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WHEN WILL WE GO GLOBAL?

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(Abstract)

In this paper the author analyses India's new Industrial Policy and discusses its implicatation and consequences for export performance.

According to his analysis, it emerges from the New Industrial Policy that the Indian Government is not yet ready to allow foreign investment. Exports are important only to the extent of relieving the Balance of Payment crisis. Growth in the international economy and export are to be mainly brought about by Indian businessmen. The strategy for the growth of the economy has not been spelt out.

Since the New Industrial Policy has not adopted an export-led growth strategy and has a reserved approach to Foreign Direct Investment, it is doubtful if India's liberalization will ever achieve its grandiose aims.

Thrust of the New Industrial Policy

Government of India's new industrial policy states that "while it will continue to follow the policy of self-reliance, greater emphasis would be placed on building up our ability to pay for imports through our own foreign exchange earnings". This is an important statement of the government's policy objectives and deserves more scrutiny.

This statement implies two things:

1. The age-old (fear and) policy of 'self-reliance' with all its attendent manifestations continues; and

2. The popularly perceived exports drive as such is limited to the objective of paying for imports through foreign exchange earnings.

Thus on the exports front, the new industrial policy pronouncement is not a clean departure from the policies of

Table No. 1 : Merchandise Exports
(as per cent of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Newly Industrializing Economies									
Hong Kong	73.9	68.4	76.9	89.0	90.0	91.9	102.7	115.5	121.7
Korea, Rep. of	29.6	28.0	28.2	29.2	28.5	32.0	35.2	34.8	29.6
Singapore	141.6	127.3	117.5	120.7	121.7	121.6	136.6	159.1	162.0
Taipei, China	46.5	44.8	47.7	51.0	49.1	52.4	52.7	49.3	45.7
Southeast Asia									
Indonesia	27.3	21.9	21.9	23.7	21.2	18.0	22.7	23.4	24.5
Lao People's Democratic Rep.	...	...	...	...	...	...	...	...	...
Malaysia	46.7	44.7	45.4	48.3	48.5	48.8	56.1	60.1	68.1
Philippines	14.8	12.6	14.5	16.7	14.1	15.7	16.6	18.1	17.3
Thailand	19.8	19.2	15.9	17.8	18.9	21.1	24.2	27.4	30.6
Viet Nam, Socialist Rep. of	...	...	...	...	...	...	...	...	...
South Asia									
Bangladesh	6.1	6.4	6.2	6.8	6.7	5.8	6.2	6.9	6.9
India	4.6	4.9	4.8	5.0	4.5	4.4	4.7	4.9	5.7
Myanmar	9.1	7.0	6.1	5.7	4.7	4.1	2.8	3.1	5.3
Nepal	6.5	3.7	4.4	5.4	6.6	6.0	6.1	6.7	6.2
Pakistan	9.7	8.6	10.4	8.3	8.9	10.3	12.0	11.8	11.4
Sri Lanka	24.2	21.6	20.9	25.2	22.7	19.6	21.7	21.5	21.4
China, People's Rep. of	8.1	7.9	7.3	8.2	8.9	11.3	13.8	13.5	11.4
South Pacific									
Fiji	22.5	21.0	19.3	19.3	18.2	18.9	26.8	31.6	34.6
Papua New Guinea	33.5	32.5	31.9	36.0	38.4	39.1	37.5	39.2	31.3

Source : Asian Development Outlook 1990, Asian Development Bank, Manila, 1990.

the past decades, but purports to add a correction to the earlier policy only to the extent of the balance of payments problem.

As per the new policy, the growth process is mainly internal and exports are not seen as making a major contribution to the growth process. Exports enter the policy framework only at a secondary level, to ease the symptomatic problem of the balance of payments.

Import substitution has been the mainstay of our growth policy all along and threatens to continue to be so even under the new industrial policy. Several Asian countries, which gained Independence after India, have adopted the exports-led growth strategy and prospered. However, we still seem shy of such a policy. Table No. 1 shows the export levels of several countries.

Potential for Exports from India

There is no gain in saying that there is a huge scope for exports from India in the traditional sectors such as textiles, garments, handicrafts, gems, leather and leather items, and agricultural products; and in engineering items, electronic items and computer software. Within the country, we pride ourselves over our industrial network - the engineering industry, electronic industry, chemical industry and various other products industries. It is interesting to note the following facts about Indian industrial activity.

Table No. 2 : INDIA IN THE WORLD

Activity	Relative Position
Coal Production	9th
Bauxite Production	9th
Electricity Generation	10th
G N P	11th
Contribution of Manufacturing Sector in GDP	13th
Commercial Vehicles Production	14th
Crude Steel Production	15th
Merchant Vessels	16th
Machine Tools Production	18th
Passenger Cars Production	19th
Crude Petroleum Production	19th
Exports	38th

Source : This is CEI', Confederation of Engineering Industries, India.

Table No. 3 : E.C.-12 IMPORTS BY PRODUCT AND PARTNER

PERIOD : JAN.-SEPT. 1990

Values in 000 ECU

BASE YEAR 1990

	PARTNER											
PRODUCT NOMENCLATURE	INDIA	CHINA	THAILAND	MALAYSIA	INDONESIA	PHILIPPINES	SINGAPORE	HONG KONG	S. KOREA	JAPAN	WORLD	EXTRA-E.C.
ELECTRICAL	9768	217151	59290	72406	2455	9005	216145	225881	212022	1874263	26023378	9632834
ELECTRONIC	16806	681093	169017	668870	19940	122378	1045139	388454	1060245	6569071	37985102	19017377
871200	324	54151	5423	2483	6256	13	73	562	6974	13183	590028	322656
8711	1221	228	1743	0	85	0	3	69	145	832974	1342472	954618
TOTALCYCLE	8233	56558	8762	2831	6472	51	18159	753	7381	1099046	2978970	1749507
8703	4012	199	346	44626	239	30	748	1209	44890	5802682	43087219	8369366
VEHICLES	13854	2687	2295	48375	283	671	3572	1873	54997	7148905	69955635	13357579
84	71066	186511	120718	49211	6602	12038	1130270	406094	542179	7887682	110473085	42727136
DATAEQUIP	21080	59324	79412	22031	650	7045	961849	359493	377109	3728210	33294163	15742665
MACHINETOOL	1854	21307	1172	85	16	1	5011	735	12677	620671	5205956	2143333
CLOCKS	300	104301	9972	5160	314	8057	10471	317259	18042	226218	2210274	1752727
TOOLS	49833	140827	8843	5581	2361	1638	30541	28908	86988	215871	6801292	2361143
90	29288	61682	24153	60049	9315	21287	64607	156655	89120	2798415	22401494	10667954
ISATZ	2249	10990	18469	40460	16785	242	19539	9795	3387	32415	12156046	4311833
MISCEL	19322	887349	100975	56609	57170	58331	69698	149986	241886	410382	16734807	5849250

Source : Eurostat - COMEXT, E.C. Statistical Office, Brussels

LEGEND :

Electrical	:	Electrical Machinery and Equipment
Electronic	:	Electronic / Telecommunication Apparatus and Parts
871200	:	Bicycles and other cycles (not motorized)
8711	:	Motorcycles (including Mopeds)
Total Cycle	:	Total of Bicycles, Motorcycles (including Mopeds), Parts and Accessories
8703	:	Cars
Vehicles	:	Cars + Trucks + Tractors + etc. – Parts thereof
84	:	Machinery (other than electrical and electronic) and Parts
Dataequip	:	Office Machinery and Data Processing Equipment.
Clocks	:	Clocks & Watches
Tools	:	Tools, Implements and miscellaneous articles of metal
90	:	Optical, Photographic, Cinematographic, Surgical, etc. instruments, parts and accessories
Isatz	:	Articles of Iron, Steel, Aluminium, Tin, Zinc
Miscel	:	Miscellaneous Manufactured articles.

But, where do we stand in comparison to our Asian neighbours? The following table presents a comparison with respect to engineering and electronic products. With regard to items such as Bicycles and other Two Wheelers, India would be the top-ranking country in terms of the volume of production. However, in export to its major partner in international trade viz. the EEC countries, India ranks quite low as compared to several Asian nations. Table No.3 brings this out.

New Economic Measures and Exports

What may be some of the reasons behind such a performance? And how are the new economic policy measures going to influence the exports performance?

One of the reasons that Indian products, particularly industrial products, do not perform well in the developed countries' markets is the fact that their quality is not up to the mark. For instance, our bicycles (whole unit) are heavier and many a time do not meet the impact test and other mechanical quality requirements. Therefore, Indian products in general, suffer from a 'low quality' image, thus adding to the existing problem.

Quality is something that cannot be substituted by a low price particularly in the case of industrial products in the developed countries' markets. To imagine that a 23% devaluation of the Rupee vis-a-vis the U.S.Dollor would give a boost to exports is wishful thinking. Nobody would want an unreliable bicycle or motorcycle or a forged or cast industrial part just because it happens to be cheap.

We have to come to terms with the fact that superficial actions such as devaluation and exim-scrip cannot bring about the turn-around in exports. In a situation where the industries are unwilling to be internationally competitive, it may be argued that the indigenous industries need to be forced into exporting. Linking imports with exports is one such measure. But this measure suffers from serious limitations. Export volume is not at all proportional to the pressure for exporting. Export volume depends heavily on the characteristics of the buyer's market. An exporter has to meet the specified quality requirements and therefore has to understand these requirements. He also has to understand the desires of the international market and accordingly offer competitive features in his product. This requires the exporter to have an understanding of the culture of the buying country/countries. This in turn requires a considerable amount of time and money.

At a time when there is a shortage of hard currency, our businessmen will have to invest in marketing offices, some form of advertising and other promotional activities abroad. Moreover, this will have to be a long-term activity and its results may come only in the course of time. One wonders whether such an effort will be taken up by a large number of industrialists.

Exim scrip has the potential of turning into another avenue for making a 'quick buck'. Those who have already established 'niches' such as in the agricultural products, leather or its products and some types of textiles, can make extra profits on their present level of exports. Imports will thus be doubly costly: due to devaluation and due to the market price of the exim-scrip. Throttling of imports sends a wrong signal to the economy.

The Linkage Between Foreign Direct Investment & Exports

The solution to enhanced exports perhaps lies in a better understanding by all concerned - the industry and the government - about the process of international trade. It is not possible to push up international trade by arm-twisting the imports. It requires a genuine appreciation of the foreign market with all its nuances. What is the appropriate sort of advertising, for a country? What could be the methods of promotion and market penetration? How can an initial impact or entry be sustained? What competitive strategies need to be adopted against other nations in the same products market? There are a myriad other marketing and strategy-related questions. Quality and manufacturing perfection is another part of the story. The latter involves knowing the technology. Many a time, the small 'kink' somewhere makes all the difference in the quality and reliability of the product. Sometimes, the technological issue is much larger. It involves changing over wholesale to a new and modern technological sophistication. Where can one get this sophisticated marketing and technological knowledge? How can an exim-scrip solve such a problem?

This is where the linkage between exports and the Foreign Direct Investment (FDI) comes in. Several people fail to see this link. The Indian government looks at FDI as, at best, an instrument for acquiring new technology - and that too with a great deal of suspicion. The idea of making the more developed countries our partners in progress, has been missing. Even in the new industrial policy, there has been a very reluctant admission of the FDI's role - by increasing the ceiling of the FDI share from 40% to 51%.

We have to understand that the FDI can be an effective tool for penetrating into the developed countries' markets. There is a mutuality of interests here. The developed

countries may need our help in 'labour-intensive' and 'educated manpower-intensive' products. This is where we can offer them cost-advantages. Our strong-point is labour - educated or otherwise. We have bright engineering graduates, and also a labour force which does not yet abhor working in heat, grime, dust, etc. Even the most advanced countries would need products (at the intermediate as well as the finished level) that would require this manpower-intensity.

If India could serve this need it could earn itself substantial business in the international market. Our sense of national pride has been quite misplaced and in the future this should not come in the way of accepting a good business proposition. It is futile to turn away good business opportunities which use our comparative national advantages and then go out and seek loans and aids from the IMF or World Bank or some other organisation. One fails to understand how the national pride is not hurt when going out with a begging bowl.

There is little point in imagining our country as a technologically advanced country when most of our industries cannot produce products of high quality and reliability. We do have an industrial base which is, in terms of quantity, quite significant even internationally. However, there is an urgent need to qualitatively upgrade the same. And what better way to upgrade it than by entering into joint ventures and encouraging investment by the more developed countries? Many of our existing industries can be suppliers to the joint venture companies.

And if, in certain products (e.g. Computer Software), we are not very far from the advanced countries in terms of the technical knowledge, we must admit that our international marketing knowledge and skills are still poor. Many years of isolationism have worsened the condition. In order to enter and gain ground in the advanced countries' market (which is where the large potential market for our industrial and semi-industrial products lies) India needs the FDI, which would enable manufacture of products for export to the developed world.

A comparison between the FDI policies of India and several of its Asian neighbours such as P.R. of China, Malaysia, Indonesia, Thailand, and even Srilanka shows our reserved approach to the FDI even in the so-called new industrial policy. International investments are made by comparison, and one doubts whether our liberalization would ever achieve its grandiose aims. The following tables highlight the policies of Malaysia and P.R. of China. Our own country's policies can then be compared vis-a-vis these countries' policies to see how liberal our 'new' policies are.

Highlight No. 1 : MALAYSIA : SOME HIGHLIGHTS OF POLICIES ON FOREIGN INVESTMENT

* Foreign Investors are permitted to hold whatever level of equity upto 100 % if the company exports 80 % or more of its production, irrespective of whether or not the company's products compete with products presently being manufactured locally for the domestic market.

* Foreign investors whose applications are received during the period 1.10.1986 and 31.12.1990 are also permitted to hold whatever level of equity of upto 100 % on meeting the following conditions:

  i) that the company exports 50 % or more of its production

  or

  ii) that the company employs 350 full-time Malaysian workers.

* For projects exporting between 51 % to 79 % of their production, foreign equity ownership upto 51 % is allowed; it can go even upto 79 % depending upon the level of technology, spin-off effects, size of investment, location, value-added, utilization of local raw materials and components.

* For projects exporting between 20 % to 50 % of their production, foreign equity ownership of between 30 % to 51 % will be allowed; however, for projects exporting less that 20 % of their production, foreign equity ownership is allowed upto 30 %.

* For projects producing priority products or high technology products, foreign equity ownership of upto 51 % is allowed (without any other conditions).

* A company <u>will not be required to restructure its equity at any time in future</u>, notwithstanding the fact that the company may have undergone an expansion or diversification.

* Malaysian Government has signed <u>Investment Guarantee</u> agreements with several countries. (This offers the foreign investor protection from expropriation or nationalization without compensation, as also free transfer of profits or capital or fees).

Source: <u>Malaysia - Your Profit Center in Asia</u>, Malaysian Industrial Development Authority (MIDA), May 1988. Obtained from Hon. Trade Commissioner, Malaysian Embassy, Brussels, March 1991.

Highlight No. 2 : HOW PEOPLE'S REPUBLIC OF CHINA ATTRACTS FOREIGN INVESTORS

* The law on Chinese-Foreign Joint Ventures sets a minimum of 25 per cent for investment by the foreign party, but no maximum.

* The Chinese Government encourages a majority foreign share in various cases such as : (i) a large investment, (ii) the likelihood of increasing exports, and (iii) the new technologies brought in by the foreign participant.

* The Contract term of a joint venture lasts 10 to 30 years, and it can be extended through application. In some cases, the term is set for more than 30 years from the very beginning.

* Chinese Government prefers a Joint Venture to a (less directly participative) cooperation business operation.

* The Government does not fix any export ratio for the products of a joint venture, even though it encourages a joint venture to sell its products on the world market.

* By a 1983 announcement, Chinese-foreign joint ventures are exempted from income tax for the first two years counting from the first profit-earning year, and from 50 per cent of the income tax for the next three years.

* Chinese Government is signing many agreements with foreign governments for investment protection.

Source: Chu Boatai, Foreign Investment in China : Questions and Answers, Foreign Language Press, Beijing, 1986.

It is not surprising, therefore, the investment pattern revealed by the International Finance Corporation's (IFC) figures as presented in the table below:

Table No. 4 : FOREIGN DIRECT INVESTMENT*
(during the period 1981-90)

Country	Investment (in $ billion)
Mexico	16.7
Brazil	14.1
P.R. of China	13.5
Malaysia	10.2
Argentina	7.5
Thailand	6.8
Nigeria	5.9
Columbia	4.5
Indonesia	4.1
Philippines	3.1
Total FDI	132.0

* including reinvested earnings

Source : Sir William Ryrie, Executive Vice President of International Finance Corporation, while releasing the IFC's Annual Report, as per IANS, as reported in Deccan Herald dated September 20, 1991, p.14.

Liberalization Needs Focus

Although one must credit the present government for the new economic policies which are a departure from the earlier policies, the approach to exports and FDI is disappointingly half-hearted. In fact, exports do not appear to be the thrust of our national policy.

While the removal of MRTP is a welcome measure for a better internal economic climate, it does not serve the export objective necessarily. Economies of scale are not yet the issue in our exports - even in non-traditional items such as the engineering, electronic products. As mentioned earlier, the issue is quality and proper promotion efforts. For items where the economies of scale are an issue (e.g. cars, household electric appliances), India is still quite far from the internationally available economies of scale. MRTP removal, therefore, does not necessarily provide these scales of operation.

Our non-traditional exports, i.e. industry-based, exports, are done largely by our medium-scale and small-scale sector. For example, a large proportion of the exports of auto-parts and bicycle parts originate from this sector. The contribution of our large scale sector in our exports (even considering all our exports) is minimal. We may have steel giants, scooter giants, motor-cycle giants, appliances giants but one hardly hears their name or sees their product abroad particularly in the developed world. However, one does see the products of several medium and small scale Indian industries. The new industrial policy has done nothing specific, by the way of provisions in the policy, for encouraging these sectors. The recognition of the role of medium and small scale industries in our exports should have been there, and the same should have been further encouraged through appropriate policy measures.

One gets a feeling that the government is not clear about the purpose of having a 'liberalized economy. The national aims of the liberalisation are as unclear as the purpose of the drastic devaluation. The direction or focus for our new industrial policies is lacking. The strategy for the growth of the economy has not been spelt out. Parts of the new industrial policy appear to be concerned with import substitution as the major goal by conserving imports, while in other parts the new policy claims to encourage exports. There are mixed signals which are confusing. If the industry has not yet pointed out these anomalies, it is only because i) it is feeling a sense of relief in the removal of internal controls by the government, and ii) export has never been a priority issue with our big industry or big business.

The sum and substance of the new industrial policy is that Indian Government is not yet ready to allow foreign investment; exports are important only to the extent of relieving the balance of payments crisis; growth in the internal economy and exports has to be brought about by Indian businessmen, most predominently. India has tried to clean up its internal environment; however it is still quite far from integrating itself with the outside world.

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