

Globalisation and Opening Markets in Developing Countries and Impact on National Firms and Public Governance: The Case of India by Jean-Francois Huchet & Joel Ruet, Scientific Coordinators, Report by CSH, CERNA, LSE, ORF NCAER, New Delhi, 2006, Pages 389.

World over, globalisation has the fundamental effect on economic development. India is no exception to this global phenomenon. Developing countries can no longer so easily play the protectionist card and assure their development in the globalised regime. However, in the light of the Asian experience as well as the experience of developed countries, one could raise certain crucial questions about the impact of the globalisation on developing countries such as opening-up of internal market and the effects of imports and FDI; State intervention to help SMEs in the competitive environment; changing behaviour of firms and improvement in corporate governance; vulnerability of domestic firms in the face of well-organised multilateral corporations; chances of technological spill over and technological breakthrough in the future; chances of local firms to grow into world-class companies within the current framework; Indian State and the current transformation of capitalism, *etc.* Much research needs to be done on these issues.

The captioned book attempts to analyse these issues and throw some light on the theoretical background of the impact of globalisation in its introductory part with a comparative analysis of India and China. The author observes that China and India have just changed their orbit of growth and their economies have started catching-up with the rest of the world. The reform of corporate governance is facing different challenges in India as compared to China. Further, India and China seem to have followed different strategies with different implications concerning technology emancipation. Increasing inequality across States calls for improvement in investment climate through measures ranging across infrastructure development, control of corruption, improvement in the law and order situation, development of banking and insurance, reform in labour laws, exit policy, investment in innovations and

technology, improved linkage with producers, strengthening education and skill formation.

The second part of the book contains seminar papers¹ including sector-specific studies authored by core members of the team. Among them, the first paper on ‘Evolution of Indian Industry in the Post-Liberalisation Era’ is an interesting one, which deals with the whole gamut of GDP growth trends, performance of manufacturing sector, change in structure of manufacturing production, employment situation and spatial distribution of manufacturing. The paper highlights the performance of Indian economy over the years and particularly in the last two decades, which suggests that the economy is on a different growth path than the one followed by the industrialised countries during their historical growth process. A question that still needs to be explored further is that whether this process is sustainable. According to the author, growth of the manufacturing sector in India has not shown any structural break during the 1980s. The author’s findings and the growing literature on evaluation of performance of Indian industry suggest that infrastructure is a major bottleneck. However, there is indication that Indian manufacturing sector is trying to restructure itself in order to be better able to compete in the new liberalised trade regime. This has also resulted in hitherto import-substituting sectors to look at exports as a source of growth.

Jobless growth is the problem associated with the growth process of 1990s. But an interesting feature is that not only the rate of rise in workforce has been higher at higher education levels but their earnings have also increased at a faster pace. The preference for educated workers is increasing in manufacturing sector. More importantly, the shift in occupational pattern is towards the services sector as opposed to the manufacturing sector. This is in tune with the services sector providing the main impetus to growth in the 1990s. For the first time in the 1990s, there is a decline in the absolute number

¹ Paper presented in two Workshops held at Delhi on “Impact of Globalisation on National Firms: The Case of India and China in a Comparative Perspective” on April 18 & 19, 2005 and December 12 & 13, 2005.

of workers in agriculture but this has been largely due to a shift towards the wholesale and retail trade sector. The author highlights that there has been increasing inequality across States in terms of both state domestic per capita income and manufacturing value added per capita.

While turning to the next paper on “China and India: Trade Specialisation and Technological Catch-up”, the author concludes that India and China have followed two different paths of integration into the world economy. Interestingly, their rise in international trade has not put them in direct competition. Both the countries display strong price competitiveness in high-tech exports. China has had much better export performance at the cost of a marked dependence on foreign technology and capital. India has a strong position in the world market of the most dynamic category of business services.

Next paper on “Firm-level Strategic Implications of Oil and Gas Reforms in India” clearly brings out the roles of the State, the private sector and the technology in the development of oil and gas in India. State continues to play an active role in the Indian energy sector, with the focus of energy policy being on the energy security of the country. Policy changes are gradually being introduced to enhance energy supply through raising domestic production as well as through overseas acquisitions. The oil and gas firms are going through a transition phase - from complete State control towards deregulation. As a result, private participation and collaborations between foreign and domestic firms are catching up in this sector. While private investment has been forthcoming in this sector, however, absence of guaranteed returns is proving to be a major bottleneck in the process. The author views that future studies should look at the in-depth nature of these collaborations - whether the firms are investing in longer term technological options or focusing on short-term technology leases. Given the crucial role of energy in the economic growth of the country, efficient policies are required to address all concerns.

“Indian and Chinese Electricity Industries; Reforms, National Champions and Private Industrial Dynamics” is the next paper in the

series in this second part of the book, which brings out the regional electricity politics, regulation and the market structure. Regulatory issues *per se* have often been either absent, or mere pretext, and China and India have much more faced a political economy of transformation than of optimisation. In this regard, industrially emerging countries have to take into account the following three aspects, *viz.*, long term planning, security for private investors and non-volatility. It is more difficult to assess the power sector, their strategies of opting-out of joint ventures and strategic reinvestment, which are seen in various manufacturing sectors. A form of ‘Swadeshi’ may exist in India, whereas this factor is tentatively less in China.

The next paper on “The Textile and Garment Industry in India” brings out competitiveness of the Indian industries, technology adaptation, business strategy in the globalisation era and the strategy for future growth. It is observed by the author that the Government has initiated some reforms in the recent years, although there are many steps left to unshackle the industry. The technological advancement in the textile and the garment sector has so far not been widespread. The author argues that with late entry in the global market, India will face entrenched incumbents with whom it will have to fight. Indeed, as China and South Asia climbs the technological ladder, the position occupied by India due to distortions in the domestic regime will be under severe threat both at export market and at home. Interestingly, the trajectory of this industry is not yet decided even though few observers doubt that the economic policies of successive Governments have been to integrate the Indian economy closer to the global economy externally and to liberalise the economy internally.

The paper on “The Chinese and Indian Automobile Industry in Perspective: Technology Appropriation, Catching-up and Development” compares critically the automobile industries in India with China and concludes that the car industry in both the countries are at the cross-road. The author put forth his argument with the fact that both the countries have transformed the car industry with similar as well as different tools and are facing the world competition. Constrained by State regulation, they have experienced opening-up

strategies, in the early 1980s in China and in the early 1990s in India. China has supported the development of this sector through bureaucratic means and market mechanisms. As a result, the sector till recently was weak and fragmented with the existence of more than 120 car makers over the country. The national system of innovation in China is weaker than in India. The predictable issue will be the specialisation of China in producing low added-value parts for exporting to the world market. Mass export will be more difficult before Chinese companies build up a strong competitive advantage. India seems to have accumulated more advantages in its cooperation with Western companies following the opening-up. The national system of innovation is meagerly developed than in China, with strong relations between constituents. This has fostered the transfer of technology and adaptation to the market environment in the Indian case.

“Asset Specificity, Partnerships and Global Strategies of Information Technology and Biotechnology Firms in India” is the next paper. This paper evaluates the Indian IT sector, biotechnology (BT) sector, their asset specificity, partnership, global strategies and the Indian experience thereon. The structural differences between an output-driven IT sector and a technologically organised BT sector are very real. This translates into a far greater physical specificity of assets in the BT sector. This combined with relatively higher site specificity and larger material investments in the BT sector impede its globalisation. It is true that the IT sector in India has a lead over the BT sector, but the latter is also faced with a stronger compulsion to tie-up first with more local firms than the IT sector. In respect of globalisation of the BT sector, the author argues that it is structurally less easy, a prediction confirmed by the ground reality. However, it is surprising to see that the scientific interactions built by Indian BT companies are largely local and very rarely global.

The paper on “Ownership Pattern of the Indian Corporate Sector: Implications for Corporate Governance” basically looks upon the evolution of corporate governance code in India. In the present ownership pattern, India has allowed the promoters to retain control over companies and there is hardly any threat to incumbent managements of vast majority of companies. In most companies

institutional investors have either no presence or are only marginal players. There is also the possibility that the liberalised Companies Act encourages inter-corporate investments, which reduce the risk borne by the promoters while increasing their holding. Private managements probably did not oppose the induction of independent directors initially because first, it was difficult for them to openly oppose the international trend and secondly, they had the freedom to decide on a director's independence. If the objective of the corporate governance is to have genuine independent directors and constraining the promoters, placing restrictions on promoter voting and making cumulative voting and representation of minority shareholders mandatory need a fresh look. The author opined to make provisions relating to election of directors more restrictive so that diverse shareholder interests could get representation on corporate boards.

“State Intervention in Labour Legislation and Employment Repercussions: Empirical Evidence” is the last paper in this series, which argued that the role of the State needs to be minimised and unless the rigidity in labour markets is removed, higher growth will not necessarily translate into greater employment in the current economic setting. The author observes that the employment growth in manufacturing sector has been negative, with its capital intensity rising over the last two decades. The empirical results support the theoretical analysis that there has been a substitution of labour by capital since the mid-eighties as the employers, in reaction to the rigid labour clause, have adopted artificially high capital intensity. Further, the philosophy of the Industrial Disputes Act (IDA) is seriously questioned today. Chapter V-B in specific and the IDA in general, discourage technological upgradation through its protective stand towards labour. This has led to less job creation, as the protective labour laws are not beneficial for labour. Further, delays in dispute settlement add to the woes of the labour force, and calls for a rethinking on the very working of the act. In the current economic setting, the role of the State needs to be minimised and unless the rigidity in labour markets is removed, higher growth will not necessarily translate into greater employment. The current statute makes it impossible for companies to exit and competition cannot

function without free exit. The author, therefore, concludes that the IDA needs a thorough revision.

The third part of the book elaborates the survey results of the industrial case studies conducted on the basis of well designed questionnaire circulated to 16 leading corporate houses representing different segment of the industry, including group companies like Tata Group, Hinduja Group, *etc.* The questionnaire mainly concentrated on the role of the State, relation between State and enterprises, industrial and technological policy, technological upgradation, cooperation with foreign firms, evolution of corporate governance and comparative perspective of India and China. In addition, information were gathered from some firms through direct interview with the executives.

The present book, in toto, is a compendium of papers concentrating various aspects of globalisation and industrial development in India with the comparison of China, which gives some insight on the reality of the Indian as well as Chinese industries and suggest some perspective plan to improve the Indian industry. While the conclusions of some of the papers are debatable, yet the book provides direction for further research. This is a welcome and useful effort towards the current burning issue of effects of globalisation and the developing countries. However, this book could have undertaken a deeper analysis on various parameters of competitiveness of the Indian industries *vis-à-vis* China, which otherwise would have provided more detailed comparison along with short-comings in the globalised regime. Further, the book has not brought out any concrete conclusion on the overall assessment of the firms that the book has conducted case study. As a whole, this book may be a very useful reference book to pursue further research in this area.

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