

MR SINGH'S CHINESE PRESCRIPTION

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Prime Minister Manmohan Singh admitted that Indian textile industry is facing problems such as lack of infrastructure, high cost of power and rise in the value of the rupee. While addressing the summit of textile mills he suggested that textile companies "must invest in operations which have the scale and scope to generate the desired efficiencies." Investment in large scale production will help Indian industry compensate for the other disadvantages and India can emerge winners in the global market.

Rich countries had imposed quotas on textile exports from India till two years ago. These have been wholly removed in 2005 in keeping with the Multi Fiber Agreement under the WTO. Yet Indian exports are weak while other countries like China are making huge inroads. China has established large factories where a garment of same design is manufactured in large numbers. This leads to lower cost of production because workmen become used to a particular design and there are economies of scale in purchase of raw materials. Perhaps the Prime Minister had this model in mind when he suggested that India must invest to expand the scale of operations.

But there are problems with this model. The wages are low in China and working hours are long. Workers do not have trade union rights. Minimum wage laws are either non-existent or violated with ease. The dissatisfaction pervading the workers is not easily expressed because there is no democracy. The cost of production in Chinese factories is less, in part, because of the low wages arising out of these factors. It is almost impossible to apply this model in India. Many labour laws are to be followed. Workers and other affected persons often protest against government policies. Kalidasa writes in *Raghuvamsa* that criticism, picketing and denigration are tools by which a people can remove the king. Indian people have moral sanction to criticize and oppose policies of the state. In such an environment the Chinese formula of 'more work for less pay' cannot be applied.

Another problem is that of inflexibility. Truly China has captured the world markets by producing textiles of one standard design in large numbers. But economists are of the opinion that future will belong to small and service industries that can respond quickly to customers' demands. The demand for designer suits and sarees, for example, is increasing. It is not possible for large units using automatic machines to quickly make changes in their production pattern. These factories tread like an elephant while the need is to run like a rabbit.

China's success is also due to the provision of natural resources at low prices. Indian mining companies have to pay royalty to the state governments for mining coal and bauxite. Hydropower companies have to provide 12 percent free power to the state government for use of the water gradient. Such use of natural resources comes nearly free in China. As a result the cost of power is less in China as noted by the Prime Minister. Another factor is the low value of its- currency Renminbi. Low price of Renminbi means that Chinese consumers have to pay high price for imported goods. On the other hand, American consumers have to pay lower price for Chinese goods. In the result China cuts consumption by its own people to increase that by foreign consumers. China is forced to follow this disastrous policy because it desperately needs foreign investment to modernize its industries which will come only when it opens up its economy to big players. India has no such compulsion to play according to rules set by Multinational Companies. Thus Indians need not follow the Chinese-policy of maintaining a lower value of the rupee.

These policies being followed by China are harmful and India should not adopt them blindly. China has a long history of taking dictatorial decisions only to back off from them later. In the fifties Mao Zedong gave a call for 'Great Leap Forward'. Small

backyard furnaces were established to smelt iron from ore. This was shown off as a great achievement of the Chinese people at that time. Soon it was found, however, that the iron produced was of poor quality and the movement was called off. Similarly China collectivized the farmlands. Peasants were deprived of their private lands and made members of communes where they would till the land collectively. This was heralded as a great success. After two decades this policy was abandoned and the land was privatized once again in the eighties. China is capable of making such reversals in its policy and can also bear the social cost of this due to absence of accountability of the government. It is quite possible that China will soon one day realize the difficulty with its present policy and reverse the same. Thus it makes little sense to get overawed by the present success of large scale production in China.

It seems that instead of increasing investment in large scale production, India must have equal attention to the quality of investment. For example, large investments in power looms can lead to low cost of production but that takes away jobs of million of handloom weavers. Thus mere increase in investment is no guarantee of securing people's welfare. The objective of economic policy is to secure more jobs and incomes for the people of the country. This is not secured by large scale investments in textile mills. Thus the government should undertake social and employment audit of all investments and only promote those that are found socially desirable. Unfortunately this dimension is missing from the Prime Minister's world view.

Imposing restrictions on large scale investments and promoting labour-intensive factories will lead to creation of more jobs but also to higher cost of production. The cost of handloom is higher than cloth that is made in the textile mills of Surat or Coimbatore. Such production can survive only if protection is provided to domestic manufacturers from heap machine-made imported goods by imposition of high rates of import duties.

India should provide encouragement to small manufacturers that can respond to changing demands of the global markets. Small industries can be provided export subsidies, assistance in making websites and undertaking foreign tours, and free access to internet. Small industries should be exempted from many laws that distract from their main business. Such a web of small industries will be able to face the emerging challenge of customized production and also create jobs for our people. □□□