Industrialisation and Globalisation: Theory and Evidence from Developing Countries *John Weiss, Routledge,* London and New York, 2002, pages 222.

Industrialisation has often been identified as the cornerstone in the tradition of 'modern economic growth' *a la* Kuznets and Clark. However, the development experience of a large number of developing countries including India runs counter to this conventional wisdom. The preponderance of services ahead of industry remains a major contrast to the development experience of the developed world, giving rise to the phenomenon of *industry-less growth*. When the obituary on industry is slowly gaining currency, while services sector is increasingly becoming important even among the academia and the policy makers, the present pursuit by John Weiss comes as a refresher and re-invents the role of industrialisation. The central message of Weiss is indeed powerful: the future of the developing world lies in industrialisation in this age of integration and globalisation. The issue is all the more appealing when the Indian industry is currently reeling under the WTO bogey and is desperately seeking a way out of the ongoing slowdown.

In a pithily presented opening survey, John Weiss takes stock of the industrialisation process in the developing world since 1960 and comes up with the central inquiry why the manufacturing performance has varied widely across the spectrum of countries. What follows in the rest is an attempt to link the different aspects of policy towards manufacturing and performance. In an intellectually challenging discourse, Weiss goes on to juxtapose the cross-country experiences to the predominant theories of industrial growth and asks, "Are there different paths to industrialisation?" Finally, he classifies different countries on the basis of policies pursued. The discussion runs in terms of dichotomies in policies such as 'open' versus 'closed' trade policies; 'dependent' versus 'independent' policies particularly in relation to foreign countries; and 'capitalist' versus 'socialist' policies on industrial ownership. Interestingly, India is indicated as one of the fully closed economies during 1960-92 in terms of Sachs-Warner openness index. However, post-1985, India is placed as one of the tariff-reforming economies with the average import tariff down to 38.3 per cent in the late 1990s from 99.4 per cent in the mid-1980s. What transpires is that relatively closed, often highly distorted economies have not, in general, done well in growth terms. FDI has emerged as an important engine for growth particularly for those countries where the mix of policy and the education base is supportive. The most important observation has been only the limited scope for choosing different paths to industrialisation. At present, it is squarely unrealistic to practice autarky and achieve industrialisation, given the need for both foreign finance and technology. While public ownership in a socialist path to industrialisation cannot be ruled out, the State in developing countries lacks the capacity to provide the material base necessary for a socialist transformation of the societies. At the end, the developing countries seem to be left with no choice but to join the process of integration and globalisation for sustained economic growth. It is in this context, the opening up of the Indian economy in the 1990s seems to be in the right direction.

Next, Weiss moves on to elaborate the dominant neoclassical orthodoxy in terms of the role of market forces and pricing mechanism in the process of industrialisation. Specifically, State intervention stifles the functioning of markets and contributes to an inefficient form of industrialisation. Besides, the trade policy of import substitution has stunted the growth of exports, ignored specialisation on the basis of comparative advantage and resulted in misallocation of resources. The neoclassical paradigm, however, does not rule out the case that import substitution may bring in efficiency provided it arises from market-based decisions. The neoclassical paradigm, which became popular during 1970s and 1980s, has come to be linked with the broader stabilisation and adjustment programmes undertaken in many developing countries including India. In the wake of such liberalisation measures, the impact of trade liberalisation on the manufacturing performance has been examined in terms of employment, exports and total factor productivity. While the overall effect on employment differs across countries, surprisingly there is little evidence of more adverse effect on employment in smaller firms. Such counter-intuitive finding also contradicts the Indian experience in the 1990s when the small firms' share in total employment has indicated a decline. Weiss, however, does not proceed beyond this stylised fact. On the front of export, while higher export and higher productivity were found to move in tandem with trade liberalisation, the evidence is not sufficient on the direction of causality. While a positive relation is obtained between trade liberalisation and total factor productivity (TFP), Weiss is clueless on extracting the right factor out of the omnibus TFP. On the whole, the impact of trade policy reform does not sound as dramatic as the neoclassical reasoning might suggest.

In continuing his search for a plausible approach to industrialisation, Weiss turns to examine the applicability of the structuralist approach in terms of the role of the state and of the manufacturing sector coupled with the possibilities offered by participation in world trade and investment. In contrast to the neoclassical orthodoxy, the structuralist approach believes that due to low price elasticity of demand and supply, the price mechanism cannot be relied upon for allocating resources in developing countries. Instead, the State is assigned the task of resource allocation as also effecting a shift from primary exports to new industries. State should also protect them until they are mature enough to compete in the international market. Weiss has pieced together ample empirical evidences, most recently from the NIEs (*i.e.,* Newly Industrialised Economies) to show that the State does have a positive role to play in industrialisation or development. The East Asian crisis of 1997-98 has, however, demonstrated that the State may overstretch itself. A pragmatic Weiss believes that it will be ideal to have a policy mix that uses the market, wherever appropriate, but is not wholly subservient to it. As regards the special place of manufacturing in development, it is felt that whether the country produces potato chips or computer chips they matter for long-term growth prospects. The cumulative gains from manufacturing are argued to be higher in an open competitive trading environment through exports. The best policy is to explore the possibilities to encourage new activities and diversify exports instead of delinking from world trade and investment. Finally, the developing economies have much to gain from participation in the world economy. However, Weiss rightly refrains from prescribing any specific form of intervention to encourage new activities and a diversified export.

In order to identify the essential constituents of the pragmatic approach to industrialisation, Weiss cross-checks the role of small-scale industry in the developing world. Small-scale industry is shown to be appropriate in terms of low capital-labour ratios, and low shares of imports in total cost. Besides, it targets the low income segment with simple products and acts as a household survival strategy. However, Weiss warns, the recent, rapid employment growth in small-scale industry of the developing world is not due to its economic dynamism but an outcome of job retrenchment in the public sector at large. Weiss also attempts to test the relationship between size and economic efficiency and finds that wherever technological indivisibility is important, small-scale industry is at a disadvantage. On the other hand, small-scale industry may have competitive advantage in terms of better knowledge of particular local and niche markets. In the opinion of Weiss, only few small firms graduate to the ranks of the medium scale. Such a phenomenon is not surprising in the Indian context of small-scale industry reservation. However, the limited graduation, Weiss reads, is due to the market distortions against the small-scale industry. It is in this context, adequate provision of credit, foreign exchange for import of inputs, and flexible specialisation to respond to the changing market conditions on the part of small-scale industry, deserves a serious attention. In the Indian context too, credit flow to the small-scale sector has dried up with the financial liberalisation in the 1990s.

Technology and technical change having the central role in industrialisation. Weiss gathers evidence on the same in respect of the NIEs and developing economies. Research and Development (R&D) expenditure and technology exports are used to gauge a country's technological development. R&D activities in the developing countries are very limited as compared to the NIEs and most of such R&D expenditure is made on applied, production-oriented type of activities. Interestingly, R&D expenditure in India is quoted to be 1 per cent of GDP in 1992, which is considered high by international standards. While role of the State in ensuring the availability of infrastructure and minimum critical mass of technological capabilities is acknowledged, Weiss feels that high R&D expenditure in an environment of economic inefficiency and distortions may not work towards technological dynamism as illustrated by the experience of ex-Soviet bloc economies. Most technology exports originating from the developing countries like India, Brazil and Argentina are of adaptation of known technologies to the local market and are, therefore, suitable for factor conditions and markets in other low income economies. The process of globalisation and increasing transnational activity are expected to facilitate adaptation of imported technologies by the latecomers. However, State intervention of some form is essential and welcome in both the orthodoxies - neoclassical or structuralist as it is widely believed that markets will under-provide the supply of technology.

On the whole, the book is a substantial contribution to the literature on industrialisation in the developing world. Setting aside the extremes of industrial policy (*laissez faire* and central plan), Weiss has thrown his weight for the time-tested golden mean: 'market friendly' and/or 'interventionist' industrial policy for the developing world. The 'market friendly' policy is directed at offsetting the externalities through taxes and subsidies while the 'interventionist' policy mainly operates through the directed and subsidised lending, differential import tariffs and licensing. The 'interventionist' policy appears to have worked in the East Asian countries during the initial phase of industrialisation. The long-term success, however, requires a more flexible and market friendly approach as has been the case in Japan, Korea and Taiwan. A reliable test to judge the industrial policy performance is to examine comparative efficiency of the domestic firms in relation to import competition. The comparative advantage if based on low wage rate may evaporate with success. In contrast, the comparative advantage based on brand name and technological capability is long lasting but requires sustained investment. Moreover, competitiveness has to be a dynamic process not only in terms of mastering production but also other points in the value chain like support facilities and marketing channels. As it is difficult to achieve success at all stages of the value chain, late movers will have to rely substantially on sub-contracting links with the MNCs.

Weiss's advocacy of a flexible specialisation within the small-scale industry, however, does not sound practical. Besides, the role of small-scale industry in fuelling the domestic demand for large manufacturers seems to be overstated. However, Weiss's central message stands: if the developing countries can improve their competitiveness even with the help of short-run State intervention in industrialisation, they have a better future to look forward. Such a possibility does not seem to be far off when the Doha Development Agenda under the aegis of the WTO is focused upon improving the market access for the developing world. However, as Weiss rightly reminds us, the crux lies in improving the competitiveness. Quite often, inefficiencies in key infrastructure sectors like telecommunications, transport, and financial services add more to these countries' export costs than foreign trade barriers. Further trade policy reforms and improved investment environment in the developing world could be necessary complements to better market access.

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