, then China has a competitive advantage.

   Why is Indian labor unproductive? Most of the explanation lies with management, not labor. The McKinsey report details how Indian

management lags in the degree of automated equipment installed, capacity utilization, execution and processing within portions of the supply chain that precede and follow production, and quality control. But that then raises the next question: What prevents Indian management from pursuing better methods, installing more automated equipment, and achieving larger scale?

Labor Laws in India

My friend in Mumbai owns a factory that produces electronic components. With an English-education, he is familiar with the latest technologies in his field. Given the demand for electronics is growing at more than 10% annually, his success potential seems unlimited. But surprisingly, he told me that his company's growth is near zero (on an inflation-adjusted basis). Successful as he is, he has no further ambitions for expansion beyond the 99 or so workers in each of his plants.

Increasing the size of an Indian company beyond 100 employees can cause considerable difficulties for management. With more than 100 employees, government approval is needed under the Industrial Disputes Act of 1947 to lay off any employee, even if demand drops. Firms that have gone bankrupt and shut their doors have been forced to pay monthly wages for years following closure. Even while an enterprise remains in business, the Contract Labor Act of 1970 requires government approval and employee approval for a simple change in an employee's job description or duties. Government inspectors are vigilant and frequently have their hands extended for "under-the-table" bribes to enforce even the letter of the law, as stated.

Transparency International's "Corruption Perceptions Index 2016" places both India and China at rank 79 (out of 176 countries).[11] But despite the apparent tie, there is a difference. With much larger amounts at stake, corruption in China occurs at a higher level, and less frequently, having comparatively little impact on ordinary day-to-day operations. By contrast, bribery in India is petty, pervasive, and frequent, impinging on everyday actions such as getting an electricity connection, changing a worker's job description, or simply paying a bill. Ultimately, India's corruption is more psychologically and economically debilitating than China's.

Like many managers in emerging nations, my friend in Mumbai knows ways around difficulties, including the common ploy of creating multiple companies, each with fewer than 100 employees. But that ruins economies of scale, bloats overheads, and increases logistics costs for the same value of output.

He is also aware that the Modi government is taking steps to amend laws to make the business environment more conducive to large-scale operations. But my friend is content with the level of success he has achieved and has no desire to expand. His Chinese rivals' output is 100 or even 1,000 times larger in giant factories employing thousands of workers each. Foxconn's Longhua factory in Shenzhen employs more than 300,000 workers, for example.

Labor Discipline and Unions

The Modi government is also in the process of amending labor laws to reduce the number of strikes and slow-downs.[12] With as many as 16,154 distinct unions, each affiliated with a plethora of different political parties, the Indian economy loses between 19 and 23 million person-days each year from labor actions.[13] The figures for China are not reported, but are undoubtedly much lower, given that all unions in China report to the single government-controlled All-China Federation of Trade Unions.[14]

3. Transport Costs

Surprising to some, the transportation costs from Guangzhou to Mumbai (7,367 kilometers by sea) can be roughly compared to truck freight from Delhi to Mumbai (1,416 kilometers by road), even though the international distance is five times greater.

Assuming 25,000 Hindu idols per container, and ocean freight costs averaging $1,000 per container from Guangzhou to Mumbai, the transport cost per image is a mere (1,000/25,000) = $0.04, or less than Rs. 3.[15,16,17] By contrast, assuming for the same cargo that two 9-tonne capacity trucks are needed between Delhi and Mumbai at a total cost of Rs. 60,000, the cost per idol works out to $0.037.

True, the time in transit from Guangzhou is between 15 and 21 days, whereas the truck journey from Delhi to Mumbai takes between 7 and 10 days. But the point is simply that transport costs from China to India are comparable or lower than transport within India, and the delivery time difference is only around one week or so.

4. Electricity

Nominally speaking, electricity costs for industry are comparable in China and India at approximately $0.08 per kilowatt hour (kWh).[18] But there is a big difference. A continuous supply of power is ensured for Chinese businesses, whereas India still suffers from chronic blackouts and brownouts because demand outstrips supply. In some cases, factories have their power cut off on for a few hours every day. Even worse, the

interruption may not be announced in advance, causing havoc with production schedules and deliveries. Incidentally, more than 300 million Indians live in households with no connection whatsoever.

A partial remedy is possible in the shape of privately owned diesel-engine generator sets, which take over when the power supply is cut off. India's installed power-generation capacity as of March 2017 was 326,821 megawatts (MW).[19] The private diesel generator set installed capacity exceeds 90,000 MW as of 2016.[20] A distressingly high fraction of total electricity consumption in India comes from diesel generator sets. Large generators cost upward of $50,000, diesel fuel is expensive and polluting, and maintenance adds further cost.

The effective cost of electricity for Indian factories is hence substantially higher than for their Chinese counterparts—$0.255 per kWh in India versus $0.147 in China.[21]

5. **Land**

Despite comparable-sized populations in India and China (1.32 vs. 1.38 billion), India has less than one-third the land (2.97 vs. 9.4 square kilometers). But the real constraint on starting a new business in India is its multi-ethnic, democratic, and compassionate traditions, which make it legally difficult to acquire land because of an arduous, protracted process. By contrast, a government fiat in China is sufficient to immediately displace thousands, if needed. Delays and bureaucracy, as much as cost, constitute the impediments to expanding in India.

6. **Permit Raj**

With a stifling bureaucratic tradition going back to the British Raj (some say the term "red tape" originated with the East India Company that would bundle documents with thin red ribbons), impediments to business efficiency relate not just to cost, but also to delays, obstacles, and multiple regulatory procedures, all of which hamper business operations. China has a longer bureaucratic tradition, but carefully constructed surveys by the World Bank (comparing 189 nations on their "Ease of Doing Business") show a comparatively more benign climate for businesses in China.[22]

The World Bank survey uses a standardized format. To the extent possible, objective numbers are sought across all countries for (i) the number of regulations, (ii) costs of complying with regulations, (iii) time or delay until approvals are granted, (iv) effectiveness of legal recourse, and so on. For instance, in the "Exporting/Importing" subcategory, the survey covers the cost to load a container at the export harbor, the

numbers of forms that have to be submitted to each authority, and the length of time taken for each approval (see Table 2). Objective measures of this kind enable valid comparisons across the 189 nations in the survey. The data are obtained from the best authoritative sources in each nation, and cross-country comparability is checked.

On most indicators, Chinese businesses have a much easier time than their Indian counterparts in getting permits and the numbers of procedures required for regulatory compliance. Moreover, costs are lower because of higher efficiency. As one example, "throughput per ship per day" exceeds 1,300 containers in East Asia, but is only 800 in Mumbai and 310 in Chennai in India.[23]

Table 2. World Bank "Ease of Doing Business" Survey of 189 Nations (2016 Data Reported in 2017).

Number of Procedures, Time Delay, and Cost: Rank 1 = Best; 189 = Worst	India's Rank Out of 189 Nations	China's Rank Out of 189 Nations
Starting a New Business	155	127
Getting Construction Permits	185	177
Obtaining Electricity Permissions	26	97
Registering Property	138	42
Exporting/Importing	143	96
Contract Enforcement/Justice	172	5
Bankruptcy/Business Exit	136	53
Overall "Ease of Doing Business" Ranking	**130**	**78**

7. International Marketing Savvy

Many of the 50-odd companies in China that produce Hindu idols attend trade fairs not only in India, but also in Frankfurt and Las Vegas. Besides Hindu deities, they produce Christian and Buddhist figures, fake animal heads, and household knickknacks. Marketing expenses are tax deductible and sometimes subsidized. In Chinese value chains, a shared culture of international marketing savvy extends to even the smaller enterprises.

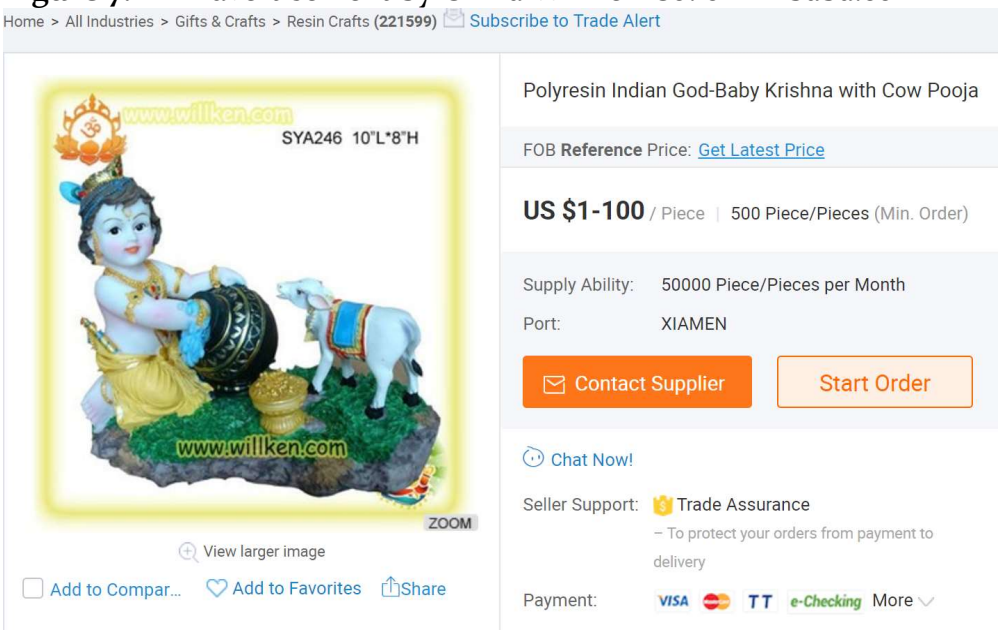
In the last decade, medium-sized enterprises in China have been greatly aided by websites such as Alibaba.com, which have an international reach. A related internet search for Indian producers does

reveal some who make larger wooden, alabaster, or plaster statues, but priced in the $30–$100 range. Some Indian sellers at Indiamart.com sell figurines at below $20, and even though they are made in China, that fact is not mentioned. Examples are shown in Figures 6 and 7.

Figure 6. China Willken Co.'s Booth at an International Exhibition

Source: https://xmycx.en.alibaba.com/

Figure 7. An Advertisement by China Willken Co. on Alibaba.com



Does China Subsidize Its Exporters?

Yes, like many other nations, China strongly supports its exporters, since perhaps well over 100 million jobs are in export-related sectors. Around 45 percent of Chinese company output is still state-owned. These companies, as well as favored private enterprises, can get cheap land, concessional rate borrowing, and, in some cases, subsidized power and assurances of government purchases of future output. According to some critics and consultancies, in China as much as "…14 % of listed, non-financial companies' profits are attributable to government support."[24,25]

That said, two additional observations are necessary:

1. Other nations, including India, also provide export-oriented incentives. For instance, India offers its exporters rebates on VAT/GST, customs duty drawback on the imported component of exports, outright small cash rebates for certain product exports,[26] concessional land and tax incentives in "Free Trade Zones," rebates on state tax levies, financial support for attendance at international trade fairs, market development grants, and cheaper borrowing in some cases.
2. It is likely that Chinese government support for its exporters is higher than in most other nations. But to put things in a broader perspective, only a small part of the explanation for China's export success lies with subsidies or export incentives. The greater portion of the explanation lies in the seven foregoing sociopolitical and economic factors.

Conclusions

It must be embarrassing to Narendra Modi—one of whose first steps on taking office was to launch the "Make-in-India" campaign in September 2014—to realize that thousands of images of Hindu deities (possibly totaling over a million in 17 years of imports) originated in Chinese factories. In the last five years, the trade imbalance with China has gotten worse (see India China Trade chart), with Chinese exports to India more than four times India's exports to China. The sidewalks and shops of India are awash with amazingly cheap (by Western standards), reasonably well-made consumer goods ranging from toys, locks, electronics, light bulbs, and socks to $30 smart phones, to name just a few examples.

With labor rates in India unmistakably lower than in China, and a surplus population (with college graduates in some instances working as taxi drivers and security guards), India should logically be taking on China's mantle as the "factory to the world." India has already shown how it can excel, as in IT and computer services, because that sector freed itself from the baggage of

the past and flew under the radar of bureaucratic interference so as to avoid the seven bottlenecks to business expansion detailed above.[27]

Happily, the prospects for Indian manufacturing in the future are also brighter (if not entirely rosy), mainly because the Modi government is alive to the bottlenecks facing Indian firms and is willing to push against tradition, entrenched bureaucracies, strong unions, and India's socialist past.

China is considerably ahead of India in terms of an efficiently functioning economy for three salient reasons:

1. China's liberalization began much earlier. Only two years after Mao Zedong died in 1976, his successor, Deng Xiaoping, began to dismantle the apparatus of state control. In India, it was not until 1991 that a balance-of-payment crisis forced the Rao government to unshackle Indian business.
2. The Chinese leadership under Mao had some heinous faults. But one foundational policy they instituted immediately in 1949 was to insist on full literacy for both males and females. By contrast, in India, a democracy, politicians saw no immediate payback from investing in basic education, which was severely underfunded and remains neglected. India's literacy rates—even today—are barely above 77% for males and likely below 50% for females (only 23% of whom participate in the workforce).[28] Literacy does not merely confer the ability to read and write. It changes people's entire worldview, making them efficient workers and functioning members of a modern economy.
3. As noted, India is a democracy. I would not have it any other way. And I cannot imagine the country being able to cohere under any other system, given its diversity and multiplicity of religions and traditions. But democracy is a messy, slow process, and it sometimes delays needed reforms. India has 22 official languages, 3,000 dialects, and thousands of gods. By contrast, large as it is, China is one of the most homogeneous nations on the planet, with 92% of its population being Han, with one language, one culture, and one powerful government.

India's leaders are beginning to behold how modern economies function and are talking steps to shed the elements of its past that have inhibited economic growth. After a long night of colonial domination, and decades of socialist somnolence, the India giant is beginning to stir.

Author

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