Varieties of Global Integration

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The policy context

- Debates over the state's role in shaping competitive advantage.
- India's 'failed' ISI phase often juxtaposed with China's explosive growth and its embrace of neoliberal reforms and FDI
- India's own post-1990 growth caricatured as a state versus market debate
- But looking at this debate from the bottom up – through the lens of industrial change – reveals a muddier picture

Legacies and antecedents from the bottom up

- Institutional legacies of India's protectionist past are shaping the trajectory of its ongoing insertion in the global economy in profound ways.

Argument

1. Specifically, India has followed a different path to global integration than many of its closest competitors.

- Its recent growth has occurred
  - Without much FDI
  - Without clear access to world class distribution networks, or immersion in global commodity chains
  - And without participation in preferential trade agreements with major buyer countries (e.g., NAFTA, EU expansion, ASEAN)

2. Domestic firms are at the vanguard of this integration

- A strong tier of highly competitive domestic firms (including key networks of small and medium firms, Tirupur, Ludhiana), rather than MNCs, is driving this global presence
  - Active in export markets
  - Successful at import competition
  - Involved in outward-bound investment - acquisition of mid sized design and distribution companies in developed countries and launching off-shore operations.
  - Management and logistics are a strong suit
  - Absorbing cutting edge technologies and adopting organizational innovations
- Where did these firms come from?

3. Antecedents lay in domestic reforms that preceded liberalization

- Sequencing of reform was important.
- Before trade policy liberalization in the 1990s, a series domestic policy reforms by the state in the 1980s helped re-shape domestic capabilities.
- This prior ‘preparation’ helped shore up competitiveness.
- This enabled a subset of firms to capitalize on the opening up that followed rather than be consumed by it.

What the government did in the mid-1980s:

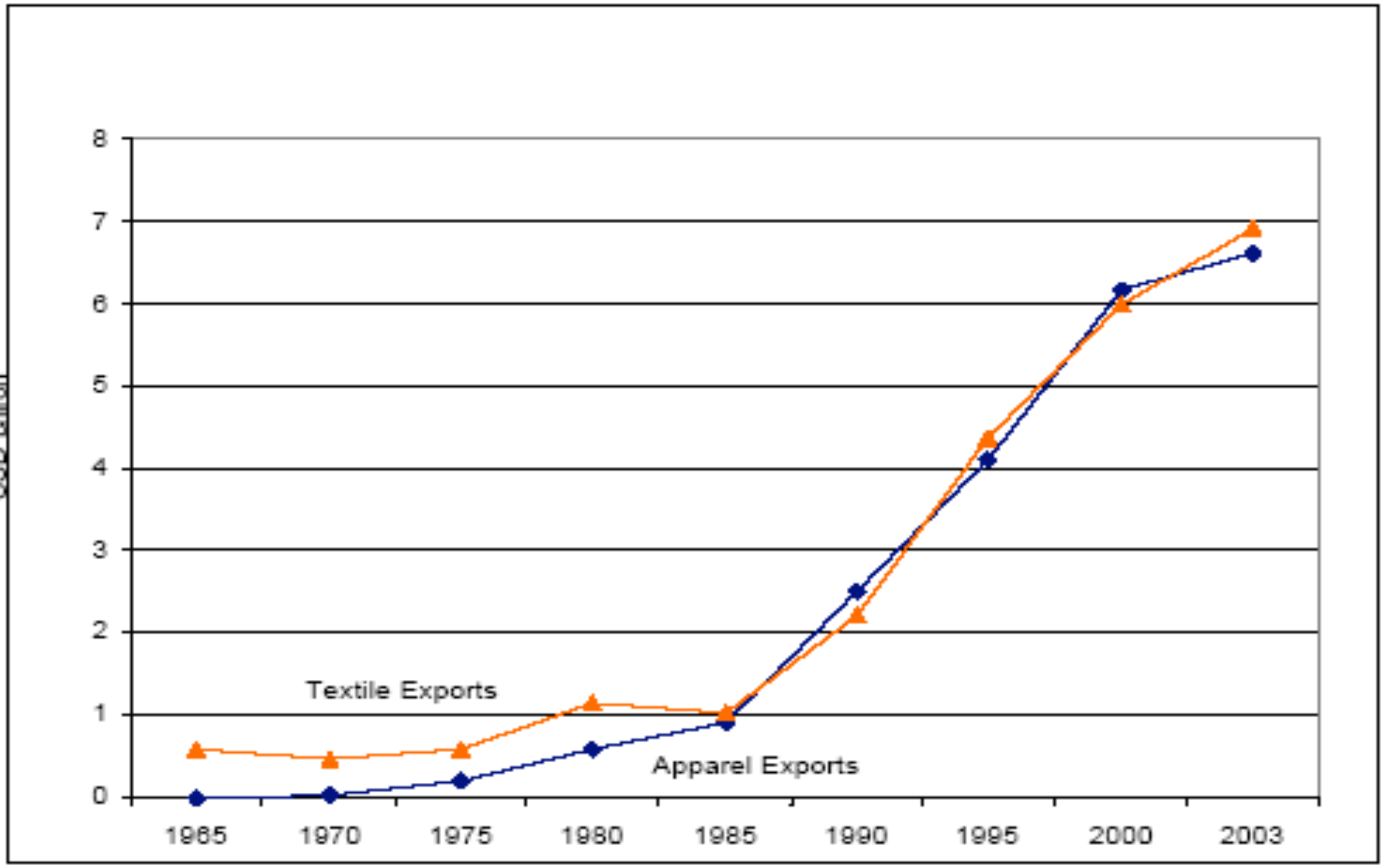
focused on investment, technical upgrading, and export promotion.

- Relaxed licensing requirements – allowing firms to expand and diversify their fiber base
- Raised investment limits for all firms, especially small and medium firms
- Encouraged firms to modernize their technological base through the disbursement of cheaper lines of credit
- Eliminated import duties on capital goods and technology for 100% export oriented firms
- Rationalized import controls, lowered tariffs, and actively promoted exports through a variety of duty-draw back programs
- Deployed ‘boundary-spanning’ export promotion councils jointly managed by an elected industry leader and a government official to administer a variety of export assistance programs

- Thus, a subset of firms:
  - increased investment
  - modernized their technical base
  - diversified their product mix
  - and over time emerged as leading exporters.
  - Trade liberalization in the 1990s deepened the processes that domestic deregulation had already triggered in the mid-1980s.

1. T&C Export Growth began in the mid-1980s, well before trade liberalization in the 90s

(1965-2003)



Source: Computed from UN Trade Statistics and data from Chatterjee and Mohan 1993

Source: Tewari 2005

4. Hidden gains of past rigidities

- Finally, the purported 'barriers' to industry development imposed by ISI policies –

  e.g., rigid labor laws, small scales of operation, v. little FDI, domestic orientation –

  which at first glance seem antithetical to global competitiveness,

  have instead been leveraged in unanticipated ways by firms and industrial actors to shape an alternative, more value-added path to exports and upgrading.

Small batch production and design are emerging as key sources of competitive advantage

- Exports are being led by products with:
  - higher volatility in demand,
  - small batch production;
  - variability and complexity of design (design intensity),
  - and in many cases, higher value added in the final market.
- In engineering sectors such as autos emerging competitiveness is in products with 4 traits:
  - (1) engineering depth, (2) quick variations in design, (3) IT enabled / embedded systems, and (4) design-intensive production in small batches.

- This is being further fuelled by rapid changes in the domestic market
  - Large size of the domestic market – US$ 36 bn rel. to Exports of US$18 bn) growing at an explosive rate with the rise of **organized retail**
  - 70 million sq ft in 400 malls by 2008
  - Surging **consumer demand** from mid-market segments associated with the country's IT-BPO boom
  - National Institute of Fashion Technology

Scale, Skill and Markets

- A **robust textile base** was nurtured well before apparel exports ever took off. (large spinning capacity – 48K spindles; China 56, Mexico 3000, US 5000; 3rd largest weaving capacity 20K shuttles)
- India was **never an export platform**. Key lead firms have full-package capabilities.
  - Strong players at the back end – deep pockets
- **Market access** – weak penetration into leading global clothing chains kept scales small, but also prevented Walmartization, and made exporting firms more entrepreneurial
- Forced them to go out and look for markets – **oriented them towards European markets** initially with their small orders, shifting designs, but feed-back intensive buyer-seller ties
- When US buyers arrived, specialty stores, with their relatively smaller order sizes, came first
- **The generalist** is at the heart of this small batch system of production.

Finally, in closing…

- Institutions and historical legacies thus shape the nature of emerging competitive advantage, and the processes underlying it, in important ways.

- Returning to China vs India, their stylized contrasts, and the question of varieties of global integration, we can ask:

  - **How do countries with similar attributes – low costs, low wages, and relatively low productivity -- develop different competitive paths and capabilities**

  - **How do institutions mediate this process**

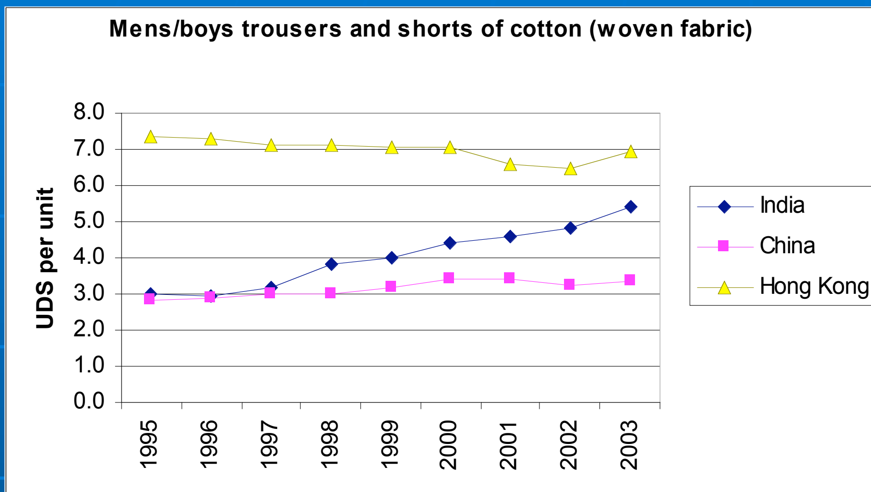
China and India's costs are quite similar (in 2004)

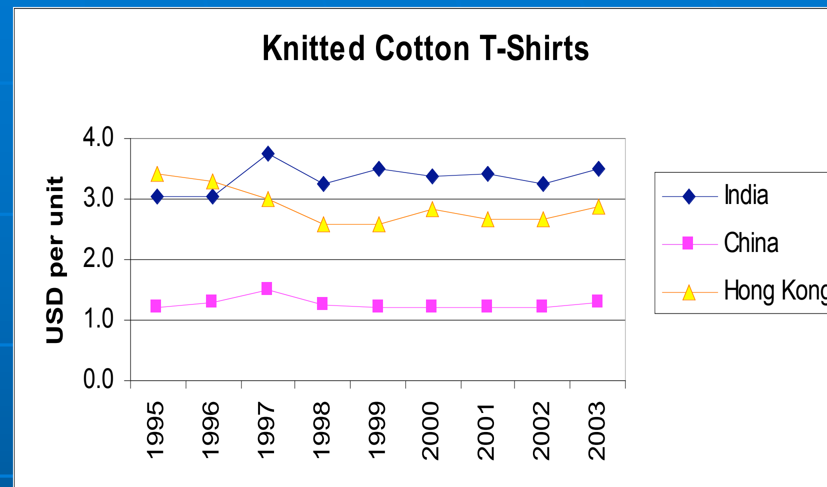
Country	Production Cost (US$/SAM)	Prod. Cost + Transportation
India	**0.04**	**0.08**
China (coastal)	**0.05**	**0.07**
China (Inland)	**0.04**	**0.05**
Mexico	**0.08**	**0.10**
United States	**0.23**	**0.25**

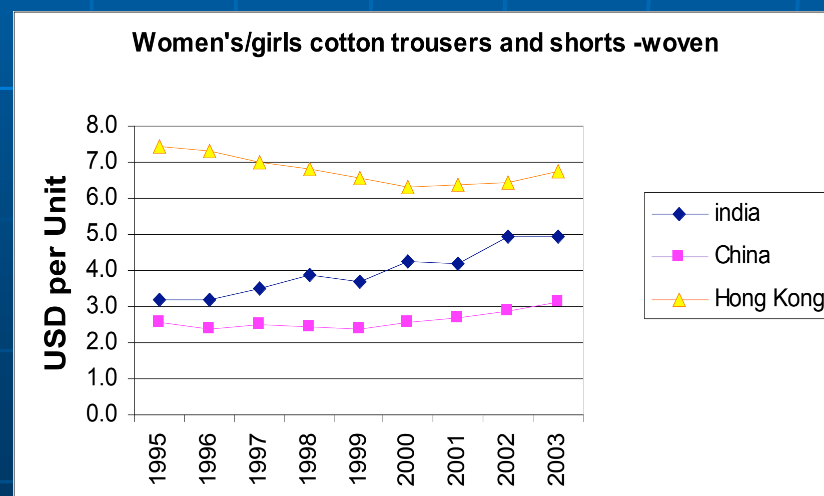
Source: KSA Technopak 2005

Yet they have taken divergent paths to volumes vs. value in apparel exports

Unit Value shifts in four of India's top apparel export categories





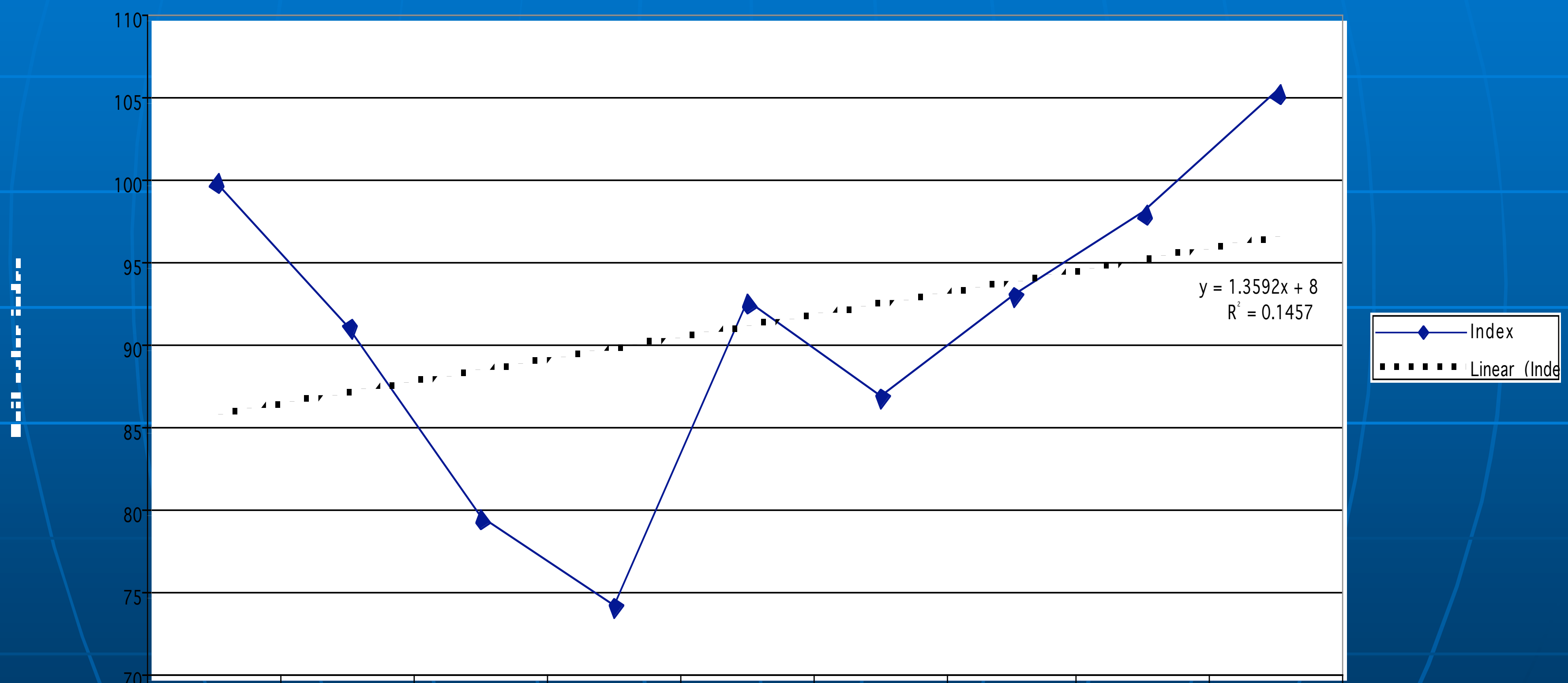


Source: Inflation-adjusted UN Comtrade data cf. Tewari 2006

China's volume strategy becomes clear in this India/China Unit value ratio diagram.

(Exports to the US Market 1995-2003)

Relative unit value index for apparel exports to the US market



	1995	1996	1997	1998	1999	2000	2001	2002	2003
Index	100	91	80	74	93	87	93	98	105

2 development paths*

- One is a path that takes advantage of low unit costs (resulting from low wages and low productivity) to ramp up large scale production for mass markets.
- This is the **China model**, and it is based on two factors:
  - the presence of large scale enterprises (a legacy of the publicly owned apparel industry)
  - And forward linkages to large scale distribution systems and buyers. China had both and therefore took the low cost / high volume approach.

*Thanks to David Weil for clarifying this dynamic

- The second path is for a low productivity, small scale producer is to switch products on the line and produce small lots of many different products.

- This is the low-cost, low volume, variable product approach that **India pursued**. Large volume (of exports) in this model is made up of many small batches of different products.

  - One picks this path if you have a sector made up of small producers, labor markets with strong restrictions, and few forward linkages (in terms of buyers and distribution networks) to big buyers.

  - That is the apparent institutional legacy of India.

- Thus, on the face of it both countries are expanding exports on the basis of low wages and low unit costs
- But these similarities arise from very different underlying processes.
- Varieties of integration such as these may have quite different developmental consequences, and merit closer understanding