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SOME REFLECTIONS ON THE GLOBALISATION OF INDIAN INDUSTRY

by

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Why Indian Business Needs to Look Eastward?

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In this paper, an attempt is made to outline some of the consequences of the process of globalisation in Indian industry as a result of the transition to markets in Eastern Europe. India's decision to join the main--stream has come at a time which could not have been less opportune. The necessity for entering into strategic alliances to enter East European markets is highlighted as also the need for a concerted effort to systematically accquire, collate and process information necessary to translate company objectives into reality.

The famous Russian philosopher Alexander Zinoviev, (not to be confused with the Bolshevik leader who was Lenin's comrade-in-arms in the twenties), once remarked that communist society was a society composed of good people who worked badly. While that perhaps explains why the excessively centralised system of the Soviet-type was unable to last longer than it actually did, Zinoviev also observed that the tragedy of our epoch lies in the fact that within the rational measures available to overcome social evils, there are elements which during implementation create new evils and strengthen some of the old evils merely by giving them other forms. This led the then emigre Soviet philosopher to conclude that people do not have the power to change the general direction of social evolution. All they succeed in doing is speed up the movement in the same direction. This is because they lack a mooring strong enough to allow them to think about changing course (1).

Zinoviev penned these lines when few could predict or foresee the dramatic dismantling of communism in either his own country or in the erstwhile socialist economies of Eastern Europe. Yet I doubt whether the revolutionary upsurges that swept across Central Europe in 1989 and the democratic upheavals that brought about the demise of communism in his own homeland some two years later would have caused the philosopher to substantially revise his devastating judgement on human frailty.

The visible lack of effort in the Indian corporate world to take advantage of business opportunities thrown up by the collapse of communism in the former Soviet Union and the centralised economies of Eastern Europe, the equal lack of effort on the part of the government to formulate strategies with a view towards capitalising the substantial investment that we have so far poured into maintaining our relations with the former Soviet--bloc and the sense of stupor that continues to pervade both government and industry suggests that Zinoviev did have a point after all: people as much societies, simply do not appear to have the ability to learn from either their own mistakes or those of others. And what is infinitely worse is the perversity with which both choose to exercise this right to commit mistakes already committed elsewhere with astonishing regularity!

Few would doubt the proposition that the sources of change in the contemporary world stem from what was formerly the USSR, the socialist economies of Eastern Europe and China. The tearing down of the Berlin Wall, the reunification of Germany, the collapse of Stalinist regimes in Eastern Europe, the suppression by brute force of the democratic movement in China, the campaign for glasnost and perestroika unleashed by Mikhail Gorbachev in the Soviet Union and the unprecedented demise of the USSR - all these events have not only stemmed from the erstwhile socialist world, but it is also compellingly clear that the consequences of triggered by these events have yet to run their full course. While I do not possess a crystal ball, few would doubt the hypothesis that what happens in these countries in the next ten years will be intimately connected to the processes of reform and change taking place in other parts of the world in general and the developing countries in particular.

We are therefore living in times that are pivotal, momentous and historic. Under the circumstances, it is legitimate to ask ourselves whether we are in a position to interpret our interests in a rapidly changing international context, whether we are eqippped to formulate the kind of strategies that are needed to execute the pursuit our interests and whether we are truly committed to the direction in which we appear to be moving. The process of what has come to be associated with 'liberalisation' in the past fifteen odd months in the country is an explicit even if sadly belated recognition that India must join the mainstream if she has to cope up with the fresh challenges resulting from the drastic restructuring of the balance of power that is currently taking place on a world scale. The country had isolated itself to such a severe degree that it has resulted in alienating ourselves from the winners and aligning ourselves with the losers. The current crisis in the country is a good illustration of the price we have to pay to rid ourselves of the legacy of consistently pursuing misguided policies in the past.

This should in principle have helped us to learn the lessons of the past and reorient our objectives in a manner where realism and pragmatism govern the formulation of our goals. Have we learnt our lessons? If the complete absence of coherence at the level of either government or industry to the collapse of Stalinist regimes in Eastern Europe and the disintegration of the erstwhile Soviet Union is any pointer, it seems to me that there are good grounds to entertain grave doubts of the capacity of either the government or industry to respond to the changes taking place on the other side of the river. Apart from helping us emerge from the stupor and inertia born out of an extreme ignorance of Soviet and East European realities, the collapse of Stalinist regimes in Eastern Europe and the demise of the Soviet Union has affected us in almost every significant area of national activity including trade, foreign policy and defence.

However, we are so preoccupied with the bad part of the story that we are unable to formulate a coherent policy to deal with the challenges posed as a result of these changes. The acinine response of the Narsimha Rao government to the abortive coup in August last year is a good example of the low level of intelligence gathering in our embassies abroad and the absence of specialist advice in the formulation of our responses to the outside world. In a symposium organised by the National Institute of Advanced Studies in Bangalore in September last year, I had made the suggestion that India must soon be prepared to deal with fifteen independent countries and that this must be done on an urgent footing. The plea went unheeded. Unfortunately, even now the government has no coherent policy of developing business relationships with the CIS and Eastern Europe. Neither for that matter has industry. Indeed I would even go so far as to say that I seriously doubt whether there is even an attempt to understand the implications of these changes at either level.

It is true that the so-called 'special' relationship we enjoyed with the erstwhile Soviet bloc benefitted us more than it benefitted them in the short term. These benefits were then widely perceived to have been especially relevant in the areas of defence, conserving precious foreign exchange and ensuring the Soviet Union's support to India in international forums. This was indeed the rationale of the Indo-Soviet Treaty which emerged as a result of the Soviet Union's support to India during the Bangladesh war. What has not been sufficiently realised even now is the fact that the long term effects of the relationship did more harm than good and this perhaps helps to explain the continued lack of coherence at the policy level towards these countries, lending ironic credence to Marx's dictum that the weight of all dead generations truly weighs like a nightmare on the brain of the living.

However, it is time that both government and industry learn to free themselves from the shackles of the past. I am still not sure whether we have arrived at such a happy outcome. For this to happen, the past must be seen as irrevocably dead. Central to this undertaking is the realisation that India has paid a heavy price for its 'special' relationship with the former Soviet Union.

This was due to three reasons: Firstly, India was excessively reliant on the Soviet Union for armaments: about 70% of India's defence requirements were being met by the Soviet Union. This kind of relationship was bound to have security implications because India paid for most of her imports from the Soviet Union in soft currency exports. Secondly, the system of rupee trade led to a trade of shabby goods on both sides which resulted in stifling domestic competition. Both sides preferred this arrangement because it was supposed to be economically convenient for us (by helping us to postpone the administering of bitter medicine) and politically and economically expedient for them. Thirdly, it helped to make India unpopular in both East and West as a result of the country's excessive preoccupation with supporting the Soviet Union's adventures abroad, notably, Afghanistan. Internationally, this resulted in isolating us to a degree which is becoming apparent to our bureaucrats only now· non-alignment helped us to align with the losers and alienate the winners. This has undoubtedly contributed to making current efforts to join the international division of labour, an even more protracted and difficult process.

Under these circumstances, it should be hardly surprising if the country has been caught with its pants down following the collapse of the Soviet Union and Eastern Europe. The complete absence of coherence at the policy level is so tellingly evident that it need not be reiterated. The central point is merely this: the country can no longer afford this luxury of complacence. Neither for that matter can business. A new beginning has to be made on an urgent footing. This can be done in the following manner: by capitalising on the positive aspects of the old relationship. Despite my critical posture on Indo-Soviet relations as it has evolved in the past, the one good feature characteristic ofthe old relationship lay in the fact that India enjoyed and - continues to enjoy - tremendous goodwill in the former Soviet bloc. This must be urgently exploited to reconstitute our relations on a new footing ie., in a predominantly market environment.

This is principally though not exclusively because the winds of change sweeping across the Central Eurasian and Central European region form an essential ingredient of the process of globalisation both in India and abroad. The implications for industry are clear: if Indian industry neglects this opportunity, it does so at its own peril. The question can certainly be posed: is Indian business genuinely interested in going global? For that matter, is the Indian government serious about its commitment to reform? Can the social consensus so vital to the eventual success of the reforms, be taken for granted? It seems to me that there are no easy answers to these questions and I have my serious doubts on several fronts. Good intentions alone are not enough. It may be useful to remind ourselves of the perfectly sensible suggestion made by Marx that we must judge economic actors not by what they say but by what they actually do. Admittedly, there are several substantive problems that have to be reckoned with. These might include the following issues:

(a) The nagging feeling that the reforms have come just a little too late, that they have not been properly designed or sequenced and that they remain a hasty even if necessary response to a rapidly changing international context. The Chinese experience is tellingly instructive because it illustrates the need for careful preparation in the reform effort, the need to constantly eliminate inconsistencies that invariably crop up during the transition and the principle of learning by doing. If we need to understand why a country like China was able to attract 2 billion dollars of investment last year in contrast to a mere 200 million in India, we need to remind ourselves that contemporary foreign investment in China is a product of a careful and deliberate policy followed more or less consistently for the past fourteen years. China is today reaping the fruits of an initiative which has its origins in 1978. Understanding this element of time and preparation will also help to dispel the unfounded optimism present at the levels of business and industry that all we need to do is to remove a couple of controls to enable foreign investors to direct their investments into the country. Nothing could be further from the truth: an outside observer could think of at least ten good reasons wny India is not an attractive country to invest in and by the same token, the same observer could cite at least ten good reasons why China is a good country to commit his resources.

(b) The rapid growth in population which nobody appears to be taking seriously at the policy level. This is crucial because even if we are able to visualise an extremely optimistic scenario - that the reforms will be a roaring success in the next ten years - the danger that the potential gains of the reforms could be offset by an increase in population cannot be discounted.

(c) The disease of corruption, whose scale and intensity have become truly phenomenal. It is indeed unfortunate that the stock scam broke out during the time it did because in the popular imagination, it is viewed as a result of liberalisation which it is patently not. The market can perform a levelling role only if conditions are conducive to its functioning. There is a real danger that reforms in our context might lead the vested interests of today to become the vested interests of tomorrow. Needless to add that if this happens, this will be a straight road to catastrophe.

(d) The one-sided nature of industrialisation in the post-independence period, that is to say, that it is time that Indian business goes into the production of mass items on a mass scale rather than restricting itself to the upper segment of the middle class. The domestic market needs to be expanded. It would be foolish to presume that the industrial sector can be revamped in the absence of revamping agriculture. The reform experiences of the erstwhile socialist economies (notably, Hungary and China) in fact suggest the contrary: that it is easier to reform the agricultural sector than the industrial sector where the problems of transition appear to more intractable. No significant policy on restructuring agriculture has been announced so far.

In retrospect it would appear that India decided to join the mainstream when the international climate could not have been less opportune: the United States is one of the most indebted countries in the world with little resources to commit abroad, Germany is undergoing the costly pangs of reunification, world financial markets are being increasingly susceptible to fluctuations, Western Europe is busy setting its house in order and will have the development of Eastern Europe as its first priority once the United States of Europe becomes a reality and the Japanese, who have never been particularly disposed to invest in India, are preoccupied with redefining their role in the changed circumstances of today. The price of being a latecomer to the process will therefore have to be paid. Under these adverse circumstances, it would be extremely unwise to expect miracles. The readiness to accept mistakes, the relegation of ideological considerations to the background and the tolerance of open inflation - which are features than be recorded on the positive side - are offset by the transparent lack of conviction among government circles on the necessity of the reform. The nagging feeling that the reforms have been introduced more as a result of pressure and less as a result of conviction, (which perhaps accounts for the slow pace of the reform), still cannot be dismissed.

All this highlights a problem that is likely to become central as the process of liberalisation begins to take root in the years to come: this refers to the relationship between industry and government, which has never been satisfactory in our context. It has never been satisfactory because the terms of the relationship had never been clearly spelt out as a result of which instead of working in tandem, each worked to subvert the interests of the other. Over a period of time, the regulatory environment helped the cement the relationship in terms that can only be described as most unhealthy: if industry learned to follow the rules, the government would step in to protect its interests by insulating it against the free play of market forces. Survival in the marketplace was not a result of competition but of protection. That industry was digging its grave in the process and that the government was helping it to dig its grave by helping it to survive uncompetitively, did not appear to seriously affect either.

What helped to nurture this perverse relationship was an ideological framework according to the dictates of which, the weak can only be protected if the growth of the strong is contained. The _Report of the Task Force on Globalisation of Indian Industry_ prepared on behalf of the Confederation of Indian Industry and authored in large measure by Professor Dandekar In September last year goes a long way in locating the root of the problem: 'There is a common concern for the small, the poor, the weak, the backward, the one lagging behind; in short the one who will not survive the competition in the market place. He must be helped and protected. This is admirable. Unfortunately, this is matched by an irrational animus against the strong, the one who will survive the competition and who will grow. It is regarded as almost sinful that one should survive and grow without social assistance because in that case, he would be robbing the poor and exploiting the weak. Therefore even if it may not be possible to help the poor and weak positively and adequately, it is supposed to help the poor and weak if the strong is constrained and his growth contained. This is the policy syndrome called 'growth with social justice' with greater emphasis on social justice than on growth. In the process, all elements of growth have been crippled and all motivation for standing on one's own made redundant. As a result, growth has suffered and in consequence also social justice. The economy does not produce enough to help those who must be helped'(2).

Current efforts at macro-economic stabilisation, liberalisation and privatisation (despite the half-hearted and inconsistent nature of the measures announced so far) suggest that the country and its politicians have begun to see through the self-defeating nature of the slogan 'growth with social justice' which in practice has neither served the cause of economic growth nor that of social justice. What is currently taking place in the country is nothing short of an attempt to rewrite the social contract where the thrust will presumably be more in favour of efficiency than equality. This is especially important because those who spurn output growth in favour of distributive justice often seem to forget that without output growth, there will be little left to distribute.

It would therefore appear that the future is hardly rosy. It is in fact going to be a tortuous way ahead. But there are always two sides to a crisis. The good side of our crisis lies in the fact that we have run out of soft options. No matter which political configuration comes to power in New Delhi, it will be extremely difficult for that configuration to choose a course different from that which has been adopted. While this is perhaps true, it should be remembered that reform programmes can easily be undone, clumsily implemented or simply abandoned. What is not in doubt is the fact that a beginning has been made and despite the magnitude of the several unfinished tasks that lie ahead, (schematically these might include a drastic reform of the bureaucracy, reconstituting centre-state relations, formulating a coherent energy policy, introducing a policy on exit, reforms in the financial sector which include efforts to make the RBI fully independent and autonomous, interest rates and making transactions in the stock market more transparent, reorganising the planning process, a clear policy on privatisation and reforms in the tax system including corporate taxes, excise and custom duties), there is room for cautious optimism.

For companies, the implications of these far-reaching changes both at home and abroad, are many. This is principally though not exclusively because the rules of the game have changed: once the economy is vulnerable to international competition and companies are forced to operate in a competitive environment, this is tantamount to acknowledging the rules of the market. And the market admits only one rule: a berth is assured only to those who are able to survive the competition; he who does not thrive in a competitive environment must quit or close down. Survival will now increasingly depend upon the company's ability to go global, on its ability to gear itself to tasks and challenges that were deemed non-existent before and the ability to contemplate company objectives in the long-term.

Specifically, this will require relegation of short term objectives in favour of linking them to viable long term objectives. This is where the opportunities thrown up by the transition to markets in the Commonwealth of Independent States and Eastern Europe assume a significance which Indian companies must gear themselves to exploit on an urgent footing. There are three essential reasons why this must be done here and now.

Firstly, India's commercial relationship with the former Soviet bloc was fairly substantial. This was however predominantly a trading relationship. It is imperative that the change to hard currency dealings with these countries does not jeopardise the goodwill accrued earlier. For this to happen, Indian companies must make concerted efforts to reorient commercial relationships on a new footing ie., in a predominantly market environment rather than bank on the continuation of protocol trade agreements with these countries especially because these are doomed to die a natural death with the introduction of hard currency trading with these countries. Currently, the heavy debt burden in the CIS and East European countries has made it difficult for these countries to pay for their imports. Trading will therefore be limited in the foreseeable future. The prospects of counter trade on the other hand are vast and the recent announcement by the government allowing companies to transact counter trade deals with the CIS is a step in the right direction (3). Under the new dispensation, import and export transactions by all concerned including 100 percent export oriented units and those located in export processing zones and free trade zones can be made in freely convertible currency, counter trade or through third countries of any item not included in the negative lists under the Exim policy. This is irrespective of whether such items are specially included or not in the trade protocol or trade agreements between the respective countries. Under the circumstances, foreign direct investment is perhaps the best vehicle for promoting economic relations with these countries. For the Indian investor, inexpensive skilled labour, availability of natural resources and the proximity of Western markets are some of the major attractions. Companies will therefore have to set themselves the task of exploring how this can be accomplished.

Secondly, a successful entry into the East European market now - when the times are perceived to be bad on both sides - ensures an entry into the United States of Europe of tomorrow. This is where Indian companies will have to increasingly orient themselves to the pursuit of long term objectives and work out appropriate strategies that ensure they do not lose out in the changing configuration of new trade blocs on the one hand and increasing competition to attain a greater share of the world market on the other. Moving production capacities to Eastern Europe can help India gain an entry into the European community through the backdoor.

Thirdly, the intermediary nature of the economies of India and the East European countries is a positive aspect that could lead to the establishment of mutually beneficial forms of economic, technical and commercial cooperation between both countries. President Yeltsin has on several occasions unambiguously stated the priority Russia attaches to her economic relationship with India. There have been similar signals from the Ukraine and the Central Asian constituents of the CIS including Uzbegistan, Tajikistan, Kazaghistan and Kirgizia. It would indeed be tragic if instead of capitalising on this goodwill, it is frittered away. The Joint Business Councils have an important role to play here. They must take the initiative and begin the process of establishing channels of information and communication that are vital if these efforts are to be brought to fruitition.

How can companies go about the accomplishing these objectives? It seems to me that there are three major tasks that need to addressed. Firstly, there is a need to acquire and systematically process information concerning investment opportunities, potential for exporting goods and services including skilled manpower, possibilities of counter trade and the setting up of joint ventures either in export zones in India or in Eastern Europe for the manufacture of products that could be exported elsewhere. This calls for specialist advice on the current state of market oriented legislation in these countries as well as an appraisal of the social and political climate of the region. Russia for example, has vast reserves of metals like zinc, nickel, scrap and rough diamonds which can be imported at cheaper prices, while there is a great demand for Indian pharmaceuticals, foods products, textiles, tea and coffee. There are equally good opportunities to collaborate in large joint venture projects in petrochemicals. Other areas as fast food chains, department stores and the hotel inustry offer good investment opportunities for the Indian investor. It is vital that companies begin the process on a general footing before graduating to a product specific and industry specific perspective that will be able to offer a reasonably accurate appraisal of the nature of the existing market for their products.

Secondly, there is a need to develop a highly differentiated business policy or corporate strategy that is country specific in the this sense that it takes into account the national peculiarities of each country in the region. There cannot be one uniform policy that can be universally applicable to the region considered as a whole. This is because neither the former Soviet Union or the erstwhile socialist economies of Eastern Europe ought to be treated as a homogeneous entity. There are far too many differences (these include ethnic, cultural, historical, economic, social, religious and political factors) separating each region from the other. Not only are there substantial differences in varying levels of industrialisation, there are equally important differences separating the countries when considered from several attempts to reform the system. Hungary for example, has a long history of reform (which stretches back to 1968), and can be considered to be the most advanced country in Central Europe in terms of moving away from the centralised system. So too are Poland and Czechoslovakia, but not Romania and Bulgaria for reasons that are not exclusively economic. Similarly, what is true of the European parts of the CIS is not true of Central Asia or what is true of business opportunities in Eastern Germany today - where the emphasis is on the purchase of firms from the Treuhand - is not true of Hungary or Poland - where the emphasis as in India, is on foreign investment. Not only are there implicit differences across countries, but there also exist important differences within countries such as those that separate the relatively developed regions of the Czech republic from its less developed counterpart in Slovakia.

Finally, companies must begin exploring ways and means of effecting strategic alliances with West European, American and

Japanese firms to penetrate East European markets. Given the close cultural proximity between Eastern and Western Europe, Indian goods and services are likely to have a greater degree of acceptability in the East European market if they marketed through established Western brands.

Globalisation implies among other things, correct and timely perception of new threats, needs, challenges and opportunities. Indian industry - which has never traditionally been sensitive to such parameters - has a number of daunting challenges ahead and it is imperative that companies position themselves in a manner where they are able to interpret and isolate their interests amidst the worldwide search and competition for international markets. In an increasingly multilateralised world, the capacity to look outward will be the watchword of the future. The transition from an economy dominated by state controls to an economy dominated by competition in Eastern Europe and the transition from an economy dominated by administrative controls to expanding the private sector and cutting back on an over-extended state in India, make the times propitious for Indian business to venture into seas that are only beginning to be charted. It is already late, but not I believe, too late. The winds of change sweeping across both regions offer a wide range of opportunities to those who can seize the initiative. The positive public image enjoyed by India in these countries should be exploited by Indian players who are gearing themselves to go global. The opportunities are vast and the risks, not terribly different from those normally prevalent elsewhere. From the point of view of the future, it is vital that Indian companies learn to anticipate events rather than be overtaken by them. It has already happened once. It would be farcical if it were allowed to happen again.

NOTES

1. Alexander Zinoviev, The Reality of Communism, Paladin Books, Glasgow, 1985, p. 23.

2. Report of the Task Force on Globalisation of Indian Industry, Confederation of Engineering Industry, September 28, 1991, pp. 3,4.

3. Counter-Trade Deals with CIS Opened to Private Companies, The Economic Times, Bangalore, October 8, 1992, p. 1.