NEWSLETTER

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PM Releases Book in Honour of Professor S.K. Goyal

The Prime Minister of India, Dr Manmohan Singh released the book titled *Indian Industrial Development and Globalisation: Essays in Honour of Professor S.K. Goyal* on 11th October 2008, to mark the 75th birth anniversary of Prof. S.K. Goyal, Founder and Vice-Chairman, ISID.

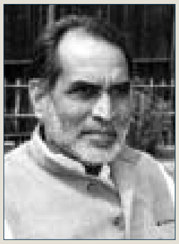
Congratulating him on his birth anniversary, Dr Manmohan Singh, referred to Prof. Goyal as "one of the most creative, forward looking economists of our times". He said Prof. Goyal was "truly a pioneer" for giving birth to what he called "one of the top most institutes devoted to the study of industrial problems".

Dr Singh emphasized the relevance and importance of debate on the process of globalisation and its impact, especially today, when there is great anxiety about the international financial system and its impact on the economy in both developing as well as developed nations. He pointed out that there is a need to have a fresh look at these issues and he hoped that the book will induce youngsters to come forward and continue the work started by Prof. Goyal and his colleagues.

Hon'ble Prime Minister of India, Dr Manmohan Singh presenting Prof. S.K. Goyal the book realeased in his honour, 11 October 2008

Published by the Academic Foundation of India and edited by **Prof. S.R. Hashim, K.S. Chalapati Rao, K.V.K. Ranganathan and M.R. Murthy**, the contents of this volume add useful dimensions to the ongoing debate on various issues relating to India's transition to the new economic policy regime. The papers in this volume were written specifically for the National Conference on *Industrial Development and Economic Policy Issues*, organised by the Institute for Studies in Industrial Development during June 27–28, 2008.

Remembering Chandra Shekhar



In commemoration of his service to the nation, and in remembrance of his close association with ISID, the Institute has initiated the Chandra Shekhar Memorial Lecture series. The lecture held this year on December 5, 2008 the first in the series was delivered by Prof. C.H. Hanumantha Rao, on *"Achieving Inclusive Growth: Recent Experience and Challenges Ahead"*.

Shri Chandra Shekhar's association with the Institute for Studies in Industrial Development (ISID) had been a long and a distinctive one. It was perhaps quite natural because of his concern over the growing monopolies and the influence exercised by the big business and large private corporations on the polity. Having been a researcher himself once, he always sought to give empirical content to the contemporary problems, instead of vaguely opposing or supporting a policy. This brought him in close touch with the academics very early in his political career. He not only sought their advice, but also suggested relevant lines of enquiry. This approach of his was responsible for the beginning of his close interaction with Prof. S.K. Goyal (who later founded the Corporate Studies Group at the Indian Institute of Public Administration) in the early 1960s. The mutually beneficial association had profound influence on India's industrial policy and thus had a far reaching impact on the country's industrial development, the high points of which were the nationalization of fourteen private scheduled commercial banks and enactment of the legislation concerning concentration of economic power and product monopolies.

It was, therefore, no surprise that when the ISID was set up in 1986, as a follow-up to the Corporate Studies Group, with the objective of conducting and promoting empirical research on India's industrial and corporate sectors, Shri Chandra Shekhar gave his wholehearted support to the endeavour. As a member of the ISID Board of Governors along with leading academics and public men, he helped steer its functioning and succeeded the Founder Chairman Prof. Moonis Raza as Chairman of ISID on December 6, 1991. Since then and until his death he guided the Institute as Chairman with sagacity and helped it to progress from strength to strength.

ISID

CHANDRA SHEKHAR MEMORIAL LECTURE

Achieving Inclusive Growth: Recent Experiences and Challenges Ahead

December 5, 2008

Prof. C.H. Hanumantha Rao, distinguished development economist delivered the first Chandra Shekhar Memorial Lecture on *Achieving Inclusive Growth: Recent Experiences and Challenges Ahead* at Institute for Studies in Industrial Development (ISID) on December 5, 2008. Speaking on the occasion he recalled that Shri Chandra Shekhar had great concern for the less developed regions of the country and was highly critical of economic reforms launched in the 1990s in so far as they paid scant regard to equitable or inclusive development. Therefore, it was only appropriate that he should be speaking on *Achieving Inclusive Growth* in Shri Chandra Shekhar's tribute.

Prof. C.H. Hanumantha Rao, Former Member, Planning Commsission delivering the Memorial Lecture

Prof. Rao pointed out that 'Inclusive Growth' itself is not a new idea, as it stands for 'equitable development' or 'growth with social justice', which have always been the watch words of development planning in India. In the three decades from the early 1950s to the early 1980s, the slow growth in GDP meant that the concern for accelerating GDP growth itself was uppermost. Inequalities did rise in the wake of growth, but not that sharply. But with the GDP growth rate rising to 7–8 per cent, the rural-urban, regional, and rich-poor, divides became glaring. The pace of poverty reduction slowed down in the post-reform period despite the rise in per capita GDP at a faster rate, and it is well established that socially and economically disadvantaged sections had benefited the least from growth and rising prosperity. This is what brought 'inclusive growth' high on the policy agenda.

According to Prof. Rao, underlying rising income inequality has been the reason growing rural-urban and regional divides. Economic reforms introduced in the country in the early 1990s realized the initiative and enterprise of those adequately endowed with infrastructure, resources, skills, power and influence. Such sections were generally concentrated in more developed states and regions, and in urban areas. People in the less endowed regions and the rural areas faced an absence of productive outlets and the requisite resources, as policy failed to accord greater priority for public investment in infrastructure, agriculture and social sectors in general. This was because of faith in 'trickle down' mechanism and the belief that greater role for the private sector can make good these gaps. Economic polarization was a logical corollary of such a policy. Prof. Rao asserted that much depends on the level and spatial distribution of physical infrastructure, human resource development, prevailing social structure, social policies and governance patterns. Therefore, the sharp rise in inequalities in the post-reform period cannot be attributed to economic reforms *as such*. Rather, they can be traced to the initial conditions obtaining in the pre-reform period itself. Reforms, however, had to make good the infrastructural and other gaps inherited from the past.

Prof. Rao felt that achieving inclusive growth is far more challenging than stepping up the GDP growth rate per se. It means addressing inadequacies in physical and social infrastructure in the less developed regions and rural areas in general. The highly stratified and hierarchical social structure characterized by inequalities in land holdings and other forms of wealth, status and power is also an impediment as it contributes to the rise in income inequalities in the wake of growth. Finally, the actual outcomes on the ground from policies also depend on the governance pattern and the efficiency of implementation mechanisms or delivery systems.

Prof. Rao felt that the present UPA government can legitimately take credit for sustained high GDP growth. This particular configuration has brought a boom in tax revenues for the government. This has enabled governments to step up public investment in infrastructure and other expenditures on agriculture and social sectors. According to Prof. Rao, this clearly shows that high GDP growth, through improvement in revenues, can *facilitate* inclusive growth by *enabling* the governments to undertake the necessary investments and other expenditures. The UPA government, according to him, was also quick to address rural distress through a two-pronged strategy of reviving agriculture and putting in place a rural employment guarantee scheme. Major initiatives have also been taken in social sectors like education and health. However, he felt that much remains to be done to tap the considerable under-exploited potential in agriculture and cautioned that the encouraging experience is by no means uniform.

Looking at the challenges ahead, Prof. Rao emphasized the importance of the so far highly neglected area of public investment in infrastructure, education and health. The Eleventh Plan envisages a significant rise in both public and private investments in infrastructure. He, however, pointed out that from the information given in the Plan document it is not possible to find out how the infrastructure planned is going to be spread over different states and distributed between agriculture and the non-farm sector. He also noted that the targeted growth rates for Gross State Domestic Product (GSDP) in the Eleventh Plan show smaller divergence between the richer and poorer states than those achieved in the Tenth Plan. Also, the absence of targets in respect of investment rates creates doubt as to the credibility of these

UPCOMING EVENTS

Conference on **Corporate Sector, Industrialization and Economic Development in India**

March 27–28, 2009

In the liberalised economic policy regime, the corporate sector has been assigned a major role as the driver of growth and development process of the Indian economy, in particular the industrialisation effort. This has resulted in a number of institutional changes, especially in the regulatory framework applicable to the sector. While the process is now more than one and a half decades old, studies that provide deep insights into the developments in the corporate sector and its interface with industrial and economic development are, however, relatively few. Keeping in view the need to encourage research and discussion on various aspects of the Indian corporate sector, the Institute for Studies in Industrial Development (ISID) is organising a Conference in Delhi on March 27–28, 2009.

The ISID invited papers from academics, policy makers, analysts and practitioners for presentation in the Conference. There was an overwhelming response to the 'Call for Papers'. Papers from short-listed scholars are coming in and would be subjected to peer review before acceptance for presentation along with invited papers from specialists. The Conference Papers, based on a further review, would be brought out as an edited volume.

growth targets. He highlighted the fact that the per capita plan outlays (including central assistance) of the poorer states have been declining relative to those of the richer states in the post-reform period. Private investment has been flowing basically to the high income states where infrastructure is well developed owing to higher per capita plan outlays. The position has now become worse for the poorer states because of the Centre's decision to do away with the loan component of the normal central assistance for state plans, following the recommendations of the Twelfth Finance Commission. No alternative mechanism has been put in place so far to enable the poorer sates to easily access loans from the market. There is also no increase in central assistance in the Eleventh Plan for infrastructure development of the backward regions through Backward Regions Grant Fund.

At the same time, according to Prof. Rao, the rising demand for land for industrial purposes, including Special Economic Zones, and for housing in expanding urban areas is posing an inevitable threat to farmers and their land. However, the very slow growth of non-farm opportunities for employment and livelihoods and lack of social security for small holders necessitates a careful and calibrated approach for land acquisition. *Willingness* to part with land by the farmers for development projects, Prof. Rao argued has to be the guiding principle for making the sale transaction just and humane. The principle of fixed 'compensation' at a point of time should therefore be supplemented with mechanisms for assuring original land owners adequate stake, on a secure footing, in the new establishments. This is essential because, traditional norms for compensation and forms of Rehabilitation and Resettlement have proved unviable. Land alienation also continues to be a serious problem in tribal areas. While the enactment of Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006, is a major step towards protecting the rights of Scheduled Tribes and other traditional forest dwellers, the efforts towards ensuring proper implementation so far do not seem to be commensurate with the challenges faced.

Prof. Rao also noted that the Eleventh Plan, as earlier, proposes targeted livelihood support programmes aimed at increasing productivity and incomes of the poor in several low income occupations such as small and micro enterprises, weavers, artisans, craftsmen, etc. Citing the recent spate of suicides by weavers in some parts of the country as its consequence, Prof. Rao lamented that many such programmes are rendered infructuous by the lack of concern at the state and the lower levels. In this context, the recommendations on Social Security made by the National Commission for Enterprises in the Unorganised Sector, headed by Dr Arjun K. Sengupta (NCEUS, 2006) assume significance. While the UPA Government has introduced schemes to provide Social Security Coverage through life cover, health insurance and extension of old age pension on the lines recommended by NCEUS, it has restricted coverage to BPL households.

Prof. Rao also noted that while liberalisation had improved financial products and services for the few, it accentuated denial of services for many and inflicted a severe setback to the objectives with which major commercial banks were nationalized in the late 1960s. This experience has prompted renewed policy attention to the issues of financial inclusion in India in recent years. However, he felt that the basic cause for financial exclusion often missed—including by the Raghuram Rajan Committee—is a mindset lacking in social concerns, which has to be faced squarely if appropriate institutional arrangements are to be made for checking the prevailing distortions in bank lending.

Finally, Prof. Rao said that governance has to be brought in tune with the ongoing social change through the functioning of our democratic system. Arguing against the view that the deficiencies in decision making and tardiness in implementation are attributable to the prevailing democratic system, he suggested that the solution lay in deepening democracy by effectively extending it to the grass roots. Experience has amply demonstrated that participatory or inclusive governance is indispensable for achieving inclusive growth. Despite elected *panchayats* being in place, no serious effort has been made so far to devolve powers to them, not to speak of any effort to build up local capabilities by training the elected functionaries. This is explained solely by the resistance from the entrenched interests to part with their powers. Therefore, the change in attitudes has necessarily to be driven through the *political process*.

THIRD TARLOK SINGH MEMORIAL LECTURE

India's Energy Futures—Problems and Prospects

August 18, 2008

Prof. Y.K. Alagh, former Union Minister for Power and Science and Technology and Chairman of the Institute of Rural Management, Anand delivered the Third Tarlok Singh Memorial Lecture on *India's Energy Futures—Problems and Prospects* at the Institute for Studies in Industrial Development on August 18, 2008. The lecture was a collaborative effort with Indian Association of Social Science Institutions (IASSI), which had instituted this memorial lecture series to commemorate Sri Tarlok Singh, the first Chairman of IASSI, former civil servant and one of the pioneering figures of Indian economic planning.

Dr Abid Hussain, Former Ambassador to US and Member, Board of Governors of the Institute chaired the session while Prof. S.K. Goyal, Vice-chairman, ISID gave the key note address on the event.

In his lecture, Prof. Y.K. Alagh discussed the energy scenario in India in retrospect and prospect. Identifying energy as one of the soft spots of the Indian economy, Professor Alagh explored the alternative policy options for addressing future energy needs and their domestic and global aspects.

2-DAY INTERNATIONAL CONFERENCE

Globalization of Knowledge Development and Delivery

October 17–18, 2008

The Institute for Studies in Industrial Development in collaboration with Forum for Global Knowledge Sharing organised a two-day international conference on *Globalization of Knowledge Development and Delivery* on October 17–18, 2008 at the Institute. The seminar covered a wide range of issues in its technical sessions—Global Knowledge Networks, Perspectives, European Experience, Manufacturing Sector and Information Technology. Interdisciplinary in character, the seminar attempted to provide an interface between Science, Technology and Economy; the papers presented belonged to all the three disciplines.

Prof. S.R. Hashim, Director ISID, welcomed the participants and expressed his gratitude for the efforts they had made to come from different parts of the world as well as the country. He recalled that it was three years back that they had thought of this forum and existed almost like a virtual forum but ultimately resulted in one conference a year. The first conference on *Knowledge Based Industries, Employment and Global Competitiveness* (IIC, New Delhi, October 6–7, 2006) proved extremely productive and resulted in a book brought out by Routledge Delhi, London and New York which was well received. The second conference on *Globalization of Chinese and Indian Enterprises* (IIT Bombay, Mumbai, November 2–3, 2007) also brought together scholarly and interesting papers and is in the process of publication in order to make the contributions to the conference more widely available.

Prof. Hashim emphasized the importance of this year's special subject *Globalization of Knowledge Development and Delivery* in the context of the importance of knowledge for economic development as well for the welfare of the people. But in the past, particularly traditional knowledge was supposed to be generated in seminaries or ashrams and in more modern times in colleges and universities by people ascetically devoted to the task. However, in this century knowledge has become an industry and a leading industry, which provides a lead to all other industries and informs all walks of life in a much more intensive way than in the past. He stressed that the processes have to be understood. He felt that in fact the implications had just started to unfold and it was difficult to even imagine what would be the implication of this a few decades ahead. That is why he felt that there is a need to focus on this area and to explore these new developments in the new century. Appreciating the papers received on the subject for the conference Prof. Hashim felt they were both informative and interesting and there would be a great deal to learn from the discussions that would emanate from them.

Prof. N.S. Siddharthan gave the seminar a background to the work that the Forum for Global Knowledge Sharing is doing. He explained that the forum is a specialised, interdisciplinary, web based global forum which aims at providing a platform for scholars belonging to different institutions, universities, countries and disciplines to interact and exchange their research findings and undertake joint research studies. It stresses on the need to draw from the whole universe of researchers interested in the area of knowledge development and transfer.

Initiating the discussion, Prof. Siddharthan focused on recent trends in mass collaborations in the context of Globalization of R&D and in particular—FDI in R&D—using the internet/web revolution, strategic alliances between enterprises and individual, open source and peer production. He also spoke of the importance of networking of universities, research institutions and enterprises. Citing many recent studies Prof. Siddhartan points out that till recently, most if not all MNEs preferred to conduct their R&D in their respective home countries. But since the early 1990s MNEs have started establishing their R&D units in developing countries like China and India. Some maintained low cost of production and the need for product localization as the main reason for setting up R&D in developing countries. However, Prof. Siddharthan sees the two main motives for this shift as an access to market and access to science.

The nature of FDI (home based exploitation and home based augmentation) largely depended on differential R&D spending relative to the GDP between home and skills available in the host countries, as important determinants in deciding in favour of HBA. He felt substantial public investments in science and technology institutions are likely to attract investments in R&D investments. In addition to technological status of countries, the technological status of the firm was also seen as an important factor for investment. Firms with better technological base gained from spillovers. Prof. Siddharthan elaborated that innovation and R&D productivities also depend on agglomeration and cluster benefit, firms belonging to a cluster put their R&D to a better use, while other studies show that for IT firms of Bangalore cluster, for example, external international linkages and internal firm structure are more important for innovative activity. In addition to investing in R&D, multinationals have also been collaborating with several R&D units, universities and research laboratories. There is evidence to show that joint ventures are more likely to emerge in sectors where technological knowledge diffuses.

Prof. S.R. Hashim, Director, ISID welcoming the participants of the two-day international conference on Globalization of Knowledge Development and Delivery on October 17–18, 2008. Also seen are Prof. P.V. Indiresan, Former Director-IIT-M and Prof. N.S. Siddharthan, Hon. Director, Knowledge Forum

This result indicates that strong intellectual property regime stands in the way of R&D and joint venture research. Firms get round this through informal collaboration. Prospects of informal collaboration have opened up new opportunities and several innovations in collaboration modes and methods generating new product and service ideas from outside the company through open platforms to tap global talent (open source and peer production). The most important reason for this change in the attitude of the MNEs is the ongoing web revolution; internet has drastically cut down transaction costs, thereby substantially reducing internalization advantages, which made outsourcing and networking more profitable compared to in-house R&D. Also, many firms with first rate in-house R&D did not see open innovation as competitive to in-house R&D but complemented it and actively sought and assessed external ideas that are practiced.

The papers presented at the seminar in its different technical sessions are listed with their abstracts.

1. *Growing Industrial Interconnections and Globalised Companies*, Françoise Pardos

In the fastest ever changing world of today, the face of the global economy has changed since 2000, more than it ever changed through the revolutions that took place in the last millennium. Many major world trends are bringing great changes in almost all aspects of life. But, they are also giving rise to as well as contributing to an uncertain future. At the same time, in less than ten years span, new companies have emerged from the former less developed countries. New global companies appear from India and China of course, and also from Russia, from Latin America, from Turkey, Egypt, and other parts of the world. The old structures of the former developed world are shacking up. The old multinationals are now looking to invest in the emerging countries. In spite of all uncertainties, there is still space for optimism, as this is hopefully part of a vast move for a greater share of the world's wealth, prosperity and peace for many more people of the world.

2. *Globalisation of Knowledge Development and Delivery: Technology and Policy Perspectives*, Y.S. Rajan, R. Saha, Shaleen Raizada and Subodh Kumar

During the past decade globalisation has become deeper through technology and knowledge sharing between various actors in the global value chain. It is a positive development for countries whose firms and institutions are also oriented and geared up to play an increasingly greater role in knowledge development and delivery. On the surface it appears to be a free flow driven by market forces just as it is for trade and financial flows. Many policy makers and leading industrialists in developing countries like India, as can be seen by their statements and actions, believe that any needed technology or knowledge can be bought at a price and factored into their business plans. This may be partly true for follower type businesses or low value part of the global chains. However, with their growth when they attempt to get into new pioneering areas, they will find that the knowledge rights are with a limited to a number of big players in well developed countries. For them even a new development may become difficult as most options are well covered by intellectual property rights (IPR's) obtained by them much earlier.

3. *Drivers and Effects of Internationalizing Innovation by SMEs*, Christian Rammer and Anja Schmiele

This paper investigates the drivers and the effects of the internationalization of innovation activities in SMEs based on a large data set of German firms covering the period 2002–2007. The paper looks at different stages of the innovation process (R&D, design, production and sales of new products, and implementation of new processes) and explores the role of internal resources, home market competition and innovation related location advantages for an SME's decision to engage in innovation activities abroad. By linking international innovation activities to firm growth in the home market the paper tries to identify likely internationalization effects at the firm level. The results show that export experience and experience in knowledge protection are highly important for international innovation activities of SMEs. Fierce home market competition turns out to be an obstacle rather than a driver. High innovation costs stimulate internationalization of non-R&D innovation activities, and shortage of qualified labour expels production of new products. R&D activities abroad and exports of new products spur firm growth in the home market while there are no negative effects on home market growth from shifting production of new products abroad.

4. ***R&D, Product Renewal and Clusters in Belgium*, Filip De Beule and Ilke Van Beveren**

Using the cluster definitions of the European Cluster Observatory, this paper investigates the link between cluster membership and firm-level product innovation; using data from the Community Innovation Survey for Belgium. Clustered firms account for 71 per cent of the total product renewal generated in 2004 and for 58 per cent of all exports; compared to 29 and 42 per cent for non-clustered firms, respectively. Using Logit and Tobit models, cluster membership is shown to be conducive to firm-level product innovation and renewal once firm size, internationalization and research inputs are taken into account.

5. ***Entrepreneurship and Innovation Strategies in ICT SMEs in Enlarged Europe (EU25)*, Kaushalesh Lal and Theo Dunnewijk**

Innovation strategies of entrepreneurs are mapped with growth and performance of their firms in this study. Findings of the study are based on the data collected from 1238 small ICT firms located in 25 member states of European Union. The survey was conducted during October 2006 and March 2007. Results of Logit analysis suggest that firms that pursued continuous innovation strategies experienced more employment growth, higher profitability, and better sales dynamics than those that adopted occasional innovation approach. Market growth of continuous innovating firms realized faster pace than other type of firms. Another distinguishing characteristic of two types of firms that emerged is market preference. Target market of continuously innovating firms have been the European or global markets while innovative activities of other firms targeted domestic market. The study concludes that European innovation policies should focus on continuous innovation activities with due attention to human resource development policies.

6. ***International and Intranational Technological Spillovers And Productivity Growth in China*, Xiaolan Fu and Yundan Gong**

Technological spillovers from foreign direct investment have been regarded as a major source of technical progress and productivity growth. This paper explores the role of inter- and intranational technological spillovers from foreign direct investment (FDI) in technical change, efficiency improvement and total factor productivity growth in Chinese manufacturing firms using a recent Chinese manufacturing firm-level panel dataset over the 2001–2005 period. International industry specific research and development (R&D) stock linked to the Chinese firm-level data, international R&D spillovers from FDI and intra-national technological spillovers of R&D activities by foreign invested firms in China are examined. Policy implications are discussed.

7. ***Outward FDI and Knowledge Flows: A study of the Indian Automotive Sector*, Jaya Prakash Pradhan and Neelam Singh**

In recent years developing countries have emerged as significant participants in the OFDI (outward foreign direct investment) activities having the strategic asset seeking motive. Such OFDI which is assets exploiting cum augmenting involves potential two-way cross border knowledge flows. This study examines these issues for the Indian automotive industry that is currently transnationalizing at a rapid rate in terms of both exports and OFDI. The study traces the technological capability building and several dimensions of OFDI in this industry. The case studies of two major automotive Groups highlight their competence building, and knowledge seeking operations. This study undertakes a quantitative analysis of the influence of OFDI activities on the in-house (domestic) R&D performance of Indian automotive firms during 1988–2008. As expected, the favourable impacts on R&D intensity appear to be stronger for developed vs. developing host nations, and for joint venture vs. wholly-owned ownership OFDI. The study concludes with suggestions to particularly promote the strategic asset enhancing OFDI.

8. ***FDI and R&D in the Pharmaceutical Sector in India*, Ronny Thomas, K. Narayanan and Vinish Kathuria**

This study attempts to distinguish the determinants of R&D for domestic and FDI firms [firms with foreign capital] in the Indian pharmaceutical industry. The study employs an unbalanced panel to examine the determinants of R&D, using the firm level data form PROWESS database for a period from 1991–2005. It includes on an average of 154 domestic and 18 foreign firms. Probit and Tobit models are employed to examine the determinants of probability of undertaking R&D and R&D intensity. Probit results for domestic firms indicates that the firm size, import of capital goods intensity, export intensity, rate of profit, age of the firm, advertisement intensity and outward investment determine the decision of the firm to invest in R&D. Both domestic and FDI firms prefer import of technology in the form of equipments and machinery to undertake R&D compared to technology import in the form of technology know-how. In the case of foreign firms, firm size, import of capital goods intensity, rate of profit and age of the firm also turned out to be significant in determining the probability of undertaking R&D. Older firms appear to invest more on R&D in the case of both domestic and foreign firms. In the case of foreign firms, Tobit results remain similar to the Probit estimation. The findings of the study implies the importance of specific policies aimed at fostering R&D through concessions in technology import for R&D purposes, special incentives for export and outward investment firms in the sector.

9. ***Technology Sourcing and Internationalization of IT firms in India*, K. Narayanan and Savita Bhat**

The paper analyzes the determinants of internationalization, defined in terms of export intensity and overseas investments, of the IT firms in India. In particular, the paper examines the role of technology sourcing, both internal (in-house R&D) and external (technology imports), in determining inter-firm variation in internationalization. The study, using the resource-based perspective, finds that there are differences in the determinants of exports and overseas investments. Also, the effects of the technological factors differ between software and services firm and a hardware firm. By and large, the study finds support to the view that, presently, IT firms in India are gaining competitive advantage over their rivals by exploiting the technological gap along with factor cost differentials. The paper suggests that the firms need to create niche markets to have long-run competitive advantage in the international market.

10. *R&D Internationalization: With Special Reference to Indian Information Technology Sector*, N. Mrinalini, G.D. Sandhya and Dr. K.S. Krishnan

By taking the case of Indian (IT) sector, the paper gives an overview of top global IT firms up to 2004 that have their R&D operations in India. Linkages with the Indian production and R&D systems are analyzed based on 60 global IT firms, up to 2007, that have their R&D activities in India. US firms are making maximum R&D investment in Indian IT sector. Most of the global IT firms are establishing linkages with the leading academic and technical institutions of India besides the leading Indian firms to have access to the scientific and technical resources. Almost 72 per cent of the global IT firms that have their R&D operations in India have linkages with the Indian production and R&D system. Compared to other sectors, it is the IT sector which has attracted maximum FDI in R&D. The analysis is based on secondary data source. The paper seeks to delineate the orientation of these linkages as knowledge seeking, joint product development or combination of both.

11. *Innovation Systems as Patent Networks*, Wilfred Dolfsma

The paper Innovation Systems as Patent Networks looks at Innovation Studies: and identifies two broad approaches, Global, quantitative (convergence clubs, technology transfer, FDI, ...) and Local, qualitative (National / Sectoral Innovation Systems) and points to certain limitations of both approaches. The paper attempts to contribute methodologically to add to the repertoire of methods National Innovative System (NIS) studies use, by trying to capture the best of both Worlds (rather than be stuck in the middle). Using social network analysis of complete 3287 patents granted by the WIPO (2006) to Dutch firms, individual pharmaceutical and chemical technologies have applications in food and medication as indicators of (potential) knowledge flows.

12. *Globalisation of Knowledge Development: Policy Perspectives, Prof. Indiresan*

Knowledge today works in the context of globalisation which has spread across different countries including relatively poor ones. Therefore knowledge has become critical to development. The paper focuses on the need for identifying and developing talent. Human talent is evidently high across the globe and across races. However, institutional support to encourage talent differs. Hence, globalisation should involve two important steps: identifying talented youth and making institutions good and effective. This requires greater public investment in research and technology development. The paper questions the increasing privatization of education, shrinking investment in research and the tendency of mainly buying technology, not developing it locally. But, it also stresses that along with public spending there is also a need for Public-Private Partnership. These steps must be encouraged by training scientists and engineers as well, encouraging them to innovate by rewarding them generously (and the institutions where they operate). Such efforts would enable countries to compete in the world and thrive by trading high quality and high-tech products over international boundaries.

13. *Globalization of Science: a Perspective*, G. Baskaran

The paper Globalization of Science: A Perspective examines how globalization affects science and the changing role of scientists in a rapidly changing world in which many aspects of culture and society are getting globalized. Agents such as internet, scientific institutions, governments, industries and individuals enable this. This is bound to bring changes and unexpected consequences, some of them striking and some invisible at the present moment. These changes have also impacted the practice of science; a scientist today works at two levels—there are individual achievements and collective achievements. One of the emerging questions in the future will be—How will collectivization affect future science? Globalization of science also offers new advantages to less developed nations, and, with some care and efforts they can become knowledge capitals and active contributors to science.

14. *Concentration in Knowledge Output to Social Network*, Bino Paul, G.D. Sandhya and Krishna M.

This paper examines two important aspects of knowledge output: degree of concentration in knowledge output and nature of social network. Taking the Economic and Political Weekly (EPW), a known scholarly periodical in the social sciences, as a case, we analyse the author data, looking at frequency distribution of authors against the number of papers published and the social network of authors during the period 1996–2005. While the degree of concentration is assessed using a power law, namely the Lotka's law, co-author data is transformed to a symmetric sociogram. The study covers 1803 authors who published research articles in the EPW, including contributions by social scientists, policy professionals and scientists. It appears that progress in Indian Social Science has an apparent link with the history of EPW, accounting for a significant part of intellectual output and scholarly discourses in Indian Social Science. Taking cues from scholarly lineages, which investigate knowledge as a social phenomenon including sociology of science, economics of knowledge and social network theory, we examine an important question: What is the degree of concentration prevailing in the EPW during 1996–2005? Does the social network of authors, captured from the data, provide explanations for the degree of concentration? Our analysis shows high degree of author concentration and a relatively organised social network of authors, coexistence of indicating concentration in knowledge output, perhaps, is inherently linked to the structure.

UGC–RCC ISID REFRESHER COURSE

Corporate Sector, Indian Economic Development and Globalization

November 1–22, 2008

The ISID conducted its first University Grants Commission (UGC) approved refresher course for University and College teachers on the theme, *Corporate Sector, Indian Economic Development and Globalization*, from the 1st to the 22nd of November 2008 at the Institute. Thirty three teachers from different parts of the country—Assam, Arunachal Pradesh, Jammu and Kashmir, Uttarakhand, Uttar Pradesh, West Bengal, Maharashtra, and Delhi—participated in the course. Prof. T.P. Bhat and Prof. Surajit Mazumdar from the ISID coordinated the course.

The inaugural session which was chaired by Prof. S.K. Goyal, Vice-Chairman, ISID, had Prof. B.B. Bhattacharya, Vice Chancellor of Jawaharlal Nehru University, as the Chief Guest. Prof. S.R. Hashim, Director, ISID, speaking on the occasion recounted how the idea of conducting such a course had evolved keeping in mind the needs of the teaching community. Prof. Bhattacharya emphasized the importance of such refresher courses for promoting quality in higher education and for exposing teachers in different parts of the country to the best academic resource available in their subject.

During the three weeks of the course, members of the ISID faculty and a number of distinguished resource persons from outside the Institute shared with the participants their research work and reflected on a wide range of topics within the three broad areas of the course—The Corporate Sector in Contemporary India, The Structure and Dynamics of the Global Economy, and India's Current Development Trajectory. Apart from theoretical questions relating to the corporate sector, a number of issues to pertaining specifically Indian corporate sector were covered. The broad theme of globalization was also covered through discussions on subjects such as the nature of the globalization process and its impact on developing countries, the background and implications of the global financial crisis, multilateral and bilateral trade agreements, issues of intellectual property rights and the energy economy. The growth trajectory of the Indian economy in the last two decades, and issues relating specifically to Indian economic development were also covered. Participants were introduced to different available sources of data and computer applications useful for research in economics. The participants also contributed to the discussions, particularly on the regional dimensions of Indian economic development, through the presentations that each participant was required to make.

Prof. K.S. Chalam, Honourable member of the UPSC, was the Chief Guest at the Valedictory held on 22nd November. Speaking at this session, Prof. S.R. Hashim highlighted the apprehensions that ISID initially had regarding conducting programme of such a magnitude, apprehensions that were thankfully found to be unwarranted as the course was conducted very successfully. Prof. S.K. Goyal, appreciating the efforts that had gone into the conceptualization and implementation of the course mentioned the sweat and toil that had gone into building the ISID to the point where it could provide the participants with wherewithal for the conduct of an excellent refresher course. Four participants also spoke on this occasion about their experiences during the course. They were unanimous in their opinion that the course was of the highest quality and that the ISID had offered them the very best in terms of academic inputs as well as infrastructure facilities. They also appreciated the extremely cooperative attitude of the staff and faculty of the Institute. In acknowledgment of these, the participants collectively presented ISID with a card signed by all of them as well as a wall clock as a momento.


A session during UGC-RCC ISID Refresher Course underway

Delivering the valedictory address, Prof. Chalam lamented the fact that economics and its teaching were drifting away from the real issues and questions they should be engaged with. In particular he highlighted the neglect of political economy. Prof. Chalam expressed the fear that the direction of subject was taking, might be rendered irrelevant and other subjects like commerce and management may replace it. Prof. Chalam also recounted his long association with the ISID and hoped that the institute would carry forward the tasks of undertaking meaningful research and to disseminate it. Prof. Chalam also distributed the certificates to the participants of the course.

Distinguished academics who came to the institute as resource persons included Prof. N.S. Siddharthan (Madras School of Economics), Prof. Prabhat Patnaik (Vice Chairman, Kerala State Planning Board) (CESP/JNU), Prof. Utsa Patnaik (CESP/JNU), Prof. Girijesh Pant (CWAS/JNU), Prof. Prem Vashishtha (IHD), Prof. Jayati Ghosh (CESP/JNU), Prof. C.P. Chandrasekhar (CESP/JNU), Prof. Pranab Banerji (IIPA), Prof.

Sudip Chaudhri (IIM Kolkata), Dr M.T. Raju (Institute for Capital Markets, Mumbai), Dr Rajesh Chadha (NCAER) Prof. Kamal Mitra Chenoy (CIP/JNU), Dr Atul Sood (CSRD/JNU), Shri Dinesh Abrol (NISTADS), Shri Augustine Peter (Competition Commission), Dr M.R. Anand (Ministry of Finance), Dr P.L. Beena (CDS Trivandrum), Dr Sumangala Damodaran (NCEUS), Ms Mandira Sarma (ICRIER), Mr Nitya Nanda (TERI) and Dr Himanshu (CSRD/JNU).

Visiting Professors at the ISID, Prof. T.S. Papola, Prof. Sunanda Sen, and Prof. Nasir Tyabji, and Senior Fellow (on deputation) Shri D.N. Gupta (IAS), took a number of sessions. Dr T.P. Bhat, Dr Partha Pratim Sahu, Dr Surajit Mazumdar, Dr Jesim Pais, Dr Satyaki Roy, Dr Mahua Paul, Dr K.V.K. Ranganathan, Dr K.S. Chalapati Rao, Dr Abhilasha Kumari, Dr Jaya Prakash Pradhan, Dr M.R. Murthy and Dr Atulan Guha, were the members of the ISID faculty who also made presentations.

SYMPOSIUM

Global Financial Crisis: Implications for India

November 13, 2008

A day long symposium on the *Global Financial Crisis: Implications for India* was organised on November 13, 2008 by the ISID, in collaboration with the Delhi-based Institute for Developing New Generation Manager (IDNM).

Welcoming the participants, the Director of ISID, Professor S.R. Hashim, said that the symposium was part of the Institute's efforts towards providing a forum for debates on issues of current policy interest. He emphasized that the crisis was not new and that the genesis of the present discussion could be traced back to an earlier discussion held at the ISID in late 2007 on soaring share prices. He recalled that at that symposium it was the heavy FII inflows rather than the fundamentals of the economy or of companies that had been held responsible for the fast and unprecedented rise in share prices. The present crisis has reflected itself in a reversal of these flows, and its first impacts could be seen in the form of drastic fall in share prices and the exchange rate of the rupee. According to Prof. Hashim, the situation would not have been too alarming if the crisis had been confined to the stock market. But, there are clear indications that it will also have important implications for India's economic growth, exports and employment. Assessment of such situations is often influenced by ideological stances. The symposium, therefore, sought to bring the differing points of views together on one platform.

Shri M. Krishna Prasad, Director IDNM, in his introductory remarks suggested that the vulnerability of US economy could be due to its very low growth and heavy dependence on the services sector. He wondered whether the US bailouts imply that intervention of the state is inevitable, or, was it a question of double standards as seen in the context of the remedies advanced by the developed countries during the Asian Financial Crisis. He did not, however, agree with the interpretation that the crisis and the response to it represent the collapse of capitalism. According to Shri Prasad, half the world is outside the ambit of the market economy and what is required is to include the larger left out population in economic growth patterns. While agreeing with Prof. Hashim that growth of the Indian economy would slow down, he felt that a country like India must grow at a faster rate to prevent chaos. He also lamented that unlike what was the case in China the manufacturing sector was being neglected in India.

Dr E.A.S. Sarma, IAS (Retd), former Secretary, Department of Economic Affairs chaired the first session, on the *Causes, Contours and Consequences of the Crisis*. In his remarks, he focused on the role of the state as a regulator for ensuring equity during the process of globalization and to guard national interest. According to him, crises of the magnitude like the present one happen when countries neglect the importance of prudential norms and refuse to see the writing on the wall before a crisis erupts.

Illustrating with the examples of lack of competitive bidding in the case of Enron, SEZs and mining rights, Dr Sarma underlined the absence of competition under the reforms since 1991. He wondered how capitalism could work efficiently in the absence of competition and recourse by the state to granting concessions like huge tax exemptions to the private sector to induce investment. Pointing towards the tendency to privatise profits and nationalise losses, he said that government has unfortunately turned into a broker instead of being an efficient regulator. Dr. Sarma cited the example of banking sector which has become substantially exposed to sensitive sectors, thanks to government policies. He also decried the tendency for showing great concern about the retrenchment of well-paid employees in sectors like aviation in the face of the current crisis while simultaneously ignoring the plight of hundreds of thousands of people displaced by mining companies.

Prof. S.R. Hashim, Director, ISID, introduces a session during the symposium. Also seen are Prof. Anand P. Gupta, Director, Economic Management Institute, Prof. B.B. Bhattacharya, Vice-chancellor, JNU and Prof. Sunanda Sen, Visiting Professor, ISID

Dr Sarma felt that the present economic crisis would definitely affect India adversely, through the impact on export driven sectors and the problems in the financial sector. He stressed, however, that this crisis has been partly of our own making, and policy makers are trying to take shelter under the so-called global financial crisis, ignoring their own role in the development of a bubble.

Mr Sudhakar Reddy, Deputy General Secretary of the Communist Party of India, stressed that the Indian economy cannot be separated from the world economy in view of the policies followed during the last two decades. If the impact of the global crisis has been contained, this has primarily been because of the restraint imposed and the pressure brought on by the Left against policies of increasing India's exposure to foreign finance and investments. He, however, felt that a more severe impact will gradually be felt, adversely impacting employment in a country already burdened with a serious unemployment problem.

He also felt that global monopoly capital would seek to transfer the burden of the crisis on developing countries and the poor the world over. Even before the crisis the flow of capital was increasingly from developing countries to developed countries, proving the need to regulate capital flows. According to him, technology has given a new lease of life to capitalism, creating great wealth, but this wealth remained concentrated in the hands of a few whose greed knows no bounds. He said that in responding to the crisis created by this greed, Governments both in the developed and developing countries including India are trying to save the situation by propping up big business by bailout packages, reducing interest rate for those who can buy shares and keep the Sensex floating. But, he felt that the much touted capital market growth was only illusionary. Share values of companies were earlier artificially raised, and their coming down, therefore, represents no loss. Mr Reddy felt that the only way out was to reform the domestic economy, thus, creating jobs and empowering the people and through attempts to end poverty.

Mr Saibaba of the Vistapit Virodhi Jan Manch felt that India has been in a crisis for a long time, but we have started to talk about it only when it has come from America. Even at a time when India was shining there was gigantic displacement of people due to mining, industry, infrastructure, dams, SEZs, eco tourism, urban renewal and beautification and lately organised retail business. It is this already existing crisis that has coupled with a new crisis.

Arguing that whenever it is in crisis Imperialism transfers the burden on the working class and the poor, Mr Saibaba felt that this crisis would be longer and more exploitative than the earlier ones. According to him, crisis in capitalism acquires permanence when capitalism is transformed into monopoly capitalism. Concentration reduces purchasing power, thereby limiting the possibility to constantly grow. Such a situation creates a need for further plunder of the natural resources of developing countries in collaboration with local capitalists and the political leadership. Mr Saibaba felt that public expenditure on infrastructure by the government to protect the illusionary growth alone will not save the country from the present crisis. In order to counteract the current crisis domestic demand must grow and domestic markets have to be strengthened as well as agriculture. While there is great need to modernise agriculture and there is bound to be a shift away from agriculture, this must be done not cruelly but in a phased manner and by creating employment through the development of small and medium industries.

Mr Hari Prasad, Director, Speck System Ltd felt that rather than the crisis impacting on the growth, it was unbridled growth that had created the crisis. He emphasized the inherent weakness of a system that demands continuous growth. Arguing that each crisis is different, he said that this time there is a great urgency to see that financial institutions do not collapse and that credit does not dry up. Pointing out that at present the crisis has still not fully impacted the common man—only those who rose with the earlier bubble have felt the immediate impact, Shri Prasad highlighted the lack of consensus on what needs to be done. One solution offered is to keep spending on basics, infrastructure and reduce inflation.

Prof. Sunanda Sen, Visiting Professor ISID, highlighted the precariousness of the financial system and the dangers of stagnation of the Indian economy. The opening up of the market, the removal of all fetters on trade, capital flows, etc., the blueprint for which is provided by the 'Washington Consensus' had been offered as a panacea for all economic problems. This relies on what is known as supply side economics. However, now with one stroke the situation has completely changed and the same set of policy makers are now talking about demand boosters. Since they did not believe in Keynesian economics they never thought demand could be a bottleneck. Today she could hear policy makers also speaking the same language but we really do not know how long this will last. Prof. Sen called for immediate focus on infrastructure expansion, thereby creating jobs and creating markets within the economy and in the industrial sector instead of a preoccupation with the financial sector's woes.

The second session on the *Implications of the Crisis for India* was chaired by Prof. B.B. Bhattacharya, Vice Chancellor, Jawaharlal Nehru University. Prof. B.B. Bhattacharya in his chairman's remarks, focused on factors that have contributed to the crisis. He said that deregulation of the corporate sector has taken place throughout the world. In India, too, in the last two decades substantial freedom has been given to not only domestic, but also to foreign capital. Private industry, however, has yet to fulfil the expectations that were generated after liberalisation. He pointed out that while industry contributes 50 per cent to the GDP in China, in India its share is only around 25 to 26 per cent of the GDP, well below that of the services sector. The private corporate sector has not been able to increase this share. Even its employment record is very bad with organised industry accounting for only three to four per cent of employment. With agriculture still bearing the major burden of employment, India has not followed the path articulated by development theorists of moving from the primary to the secondary and then to the tertiary sector. Prof. Bhattacharya felt that if the country was to provide full employment the industrial growth rate needs to be of the order of 15 to 20 per cent in the foreseeable future. The corporate sector has not proved itself capable of sustaining high growth of the economy. It was, therefore, time to reflect on the pattern of industrialisation in India.

Prof. Bhattacharya said that contrary to the initial expectations that the impact of the crisis in corporate America would be confined to the rich countries, India and China would be free from its impact, it is now evident that everyone including emerging economies like India and China are going to be affected. He stressed that it is the absence of regulation which resulted in the American crisis, allowing downright dishonesty, the fudging of accounts, and the deceiving of shareholders. According to him, the current crisis has made people acknowledge that unlimited freedom was not good and underlined the importance of certain kinds of regulation. Prof. Bhattacharya emphasized the need for a balance in government policy between regulation and deregulation and on the need for integrity and ethical practices on the part of the corporate leaders.

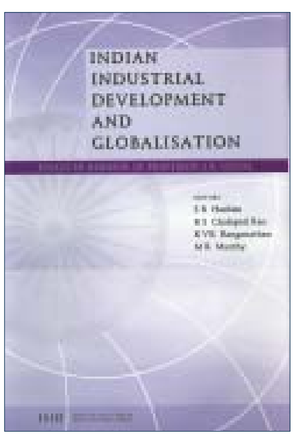
ONGOING RESEARCH STUDIES

- Trade Policy Dimensions of India and China-Post Liberalization Period—T.P. Bhat
- SME Clusters in India: Identifying Areas of Intervention for Inclusive Growth—Satyaki Roy (funded by Planning Commission, GOI)
- Impact of Import Intensity on Exports, Output and Employment—Mahua Paul
- Price Trends of the Indian Economy—Mahua Paul

PUBLICATIONS

BOOKS

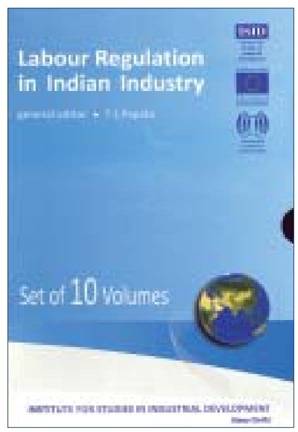
***Indian Industrial Development and Globalisation: Essays in Honour of Professor S.K. Goyal,* by S.R. Hashim, K.S. Chalapati Rao, K.V.K. Ranganathan, M.R. Murthy (eds.), Academic Foundation, New Delhi, 2008.**



The contents of this volume add useful dimensions to the ongoing debate on various issues relating to India's transition to the new economic policy regime. The papers in this volume were written specifically for the National Conference on Industrial Development and Economic Policy Issues, organised by the Institute for Studies in Industrial Development during June 27–28, 2008. The Conference was held in honour of Professor S.K. Goyal and was anchored on his research interests. While some of the contributions deal specifically with the Indian scenario, others provide an overall context for the debate. They are thus an interesting mixture of specifics and the general.

Section I deals with the issue of industrialisation and employment especially in the context of increasing importance of the services sector and deceleration of the agricultural sector. Section II examines the historical context of the development of corporate sector in India as well as the present ownership pattern of the sector which has direct implications for industrialisation and distributional aspects respectively. This section also deals with the developments in the banking sector. Section III focuses on the role of foreign direct investment in development and innovation, the performance of different constituents of the corporate sector in terms of exports and India's preparedness for a free trade agreement with China. Section IV is about globalisation issues in general and India's experience in this context in particular. Section V focuses on issues relating to poverty and inequality. Section VI covers a different set of issues namely political and cultural dimensions of the new era.

***Labour Regulation in Indian Industry*, general editor T.S. Papola; a set of 10 volumes, Bookwell Publishers, New Delhi.**



This compendium of ten volumes represents the final output of the project on Labour Regulation in Indian Industry carried out by the Institute for Studies in Industrial Development (ISID) with financial support from EU-India office under their Small Project Facility Programme (SPF). It brings together the findings and conclusions of eight studies on different aspects of the subject with reference to India undertaken by the Institute and the ninth one on the European experience commissioned by the International Institute for Labour Studies, ILO, Geneva, the external partner in the project. The tenth volume presents the salient aspects of the nature, extent and consequences of labour regulation, as brought out in different studies and puts forward an agenda for reforms in the regulatory system for employment in Indian industry which could be both pro-growth and pro-worker.

The subject of labour regulation has been under intense debate and discussion for over more than a decade. Arguments have, however, been on partisan lines, as broadly presented above, representing the views of industry and neo-liberal economists and 'reformists', on the one hand, and those of trade unions and other supporters of labour and 'institutional' economics, on the other. Government, always keen to take a reconciliatory position has not been able to take a decisive step. It has recognised the need for 'labour reforms', and also seems to be inclined towards permitting greater 'flexibility'; but has not succeeded in bringing in legislation towards that end, mainly because of the conflicting stands of the main stakeholders, industry and labour. A reason for this uncertainty lies in the lack of adequate documentation, research and informed discussion to improve understanding of the issues and implications. No doubt, the issues involved are, to a large extent, political in nature; but a better understanding of the empirical situation and economic and social pros and cons of the reforms would certainty help make the debate less polemical and more result-oriented.

This compendium brings together the findings of several studies that were undertaken to review labour legislation and policy in terms of their objectives, coverage, contents and practices; critically appraise the past research and documentation on the impact of labour regulation measures on growth and employment in industry; study the impact of labour regulations on the growth and employment in small and micro enterprises; assess the effectiveness of legislative measures for ensuring labour standards; undertake case studies on labour regulation and industrial growth and employment in four selected states, i.e., Maharashtra, Andhra Pradesh, Uttar Pradesh and West Bengal; and study of measures of labour regulation in European countries with special reference to France, Sweden and the United Kingdom.

Volume 1: *Labour Policy and Legal Framework in India: A Review*, C.P. Thakur, Professor (formerly), Faculty of Management, Delhi University, Delhi

Volume 2: *Labour Regulation in Small Enterprises: Coverage and Impact*, V.N. Prasad, Consultant, World Association for Small and Medium Enterprises,(WASME) Noida

Volume 3: *Labour Regulation and Its Impact: A Review of Studies and Documents*, T.S. Papola, Honorary Professor, Institute for Studies in Industrial Development, New Delhi, G.S. Mehta, Senior Fellow, Giri Institute for Development Studies, Lucknow and Vinoj Abraham, Lecturer, Centre for Development Studies, Trivandrum

Volume 4: *Effectiveness of Labour Regulations in Indian Industry*, Jesim Pais, Assistant Professor, Institute for Studies in Industrial Development, New Delhi

Volume 5: *Labour Regulation, Industrial Growth and Employment: A Study of Recent Trends in Andhra Pradesh*, D. Narasimha Reddy, Visiting Professor, Institute for Human Development, New Delhi

Volume 6: *Impact of Labour Regulations on Industrial Development and Employment: A Study of Maharashtra*, K.R. Shyam Sundar, Reader, Department of Economics, Guru Nanak College of Arts, Science & Commerce, Mumbai University, Mumbai

Volume 7: *Labour Regulation and Industrial Development in Uttar Pradesh: Some Recent Trends*, Alakh N. Sharma, Director, Institute for Human Development, New Delhi and V. Kalpana, Senior Research Associate, Institute for Human Development, New Delhi

Volume 8: *Labour Regulation and Industrial Development in West Bengal*, Debdas Banerjee, Professor of Economics, Institute of Development Studies, Kolkata

Volume 9: *Labour Regulation, Labour Flexibility and Labour Reforms in Europe: Some Perspectives with Possible Lessons for India*, Pietro Garibaldi, Professor, School of Economics, Università degli Studi di Torino, Torino, A.V. Jose, Head, Education Programme, International Institute for Labour Studies, Geneva and K.R. Shyam Sundar, Reader, Department of Economics, Guru Nanak College of Arts, Science & Commerce, Mumbai University, Mumbai

Volume 10: *Labour Regulation in Indian Industry: Towards a Rational and Equitable Framework*, T.S. Papola, Honorary Professor, Institute for Studies in Industrial Development, New Delhi, Jesim Pais, Assistant Professor, Institute for Studies in Industrial Development, New Delhi and Partha Pratim Sahu, Assistant Professor, Institute for Studies in Industrial Development, New Delhi

WORKING PAPERS

WP2008/09: *South-South Investment in Infrastructure: The Operation of Indian Firms in Developing Countries*, Jaya Prakash Pradhan, August 2008.

Since 1990s South-South investment flows have assumed a considerable significance in the economic relations among developing countries. The host developing countries tend to see the growing FDI flows from co-developing economies as a prospective source of financial capital, skills and technologies useful for their economic development. However, there is clearly a lack of recognition among them about the potential of southern investment in improving their civil, social and industrial infrastructure. A distinction can be made between the two main forms in which developing country firms participate in the infrastructure sector of co-developing countries. The first is the project exports resorted to by southern firms in various infrastructure areas like transportation, communication, energy, etc. The second form comprises direct investment operation of southern firms to provide infrastructure services to the end users. India presents a classic example of South-South investment in infrastructure sector with Indian firms consistently expanding their project exports and infrastructure-related FDI activities over the years. In the light of growing size of Indian project exports and infrastructure FDI, this study calls for evolving a holistic policy framework by both home and host developing countries to enhance the potential of such investment for infrastructure development.

WP2008/10: *Outward FDI and Knowledge Flows: A Study of the Indian Automotive Sector*, Jaya Prakash Pradhan and Neelam Singh, November 2008.

In recent years developing countries have emerged as significant participants in the OFDI (outward foreign direct investment) activities having the strategic asset seeking motive. Such OFDI, which is assets exploiting cum augmenting involves potential two-way cross border knowledge flows. This study examines these issues for the Indian automotive industry that is currently transnationalizing at a rapid rate in terms of both exports and OFDI. The study traces the technological capability building and several dimensions of OFDI in this industry.

The case studies of two major automotive Groups highlight their competence building, and knowledge seeking operations. This study undertakes a quantitative analysis of the influence of OFDI activities on the in-house (domestic) R&D performance of Indian automotive firms during 1988–2008. As expected, the favourable impacts on R&D intensity appear to be stronger for developed vs. developing host nations, and for joint venture vs. wholly-owned ownership OFDI. The study concludes with suggestions to promote particularly the strategic asset enhancing OFDI.

WP2008/11: *The Analysis of Business Groups: Some Observations with reference to India*, Surajit Mazumdar.

This paper uses some available but not necessarily commonly known information on Indian business groups as the basis for interrogating some of the recent analysis of the business group in developing countries, analysis which seeks to explain why such groups exist and their consequences. It argues that the approaches that appear to be prevalent are unsatisfactory, in terms of both the research questions they set out to answer and the methods they adopt for that purpose.

WP2008/12: *Global Financial Crisis: A Classic 'Ponzi' Affair?* Sunanda Sen, December 2008.

This paper seeks to identify the roots of the financial crisis in US, which has now spread to the rest of the global economy. These include the dominance of uncertainty as a force in financial markets (usually ignored in mainstream economics) and the use of financial derivatives (largely with de-regulation of financial markets). These provide the ideal setting for flows of speculator finance, which finally degenerate to a state of unsustainable Ponzi finance.

Papers / Articles

- "Employment and Labour market: The Myth of Rigidity", by Satyaki Roy, *Alternative Economic Survey*, India, 2007–08.
- "Measurement of Import Intensity of Exports through Input-Output Table", by Mahua Paul (paper accepted for the Conference of the *Indian Association for Research in National Income and Wealth*, held at the Institute for Social and Economic Change, Bangalore, November 27–29, 2008).
- “Economic Growth, Poverty Reduction and Role of Special Programmes”, by T.S. Papola, in N. Jayaram and R.S. Deshpande (eds.) *Footprints of Development and Change*, Essays in Memory of Professor V.K.R.V. Rao Commemorating his Birth Centenary, New Delhi, Academic Foundation, 2008.
- “Investment and Growth in India under Liberalization: Asymmetries and Instabilities”, by Surajit Mazumdar, *Economic and Poliical Weekly*, Vol. 43, No. 49, December 6–12, 2008.
- “Skill Premium: What Caused the Mismatch?” by Satyaki Roy, *Indian Journal of Labour Economics*, Vol. 51, No. 4, Pp. 789–802, December, 2008.

Faculty Presentations/Participation

- Surajit Mazumdar delivered a lecture on "Post-Liberalization Industrialization" at *Pareto-Time*, the Economics Festival of Kirori Mal College, University of Delhi, September 22, 2008.
- Surajit Mazumdar delivered a lecture on the theme "Human Rights vis-à-vis Development: Issues and Concerns", as a resource person for the *National Conference of High Court Justices on Human Rights Law: Current issues and Emerging Challenges* organised by and held at the National Judicial Academy India, Bhopal, October 18, 2008.
- Jaya Prakash Pradhan presented a paper on "Outward FDI and Cross-Border Knowledge Flows" (jointly with Neelam Singh) in the *Third Annual Conference of the Forum for Global Knowledge Sharing on 'Globalisation of Knowledge Development and Delivery'*, ISID, New Delhi, October 17–18, 2008.
- T.S. Papola presented a paper on "Economic Growth under Globalisation: Employment and Poverty Reduction in South Asian Countries", at *Regional Conference on Demographic Scenarios, Employment and Social Security Issues of Aged in South Asia*, organised by Institute of Economic Growth, Delhi, November 10–11, 2008.
- T.S. Papola delivered the Presidential Address "Disparities in Development: Trends in Regional Variations in a High Growth Period" at the *Fourth Annual Conference of Uttar Pradesh—Uttarakhand Economic Association (UPEA)* at DBS College, Kanpur, November 8, 2008.
- Jaya Prakash Pradhan presented a paper on "Indian Direct Investment in Developed Region" in the *International Conference on Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies*, October 9–10, 2008, Copenhagen Business School, Denmark; also chaired the Session 4A on Latin America & Emerging MNCs. This paper was also presented at the Gujarat Institute of Development Research, Ahmedabad, November 12, 2008.
- Surajit Mazumdar made a presentation titled "The Nehruvian Paradigm and Capitalist Industrialisation in Retrospect and Prospect" at the *International Seminar on Nehruvian Legacy in a Neoliberal Era* organised by the Centre for Jawaharlal Nehru Studies, Jamia Millia Islamia, Delhi, November 13, 2008.
- Jaya Prakash Pradhan presented a paper on "India's Emerging Multinationals in Developed Region" in the *International Conference on Emerging Economies' Multinationals: Global Challengers?*, November 27–28, 2008 at French Centre For Research on Contemporary China, Beijing, China.
- T.S. Papola participated in the *Golden Jubilee Conference of The Indian Society of Labour Economics*, December 13–15, 2008 at Giri Institute of Development Studies, Lucknow and presented papers on "Employment in Development: Connection between Indian Strategy and ILO Policy Agenda", and on "Studying Indian Labour: Some Conceptual Issues in the Context of Globalisation"; chaired business meetings of the society as its President and also the *Radha Kamal Mukherjee Memorial Lecture* delivered by Prof. Arjun K. Sengupta.
- Satyaki Roy presented a paper on “Skill Premium: What Caused the Mismatch?” in the *Golden Jubilee Conference of*

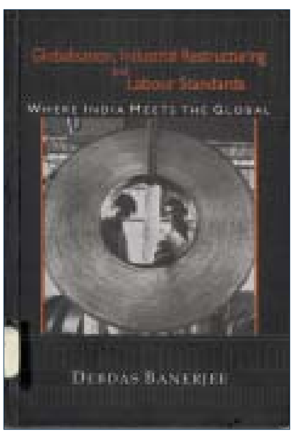
The Indian Society of Labour Economics, December 13–15, 2008 at Giri Institute of Development Studies, Lucknow.

- Partha P. Sahu acted as Rapporteur for the technical session I: Globalization, Labour Markets and Employment, *Golden Jubilee Conference of The Indian Society of Labour Economics*, December 13–15, 2008 at Giri Institute of Development Studies, Lucknow.
- Jesim Pais acted as Discussant for the technical session I: Globalization, Labour Markets and Employment, in the *Golden Jubilee Conference of The Indian Society of Labour Economics*, December 13–15, 2008 at Giri Institute of Development Studies, Lucknow.
- T.S. Papola participated and chaired the technical session on 'Interregional Disparities in India' in the *91st Annual Conference of the Indian Economic Association* at Mohan Lal Sukhadia University, Udaipur, December 27–29, 2008.

BOOK REVIEW

Globalisation, Industrial Restructuring and Labour Standards: Where India Meets the Global

D. Banerjee
Thousand Oaks: Sage Publications
New Delhi 2005. 320 pages
Reviewed by Natalie C.F. Gupta



There is a large body of literature on the conditions of work in less developing countries including India. The focus of this literature is often the informal or the unorganised sector, the presumption being that the formal or the organised sector has sufficient regulatory provisions for maintaining and furthering labour standards. Thus, there are very few studies that specifically look at labour standards in the organised and formal sector. This makes Banerjee's book titled "Globalisation, Industrial Restructuring and Labour Standards", about the declining labour standards in the organised sector in India, interesting and useful. Banerjee begins by arguing that in the era of liberalisation, labour standards have fallen more rapidly in the organised sector in India when compared with the unorganised sector and hence the choice of the study.

This book, Banerjee's second, explores the reasons behind declining labour standards in the Indian factory sector in the two decades since policies of economic liberalisation and globalisation were initiated. The proponents of globalisation and liberalisation have argued that exposure to global markets and competition positively contributes to raising labour standards in less developed countries. The problem, according to these scholars, is the inherent lack of institutional capacity in these countries to enforce labour standards. Contrary to this view, Banerjee argues that in India, it is the 'government minimalism' (in the period of liberalisation and globalisation) and not the capacity to enforce labour regulations that is responsible for the fall in labour standards (page 16). In other words, the author suggests that the relative decline in labour standards in the Indian factories has not resulted from competitive pressures of globalisation, rather the cause is to be sought in the conditions generated by the underlying institutional and political factors.

Labour standards generally include aspects of the labour exchange as well as labour and industrial relations such as wages and remuneration, occupational health and safety, social security, freedom of association, the right to collective bargaining and so on. The book under review discusses different aspects of labour standards, however, important analysis is restricted to wages and wage formation. More specifically, the analysis on the impact of corporate restructuring under globalisation on wage formation in the Indian factory Sector is taken as an indicator for the impact on labour standards in general. This could perhaps be for reasons associated with availability of data. For a reader who is familiar with the Indian factories sector and the sources of detailed data on the sector such as the Annual Survey of Industries as well as from different agencies such as the Inspectorate of factories, the limited analysis of wages could be disappointing.

The author seeks to take his readers through his arguments by posing three main research questions that are centred on levels of wages, productivity and profits. The discussions that are laid out in six chapters attempt to answer the main research questions and provide an explanation behind the levels of productivity, wages and profits. The first question posed by Banerjee in on the relative share of profits and wages in the Indian Factory sector. Banerjee shows that since the early 1980's there has been a consistent decline in the wage share in net value added while the profit share has increased. This confirms the findings of other scholars who have been studying the performance of the corporate sector in India. Following this, the book then attempts to explain the causes behind this fall in relative wages and the consequent rise in profits.

Banerjee uses theoretical arguments to show that simple neoclassical mechanisms of demand and supply do not sufficiently explain the trends in wages and profits in India, and that one needs to carefully examine the institutional set-up in the liberalised era that has lead to the levels of demand and supply. The author provides an institutional and historical critique of analysis that is based on the concepts such as market equilibrium and Pareto optimality assumptions. The approach adopted by the author is rooted in a historical and institutional methods adopted by Marxist and critical institutional studies (for example, the French school of régulation) of neoclassical economic theory on the evolution of production processes and welfare state institutions. Two examples can be noted on how Banerjee makes use of such approach. The first is the author's critique of the idea that the movement away from labour-intensive manufacturing towards capital-intensive manufacturing in the Indian factory sector is due to increased wage costs of factory workers (Hicks-Marshall law of derived demand that states that greater the labour's share to total costs, the more elastic the demand curve for labour) (2005, Pp. 248-251). The author argues that in the liberalised era, the production technology that is adopted in India is determined largely by prevailing technology in industrialised countries. Thus, the introduction of labour-saving technologies in the organised sector in India is attributed to the opening up of economies of scale and not labour costs per se. Further, he argues that the explanation for negative investment growth can be found in the increased outsourcing of production (2005, Pp. 250–51).

On employment, the book offers a critique of the idea that there is an inverse and direct correlation between levels of unemployment and inflation (Pp. 94–97). Instead, by drawing examples from the United States of America, countries in western Europe and India, the author argues that the relationship is neither direct nor automatic. Hence the book argues that the theoretical reasoning on the basis of which contemporary governments reject full-employment as a policy objective is misguided.

This book is a rich source of empirical analysis as well. To make his point, the author uses comparative analysis of the Indian situation with that of western Europe, the United States of American, Japan, South Korea, and African countries. Through this, the book illustrates that supply and demand factors alone do not exhaustively explain decline in labour standards. For example, Banerjee draws upon the non-significant role of labour market factors in explaining relative decline in the productivity levels (and hence employment) in France and Germany when compared with the Netherlands in the construction sector and with Japan in the automobile industry (2005, p. 102). The reasons, he argues, rather lie in the degree of competition in the respective industries and in management practices.

The last set of research questions addressed in chapters five and six of the book are more normative in nature as they seek to examine the argument that should labour standards be considered a secondary priority in the context of policies seeking to foster industrial growth. The question that Banerjee asks is: Whether improvement in labour standards is antithetical to industrial restructuring? He goes on to answer that it is not. On the basis of the comparison of several large Indian firms and using a long term historical perspective, the author describes different management strategies in various firms. He shows that within an industrial sector, between firms of roughly equal size some have done well while retaining high labour standards and continuing to make profits. Several firms are taken up for case studies of their management strategies-a prominent example is TISCO (now Tata Steel) which has increased productivity, maintained relatively high wage levels and maintained high profits in the years since liberalisation began.

After reading through the six chapters of the book, the question that emerges for the reader is: Given that demand and supply factors are not exhaustive in explaining the decline in labour standards, what are the other factors to be considered important? The argument that the author seeks to bring forward as already mentioned is that it is due to a "minimalist approach" by governments. The book provides strong theoretical reasons for why neoclassical analysis is partial and in certain cases erroneous in the conclusions that research based on its assumptions bring forward. The book, however, does not adequately provide explanations for the basis on which one can term the Indian government's approach towards labour standards as "minimalist" and furthermore responsible for the decline in labour standards. In other words, the role of the state in regulating industry or the non-performance of this role thus undermining labour standards needs more discussion.

The book is an intelligent and theoretically informed exposition of why demand and supply factors as defined by conventional economics do not exhaustively explain the decline of terms and conditions of employment in Indian industry. The text is, however, less impressive in providing a structured argument explaining what indeed can be considered as the more important factors leading towards a decline in labour standards in the Indian factory sector. This in fact is a debate that is still relatively young and hence needs to be pursued further by scholars in India. This book provides a very good starting point to scholars who would like to further research these issues.

OBSERVATIONS

How does the global economic crisis affect the Indian economy?

by Sunanda Sen

With a rising level of integration with the world economy, India today faces a considerable risk of a severe downturn as a consequence of the ongoing global economic crisis. One can identify the following four factors which explain the potential threat: First, the free play of FII investors since 1993 when India's stock markets were thrown open to such investors. It was the flow of FII into India's stock markets which was responsible for the speculatory flows in uncertain markets that pushed up stock price indices in Bombay Stock Exchange by 5.3 times between 1992–93 and 2007–08. Second, were derivatives which have officially been put at par with equities since 1992 in security exchanges and OTCs in the country. An extensive use of these was reflected in the value of BSE stock futures rising by more than 10 times between 2002–03 and 2005–06 and even further in following years. Derivative trading in the stock market has been 3.85 times the turnovers of spot trading at National Stock Exchange, the country's biggest stock exchange, during 2007 . As estimated by CitiGroup the stock of 'mobile' capital (short term debt plus foreign holdings of stocks and bonds') as proportion of forex reserves have of late been as high as 59 per cent in India, contributing to recent turbulence in stock market with added problems in managing the exchange rate of rupee. Third, banks and corporates today are interlocked with the financial market with a considerable exposure in the equity market. Thus, the share of financial investments was about 40 per cent of aggregate corporate assets during 2005–06.The balance sheet of these financial and industrial units are thus exposed to the vicissitudes of the global financial melt-down. Finally, there remain the direct impact of recessionary forces in advanced nations on the real sector of the Indian economy which today is closely integrated with advanced country markets, with the latter of late absorbing more than 40 per cent of the country's exports. A second round impact on exports may also come from possible contractions in other countries, especially in Asia which today provide another 30 per cent of export earnings of the country. The expanding income from services as are related to software exports and the outsourcing of jobs by foreign companies at the Business Processing Organisations (BPOs) have exceeded similar earnings from commodity exports. Thus in 2006–07 earnings from these sources were 1.1 times those from merchandise exports.

Facts, as above, indicate the gravity of the emerging scenario in terms of a possible impact of the current global economic downturn on the Indian economy. One can witness the unfolding of the crisis with job cuts in private sector and demand shortfalls in major industries which may assume much greater proportions if remain uncontrolled. There is already a liquidity crunch in the financial sector with scarcity of credit and steep increases in call money rates which soared up to 25 per cent at the beginning of November 2008. There has also been sharp declines in the stock prices , as can be seen in the current BSE index at less than 10000 as compared to its previous peak of 20000 last financial year. The rupee rate also has touched a record low of Rs 50 to a dollar, as compared to Rs 43.3 and Rs 45.6 in 1999–00 and 2000–01.

Policies so far announced include monetary measures with several rounds of cuts in the interest rate, Cash Reserve Ratio, the repo rate and even the Statutory Liquidity Ratio. Recapitalisation of financial institutions like Mutual funds to the tune of Rs 20,000 crore is also announced. Official circle believes that these would stabilise the banks as well as the financial sector.

But compensatory fiscal measures as are urgently needed are still awaited. Debt relief measures (Rs 250 crore) and additional expenditure on social sector (like National Rural Employment Guarantee Scheme) as in last budget are officially claimed as measures to revamp demand. These, however, may not suffice to stall the onset of a recession in coming days. Simultaneously efforts are made, rather inadvertently, to attract credit from abroad by raising limits of FII bonds to $6bn from the existing limit at $3bn and allowing FDI investments in insurance sector to 49 per cent (instead of the current 25 per cent) and reintroducing the practice of Participatory Notes by FIIS which was earlier banned.

What Indian economy requires at the moment is a strict vigil of speculatory finance (derivatives in stocks, commodity markets and currency, Participatory Notes by FIIs) along with fiscal expansion to create demand, both with jobs and public capital as well as social expenditure.

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