Globalization and Competitiveness – the Indian Experience

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"India's economic destiny is safe only when India knows how to stand on its own feet, to compete against everyone in the world on an equal footing"
– Dr. Manmohan Singh

For over three decades since the early 1950s, India had presented to the world a certain duality about herself : a web of relationships manifesting a positive engagement with the outside world, notably as a founder of the nonaligned movement, and alongside, an economy characterized by autarchic policies with its development largely insulated from the global economy. To complicate the picture, India's vigorous democracy was also committed to economic planning, inevitably limiting the scope for a free market economy, an essential feature of all democratic systems. The restraints on the free market added up to what became the most extensive system of controls outside the ranks of socialist countries.

The Indian economic model represented a conscious effort to avoid the predicament of developing nations such as has been famously postulated by the dependency theory[1]. But on the other hand India did not repudiate her historic past as a country with a long-standing connection with the world economy, a "connection (that) was primarily a consequence of British colonialism". For the large space that was left for the country's private sector – in industry, business, services and agriculture, amounting to 87% of GDP (albeit because of agriculture)[2] even in the 1960s – this meant the continuance of the institutions, regulations and practices, - in one word, its business culture, rooted essentially in the Anglo-Saxon model. This aspect of India's mixed economy would assume crucial importance when in recent years India has had to respond to the compelling demands for convergence as part of globalization.

Indeed much as one tends to speak of globalization in the economic sense – as in this paper – the phenomenon that it actually embraces is much vaster and includes cultural, social and political dimensions. So in dealing with the question as to how India has been responding to the challenge of globalization, involving as it does an extensive opening up across many domains, the continuities in the Indian experience have to be noted carefully for reasons of perspective.

Increasing interconnectedness of nations in terms of trade, economic relations, investments, technology flows and to a certain extent movements of people being the essence of globalization, an important preoccupation of people in India, as elsewhere, is how that process would affect India's economic development compared to the earlier policies centred on economic planning and the dominant role of the public sector in industry and business. The proposition can justifiably be formulated in this manner because, to quote Baldev Raj Nayar, India's own relationship with globalization is chronologically coeval with what is generally taken to be the arrival of the globalization era, that is the start of the last quarter of the 20th century, in 1975.

The beginning of India's shift away from the earlier planned model of development to deregulation and decontrol was in the late 1970s and the 1980s – tentative, partial and slow to begin with, but later, as the Indian economy reached a crisis point with low rates of growth, heavy public debt and severe external payment problems, the government (with the present Prime Minister, Dr. Manmohan Singh as the main architect of economic policy) was obliged to undertake major systemic reforms in 1991. The series of reforms covering trade policy, foreign exchange, industrial regulation, taxation, fiscal policy and foreign investment have continued till now, its pace varying with circumstances, notably changes in government, but staying on course all along.

To summarize the principal changes accomplished so far : a liberalized foreign trade regime replacing the old system of quantitative restrictions and import licensing;

substantial reductions in protective duties with average tariffs being brought down to 10%; free convertibility of the Rupee on trade account, with capital account convertibility as the declared medium-term objective; opening of most of industry to private investment and, with a few exceptions and limits, to foreign investment; all-round reforms in the financial sector and elimination of state monopoly in areas like telecommunications – to mention the most important.

These changes in various segments of the economy, all of which hewing close to the economic imperatives of globalization, have had the effect of progressively integrating India into the global economy. This is evidenced by the increase of the share of foreign trade in GNP to over 40%, the rising annual figures of inward ($ 23b. in 2007) and outward (over $ 30b. in 2007) FDI, ever larger inflow of foreign portfolio funds (dropping presently due to the global financial crunch) and the presence of over 890 foreign institutional investors in the country. On the downside, with an estimated 25% market capitalization of India Inc. that is accounted for by foreign institutional and ADR / GDR holders, the vulnerable aspect of India's exposure to the globalized equity market is also to be noted. This has already manifested in downward pressures on India's national stock index (SENSEX) and fears of losses for Indian banking owing to the present turmoil in the US financial sector. (Shares of Indian firms listed on the US bourses suffered a loss of over $ 7b. in just two days in the third week of September 2008, according to a report).[3]

Systemic stability apart, economic growth is the main point of concern for India, as for that matter, any country in the context of globalization. Now there is general agreement that globalization has had a positive effect on India's economic growth, given the fact that the country has also a rising saving rate (36.1% of GDP in 2007-08) and a relatively efficient incremental capital-output ratio (of around 4). As against an average of 4% annual growth during the three decades before the 1990s, India has had 6% average annual growth since 1992-93 and 8.6% average annual growth during the last three years. (There is wide agreement that the country will continue to register the second highest rate of economic growth in the region despite the unfavourable outlook for the world economy in the immediate future). In another revealing statistic, merchandise exports doubled in just three years: from \$ 52.7 billion in 2002 to \$ 102.7 billion in 2005-06.[4] The proportion of total trade to the GDP rose from 15.9% in 1990-91 to just over 40% of GDP in 2007-08. On the downside, however, not only does the incidence of poverty (22%) continue to preoccupy efforts to ensure inclusive growth, but forecasts of economic growth for the present indicate a downward trend, mainly due to exogenous factors that have to do with India's integration with the world economy. Indeed, as daily revelations of the sub-prime crisis and the economic meltdown in the US pile up, there are increasing apprehensions about the extent to which the Indian financial sector, stock exchange performance, foreign investment flows and business outsourcing services would be adversely affected by the developments.

But that having said, a period of crisis must not distort one's perceptions on globalization and in any case, we should hope that the present situation, however grave, will be resolved some way or other and that the global economy will eventually return to calmer waters. Globalization itself, inspite of such episodic crises and even occasional interruptions, bids fair to continue, bringing countries together through widening and deepening interconnections. For countries that are seeking increasing gains of trade and welfare through this process, like Brazil, Russia, China and India, the perennial question is how to make globalization work in their respective countries and what are the prime challenges that it poses to their business and industry and to their political economies. Among those challenges, national competitiveness will be seen to rank above the rest.

That is all the more so with India because issues of competitiveness had hardly figured in policy in all the years of economic planning, the primary focus being national development based on the largest measure of self-reliance. Export pessimism rather than pursuit of comparative advantage through exports had marked trade policy in the initial years of planned development. For over three and a half decades, businessmen had to operate in a domestic market where government control limited domestic competition and high protective barriers limited foreign competition[5]. For instance, reservation of as many as 836 products (in 1987) for small scale industries hamstrung economies of scale across a wide industrial front, particularly in clothing where it nullified the country's clear comparative advantage. Another classic instance was that despite Indian producers in the state of Orissa being the lowest producers of alumina in the world, at market level they had virtually priced themselves out because of infrastructural weaknesses and a skewed system of subsidies[6]. The net result of all these distortions in the domestic economy was that India's exports dropped continuously from 2.17% of world exports in 1949[7] to about 0.5% by 1989. In fact it was the all-round loss of export competitiveness that partly led to the payments crisis and the deterioration in foreign debt ratios necessitating the series of reforms to liberalize the economy in 1991, as mentioned earlier.

Judged by the norms of conventional economic theories and of modern theoretical frameworks like those of Michael Porter, much has already been accomplished in India by way of changing the macro-conditions for competitiveness. Among the fundamental changes that have had an important bearing on the parameters of competitiveness like government intervention/control, market conditions, entry and exit barriers and regulation of competition are :

- Limitation of investment and manufacture by the state sector to three industries, viz atomic energy, railways and defence aircraft/warships.
- Limitation of compulsory licensing (for security) to five industries.
- Reduction of industries reserved for SMEs to 35.
- Reduction of peak tariffs to 10%; trade liberalization and tariff reforms "providing increased access to Indian companies to the best inputs available globally at almost world prices".[8]
- Large-scale introduction of Special Economic Zones (SEZs)
- Implementation of VAT and announcement of changeover to the GST in 2010.

- Implementation of the Competition Act of 2002
- Several measures to reform the capital and financial markets, notably the setting up of the Securities and Exchange Board of India (SEBI) as a statutory body in 1992 to effectively reform and regulate the stock market, the establishment of the National Stock Exchange (NSE) to create a healthy competition for the hitherto dominant Bombay Stock Exchange (BSE) – and marked progress in sectoral reforms in banking, insurance and pensions. Advance towards full capital convertibility of the rupee has also been made, but there is reason to believe that such convertibility is neither opportune nor desirable.

Although these major steps have brought about a far-reaching and visible change in the macro-environment for competition, adverse features remain such as continuing high tariff rates on several goods (albeit justifiable as protection to domestic agriculture and industry), subsidies (amounting to 1.4% of GDP[9] but some of which meriting retention for socio-economics reasons) and lack of movement on labour market reforms, coupled with the fact that only 81 million or so of the vast Indian labour force are in the ‘organized sector’, that is, with the benefits of regular payrolls, the rest being in the unorganized sector including agriculture. Above all, there is a range of issues on the country’s infrastructure – both improvement of quality and addition to stock - that are hobbling competitiveness over a wide front and are calling for urgent resolution. The current eleventh five year plan has envisaged an expenditure of $320b on infrastructure, with provision for joint public and private sector participation, but presently some doubts are being voiced as to the possibility of meeting this target. More than any single factor, infrastructure constitutes a radical weakness in India’s competitiveness, particularly in the manufacturing industry or when it comes to attracting the much-needed FDI into the manufacturing sector.

Analysts of India’s competitiveness point out some weak areas which need urgent attention and corrective action if India is to perform well in industries of comparative or potentially comparative advantage. Michael Porter, for example, cites failure to achieve viable competitiveness in industries like textiles, auto components or pharmaceuticals, even though the general disposition in India itself is to claim success in the last two industries, while conceding some flaws in the set-up for the textiles and clothing industry, the fifth largest category of India's exports. He has more serious criticism of India's score on competitiveness in agriculture, service exports (apart from IT) and, in terms of external markets, trade with the neighbourhood that are India's 'natural markets'. According to him, India's fundamental weaknesses lie in her capital markets ("relatively weak and underdeveloped"), in "the compelling logistical disadvantage" of Indian business, "when compared to China, in terms of getting goods and services to markets" and, above all, the low level of the dynamics of competition within the Indian domestic market. Some fundamental characteristics of the Indian business environment should be addressed if India were to scale up in competitiveness; as for the Government, it has its task cut out in terms of creating a business environment that supports higher levels of productivity and innovation and encouraging company strategies based on it[10].

Porter's analysis throws up a cluster of issues in regard to the state of play and the future prospects for competitiveness of Indian business and industry. There is, no doubt, some validity in what he says about the nature of domestic competition in India and the contextual conditions that obtain for Indian companies in the domestic market. But in recent years, experiences in India and elsewhere in the emerging economies have disproved some of the established theories of competitive advantage – international product sourcing and what is called "trade in tasks"[11] or "globally disarticulated labour and production process"[12] are disruptive of their hypotheses. India's IT and ITes industries are an example, even if Porter himself were to term them as "a one-trick pony". Over a wide range of tradable services – and they are increasing in number and scope – India has been faring well in world markets by dint of her competitiveness, not to speak of areas in manufacturing like steel (through inorganic growth as well), pharmaceuticals (where contract research and production are now part of the 'trade in tasks') and a wide range of engineering goods. In the ultimate analysis, it is companies and not countries that compete, as Porter himself acknowledges, and in the kind of turbulence that increasingly characterizes competition among companies today, there are trend-setting Indian examples. They are the challengers, as described by a Boston Consulting Group team[13], and the Indian corporates in their ranks have held their own in competition with well-established MNEs.

There is indeed recognition in India, at government and business levels, that the country has a long way to go in creation of conditions to foster and sustain global competitiveness for industry sectors by addressing issues such as "aligning to global standards" (among other things, India ranks 122 in the World Bank business index in doing business), "in terms of size of operation, cost efficiency, response time to market stimulus and creating global footprints"[14]. It is due to these factors that in the Global Competitiveness Index for 2007-08, India has a middle ranking of 48, based on the components of technology, public institutions and macro economic environment (with ranks of 66, 49 and 45 respectively). Now in so far as export production is concerned, an important measure taken by the government to help overcome the "compelling logistical disadvantage" of Indian business is the Special Economic Zones (SEZs) now being opened in different parts of the country for the benefit of both domestic and foreign companies. As observed by the economist Arvind Panagariya, the expected benefits of the SEZs as implemented dominate the costs in terms of lost revenues and the like and are worth promoting for this reason[13]. The WTO Trade Policy Review of India (2007), on the other hand, throws doubt on the cost-effectiveness of SEZs by arguing that the amount of investment generated by SEZs falls short of the associated tax revenues forgone and that the average cost of the jobs created by the Zones is 'very high' – although the Review also significantly acknowledges that some Indian states are allowing greater flexibility in labour policies in the SEZs (which is important for labour market reform, a mainly state subject and a crucial element in promotion of national competitiveness).

An important national agency that has been set up in the recent past to deal with issues of national competitiveness is the National Manufacturing Competitiveness Council (NMCC) – its High Level Committee on Manufacturing is chaired by the Prime Minister himself. Although it has already taken several initiatives to improve competitiveness in selected sectors of industry on a systematic basis, opinions could differ as to its effectiveness. But by far the most timely and far-reaching initiative of the government – depending on how far the institution actually succeeds in its assigned mission – is the setting up of a National Knowledge Commission (NKC) to consider in-depth and act systematically on issues relating to generation and diffusion of knowledge and skills required to meet the nation's present and future needs. The Commission has acknowledged that India "needs a massive expansion of opportunities for higher education, to 1500 universities nation-wide"[15] (as against about 350 at present). Drawing on NKC's recommendations, the eleventh five year plan (2007-2012) has given high priority to education by committing 7.8% of GDP to it; indeed a massive effort is required for implementation of so enormous an educational effort. As for vocational training, high attrition levels in ITes areas and a growing skills scarcity in several sectors have arisen concurrently with rapid industrial development – in view of this and likely skills deficits in some other areas, NKC is currently engaged in putting on an operational footing a National Skills Development programme aimed at creating a pool of 500 million skilled people by 2022. The Commission's agenda also includes plans to expand and upgrade the nation's higher education, an area that has assumed critical importance in the effort to enhance national competitiveness. But the present numbers in higher education also underline India's undoubted strengths: 500,000 engineers graduating every year and 140,000 the annual turn-out of MBAs which makes India the leading provider of management education in the world.

Any study of India's competitiveness in the context of globalization would be incomplete without a review of Indian industries and companies that are both playing by the well-known rules of competition and to an extent rewriting them. The broad areas of competitiveness for India, as generally acknowledged and confirmed by research include textiles & clothing (undergoing a technological scaling up for some years with the help of the government's Technology Upgradation Scheme), precious stones & jewellery (India has a dominant presence in the global diamond processing industry), IT and ITes, automobile components & products, pharmaceuticals (with generics as its strong point), steel and steel products, chemicals, leather, food processing, agricultural products and services like medical care (medical tourism is an active growth industry in India), education, tourism and consultancy. Taking IT as the most illustrative example, its success in acquiring and maintaining intact its competitiveness tells the remarkable story of Indian IT industry. Choosing to do business outside India, it worked on "a global delivery model consisting of an ability to unfailingly provide service based on the best combination of work done in the companies' home base and on the clients' premises". The Indian IT software company, Infosys, actually charted out this path which has also been very much the mode of operation of the other Indian software companies, although Infosys also went about building up exceptional credibility with US customers by listing in NASDAQ and conforming to the most exacting requirements of corporate governance[16]. Indian IT has come to lead the global offshoring of IT consultancy services because of dynamic companies like Infosys, TCS, WIPRO and Satyam; the industry is now moving to the more difficult stage of development of patentable software products. As a rule, Indian IT companies have made a determined effort to overcome reputational handicaps through several strategies including independent reputational certification like CMM Level-5 rating. The by now solid foundation of Indian IT services – making an all-out effort to go up in the value chain, to areas like 'transformational partnership' with clients as in Infosys' case and, in BPO activities, touching core functions like R &D – draws on several factors notably including the role of the Indian diaspora in the Silicon Valley and the prestigious TIE (The Indus Entrepreneur) as networks facilitating economic exchange[17]. Sometime back, a feature in Newsweek had dealt with the role of transnational 'tribes' as embodying certain capabilities and attributes in the global society; the Indian tribe seems to be associated today with IT and ITes.

In Indian manufacturing industry, Mahindra & Mahindra presents itself as a similar example of proven competitiveness. After having made a success for itself in production of low-powered tractors in India, it has since set up a joint venture with Jiangling Tractor in China and with its collaboration produced a low-power tractor for the US market and, successfully competing with John Deere of the US, has increased its market share in southern states as high as 20%. There are also the examples of Tata Motors, Larsen & Toubro, Hindalco, Sterlite, Suzlon, Ranbaxy (since acquired by the Japanese company Daichu), CIPLA and Wockhardt which testify to the competitive prowess of Indian companies, drawing on the stimulus of the new Indian business environment. These companies seem to prove what Bimal Jalan, an Indian economist has said : the sources of comparative advantages of nations are vastly different today than they were fifty or even twenty years ago and there are very few developing countries that are as well placed as India to take advantage of the phenomenal changes that have occurred in production technologies, international trade, capital movement and the deployment of skilled manpower.[18] But be that as it may, the Indian manufacturing sector should not be confined to a few peaks, but should rather create vastly more employment in preference to the service sector that is somewhat prematurely dominating the Indian economy at present. As pointed out by the Chairman of the Boston Consultancy Group India, the country's future may well be in developing itself as a laboratory for the innovative twenty first century forms of deconstructed and networked manufacturing, leveraging its software skills and deeper domain knowledge in a variety of industries[19]. Not only Indian industry and business, but in a far more important sense, Indian policy makers would need to act with foresight and application to make it possible. The India – US nuclear deal which is expected to lead to the lifting of restrictions on US technology flows to India and in particular, to raising the level of activity of the India-US High Technology Group, is a turning point in this regard.

Companies like Infosys, Mahindra, CIPLA and Bharat Forge, apart from Tata Steel, Tata Tea, the Reliance Group and VSNL, are among the close to the 100 Indian

MNEs that are expected likely to operate globally in the next few years, imparting traction to India's drive for global competitiveness. The remarkable success of these companies in terms of both organic growth and strategic acquisitions abroad proves that globalization could give rise to global companies as much in India as anywhere else. Entrepreneurs are India's special strength and no international competitiveness index can adequately capture the immense potential they hold for India's future now that the economy has been opened up to the currents of change in a globalizing world.

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