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.
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 of 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: 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
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)

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<th>Country</th>
<th>Production Cost (US$/SAM)</th>
<th>Prod. Cost + Transportation</th>
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<td>China (coastal)</td>
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<td>China (Inland)</td>
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<td>Mexico</td>
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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

\[ y = 1.3592x + 8 \]

\[ R^2 = 0.1457 \]

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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.