WP -43

GLOBALISING INDIAN BUSINESS : QUESTION OF MIND SET AND DYNAMISM IN POLICY

by

Prof. J Ramachandran*

INDIAN INSTITUTE OF MANAGEMENT
BANGALORE

---

*Assistant Professor, Indian Institute of Management Bangalore

A B S T R A C T

The redefinition and reorientation of India's economic strategy is linked to the coming into being of a global economy. The emergence of a borderless world has its roots in the fundamental changes that have taken place in the world. These range from the impact of technology to the emergence of global scale competition. The significant impact of this phenomenon has been that national governments are increasingly losing control over investment, technology transfer, trade and information flows.

This has often lead to a belief that globalisation implies less government. Not true. Nor does it mean more Government. Successful integration into the global economy requires a 'right' Government. The rules of the game in the global arena are being constantly redefined by the competing nations. The governments of all the nations are actively promoting their respective nations' economic interests. The Government in our country too needs to do the same. In today's world scenario, business alone cannot cope with the pressures of globalisation and succeed. It requires active Governmental support. Especially in the international fora.

Further, both Indian business and the Government need to act in concert if India is meet with its destiny of being a major player in the global economic scene. In the past, the relationship between Government and Indian business has largely been adversarial. This needs to be redefined. A symbiotic mutuality needs to permeate the relationship. This can be achieved only by a change in the mind sets both in Government and in Indian business.

Globalising Indian Business : Question of Mind Set And Dynamism in Policy

"It is India's destiny to be a major player on the global economic and political scene".

Dr.Manmohan Singh, Union Finance Minister, 1993-94 Budget speech.

The reorientation of India's economic strategy, though triggered off by a severe crisis in the balance of payments in 1991, has been undertaken primarily with a view to increase efficiency in resource use and improve India's international competitiveness. It stemmed from an appreciation of (a) the need for efficiency to precede equity and (b) the rapid emergence of an integrated global economy.

In the last couple of years the world has witnessed the emergence of an astonishing consensus with regard to strategies to be employed for achieving economic growth. Nations are embracing market economics for achieving economic well being of their people. It was increasingly being realised that even redistributive goals were better achieved by adopting market oriented economic policies since they facilitated achieving faster economic growth. Even the erstwhile socialist economies realised that the markets were more fair (and efficient) than the commissar. Our own experience of the 80s showed that poverty begins falling when the rate of growth reaches five per cent. It is estimated that a sustained 9 % growth of the Indian economy would free truly grinding poverty by year 2000 and make 1 billion of us middle class by year 2020.(The Economist,1992)

The redefinition and reorientation of our economic strategy is also linked to the coming into being of a global economy. As stated by Dr.Manmohan Singh, the Union Finance Minister, "the world around us is changing very rapidly, becoming more integrated as a marketplace and also more competitive. Other developing countries are successfully transforming themselves to meet these challenges. We cannot afford to stay out of this process..."(Singh, 1993)

The emergence of a borderless world has its roots in the fundamental changes that have taken place in the world. These range from the impact of technology to the emergence of global scale competition. It would be worthwhile to review briefly the factors that are fueling the emergence of a global economy.

Forces Driving Globalisation

Technology

Technology has redefined economics. It has enabled firms to overcome the ' natural' barriers of comparative advantage. No longer is success in the global world determined by traditional advantages like access to raw materials etc . Japan and other East Asian economies truly represent this phenomenon. The post World War Two Japan was a devastated economy. It was natural resource poor then, and continues to be so even now. Nevertheless it is an economic super power today.

It is technology, among other factors, which has enabled Japan's emergence as an economic giant.Ironically, it was also not technologically rich to begin with. It initially bought technology from the West. But it successfully employed technology to go on to dominate the West. In some of the industries its domination is almost total. For example,the VCR industry. American companies invented the technology. But by mid 1980s, the consumer market for VCRs was dominated by the Japanese." No U.S.firm manufactured VCRs, the Europeans were minor players, and Korean companies could only challenge Japan at the low end of the market" (Yoffie,1987).

Consumers

The consumers in the West were (and are) unwilling to accept the second best.(The behaviour of consumers in India too would not have been different except that they did not, in the past, have easy access to the products due to the regulatory regime.) The Western consumers demanded (and continue to demand) products which catered to their needs and required the products to be available at low (reasonable) prices and to be of good quality. They would patronise any product/brand which met with these stipulations. "Today... the pressure for globalisation is driven not so much by diversification or competition as by the needs and preferences of customers" (Ohmae,1989)

Information

Knowledge has always been borderless. However its rate of development and its dissemination was relatively slow in the past. Not any more. Today its evolution is fast and furious and its dissemination rapid. In the past there were gross inefficiencies - deliberate or otherwise - in the flow of information around the world. Today, new technologies are eliminating these inefficiencies. Further, the access to information is not any more confined to the privileged. Nor is it subject to significant control by the Government. Our own experience with STAR TV substantiates this.

The consequences of the information revolution have been very many. Fundamentally it has lead to a desire for a better living amongst the people across the world. This desire has in turn fueled the pace of globalisation.

Competition and Enterprise Behaviour

Technological changes, demanding consumers,and information revolution, have all led to the emergence of strong **competition**. The competition amongst firms in turn fueled the other three factors. For example, **Flexible Manufacturing Systems** which harness information technology, enabled enterprises to cater to the differences in consumer preferences across the world while exploiting the benefits of mass manufacturing. **Nissan** the Japanese automobile manufacturer, reduced the number of basic models from 48 to 18 and continued to compete on a global basis.(Ohmae,1989).

Enterprises in their desire for growth, realised the need to be globally competitive if they were to succeed. In fact in a number of cases global competitiveness was essential if they were to survive. They geared to this new reality by attempting to achieve global economies of scale by adopting significantly higher levels of mass manufacturing and mass scale marketing. This process implied assumption of significantly higher fixed costs. Interestingly, the pressure to amortize the soaring fixed costs has in turn driven globalisation. The emergence of global strategic alliances being a case in point.

Additionally, the realisation by enterprises that the domestic markets are not adequate to satisfy their desire (need) to grow/survive has further driven globalisation. It can be argued that for the East Asian enterprises globalisation was a compulsion. For the Western transnationals it started with their desire to grow - an opportunity to leverage their capabilities. Today, however, it could be a question of their survival.

Impact of Globalisation on Policy Making

The factors that have driven globalisation, the behaviour of enterprises in particular, is of profound significance for policy makers. **National governments are increasingly losing control over investment, technology transfer, trade and information flows**. Globalisation does limit the options available to the policy makers.

Keynesian economics suggests that, if economic growth is sluggish, the Governments could stimulate the economy by cutting interest rates and increasing budget deficit. These are classic Keynesian tools. The employment of these tools was expected to facilitate revival of flagging economies. They did for the past few decades. No more.

Former U.S.President George Bush tried these measures with a view to reviving the faltering U.S.economy. The interest rates were cut progressively and the budget deficit was allowed to break all records. Despite such massive stimuli the economy failed to respond. And Mr.Bush lost the presidential election. Primarily due to the lack of response to the economic stimuli administered and the continued poor performance of the U.S.economy.

The stimulus of reduced interest rates merely provided cheaper money for the global financial markets. The policy measure was unable to ensure that the money stayed within the United States in the form of investments in the United States rather than in Thailand or China or Indonesia.

Similarly the demand stimulation efforts through ballooning budgetary deficits did not result in greater demand for American goods. The consumers went in for buying goods from other countries as the burgeoning U.S trade deficit indicates.

The mobility of international capital and globalisation of product markets are the principal reasons for the end of the Keynesian magic. An implicit assumption of Keynesian economic stimuli is that the stimuli stay within the country and do not leak out of it. This is no longer true. Stimuli can and do leak out to the global economy, leaving the country in recession. This phenomenon has a lot to do with enterprise behaviour.

Enterprises no longer confine themselves to one country. They have operations in several countries(the reasons for the same being competition, technology, consumers etc). Such global enterprises do not necessarily invest or create employment in their countries of origin. They invest in whichever part of the world it is profitable to do so.

The biggest company in the world General Motors is losing billions of dollars in the United States. It is closing a number of factories and retrenching thousands of workers in the United States. At the same time, to shore up its profitability, it is sourcing its requirements from all over the world (it today sources its requirements of radiator caps from Sundaram Fasteners in India) and investing in other countries to increase the markets for its products. For example, it has entered into a joint venture with Hindustan Motors in India to manufacture its Opel Kaddett model. This behaviour is not unique to General Motors. It is true of any number of other enterprises.

What is more, this phenomenon is not confined to the West. It is true of Indian enterprises as well. Over 20 companies of Indian origin have acquired units in the erstwhile East Germany - at a time when India is desperately seeking Foreign Direct Investment. Dalmias for example have made forays into both Hungary and Germany. So has Usha Rectifier Corporation.

It is estimated that Indians (largely non resident Indians) are numerically among the top 10 investors in the world in the former East Germany. They have reportedly promised Treuhandanstalt, the German organisation which is responsible for the privatisation of firms in the former East Germany, over $ 500 million in fresh investment. (The Economic Times, 1992 b)

After the announcement of liberalisation of policies regarding foreign investment for Indian companies (the government announced that it will grant an automatic approval in 30 days for Indian direct investment in joint ventures and wholly owned subsidiaries overseas, provided the investment did not exceed a sum of 2 million dollars) the number of Indian companies going overseas shot up. Videocon is setting up a joint venture company - Videocon Gulf Ltd - in the Jebel Ali Free Trade Zone in Dubai. So are Blue Star in Dubai, Essel Packaging in Egypt, ATV Projects in Malaysia, Hindustan Lever in Nepal, VIP Industries in Nigeria, the Hero group in Mauritius etc.(The Economic Times,1992 a).

Competition and the resultant enterprise behaviours has lead, in a sense, to a reduction in the power of the State to control and direct economic growth . This is not to contend that the State ceases to wield influence over either economic growth or the process of globalisation. In fact intervention of the State in countries like Japan has facilitated the success of Japanese enterprises and driven the process of globalisation. The role of the famed MITI of Japan is well documented and does not bear repetition. The other East Asian countries like S.Korea, Singapore, Thailand, Indonesia have largely modeled their strategies after Japan.

The State can and needs to play an influential role in achieving the economic well being of the people. However, it needs to take cognisance of the changes wrought by globalisation both on the nature of its role and its power to direct economic development. More about this later.

Since the 80s, a number of changes have been effected, albeit hesitantly in the initial phase but with greater vigour today, in our economic policy with a view to integrate the Indian economy with the global economy. This represents a shift away from the economic strategy we have followed during the previous period. Briefly, our post independence economic strategy was to build internal capabilities (self reliance) and participate selectively in world commerce (predominantly import substitution led and not export led). The two basic assumptions were (Nath,1991):

a) that world trade was an unequal exchange and India as a developing country would get a poor deal from such exchanges.

B) that it is necessary to insulate the Indian economy from the rest of the world so that it can follow a development path of its own choice.

The impact of the resulting regime of regulation, limited access to the world markets and restrictions on outsiders who wanted to deal with India are too well known to bear repetition. In the past twenty months our efforts to globalise has gained significant momentum. The changes initiated have profound significance for Indian business. **The key issue being global competitiveness.** On this count, the Indian business is largely ill prepared.

Lack of Competitiveness: The Role of Indian Business.

Indian business is as much responsible for its current lack of competitiveness as the government's past economic policy. Indian business has, in fact, been a beneficiary of the past regulatory regime. ' The concept of self sufficiency was exploited by vested industrial interests to perpetuate and exploit a monopolistic autarchic economy' (Deshmukh, 1992).

Deshmukh, a former Cabinet Secretary to the Government of India, cites the example of the two wheeler industry. He states that in the mid 80s when the Government was granting more licenses in the two wheeler industry, the existing players were the first to cry foul. The two wheeler industry is not unique in exhibiting such a behaviour. Most Indian businesses have done so.

Admittedly, the past policy did not facilitate setting up of world sized plants which would grant economies of scale which are critical for achieving global competitiveness. However, until the Eighties, most Indian businesses did not seek sanctions for setting up of world sized plants. This was because of the relatively small size of the domestic market - the market they were focusing on. While uneconomic size of plants could be contributing to the current lack of competitiveness of Indian businesses, it is not the principal reason.

The primary reason for the current lack of competitiveness is the myopic vision that the Indian business shared with the public policy maker. The myopic vision of Indian business manifested itself in a number of ways.

Strong Domestic Market Focus

One of principal reasons for the current lack of competitiveness of Indian business, particularly the large Indian business, has been, (and perhaps continues to be), its strong domestic market focus. **Indian business has essentially possessed an inward orientation.** Even today, at a time when a major thrust is being provided in our economic policy for achieving substantial export growth, the efforts of a number of large Indian corporations are directed towards participating in the global trade by 'importing' goods required by Indian businesses instead of actively attempting to export their products. This has become possible due to the recent changes in the government policy in this regard. The large Indian businesses are entering the areas vacated by the erstwhile state monopolies like MMTC, STC etc.

Attempts in the past to compel exports, through policy changes, lead to a number of these large corporations 'buying' exports from the existing exporters, most of them in the small scale.

The strong domestic market focus of Indian business is in contrast to the behaviour of say the Japanese corporations. For example, in the sixties the Japanese earth moving equipment company Komatsu was confronting virtual extinction when the American giant Caterpillar moved into its back yard in the form of a joint venture with the Japanese giant Mitsubishi. However, by mid seventies, Komatsu had become the second largest player in this business in the world.

Unlike the automobile or the electronics industries, the earth moving equipment (EME) industry was not targeted as one of the industries Japan would focus on by the Japanese government. In fact the Japanese Ministry of International trade and Investment (MITI) believed that Japan did not possess a long run competitive advantage in this industry. The EME industry was opened up as a quid pro quo for seeking protection to the emerging Japanese auto and electronic industries.(Bartlett & Rangan,1985).

Komatsu was successful, in spite of lack of strong support from the Japanese Government, due to its emphasis on catering to the overseas markets along with the domestic market.

This is not to contend that protectionist policies did not facilitate the success of Japanese enterprises. They did. In fact, protection is a practice which the Japanese follow even to this day and it has become one of the most contentious issues in world commerce today. However, the protectionist policies were coupled with a strong overseas focus on the part of the Japanese corporations which lead to their phenomenal success.

The overseas orientation has been absent in Indian businesses. Komatsu's success lay as much in its basic belief in the need to export as in its brilliant strategies. The need to export was articulated as early as in 1921 by Mr.Takeuchi, the founder of the company.(Bartlett & Rangan,1985). Similarly in 1951, Konosuke Matsushita, the founder of Matsushita Electrical Industries had told his managers that " to survive and to grow we have to become international not only in our operations but also in our outlook" (Ghoshal and Bartlett,1988).

Thus, what is being argued is that protection per se is not the primary reason for the lack of competitiveness of our domestic industry today. Instead, it is being contended that it was the strong domestic market focus of Indian business that has been the principal contributor to the current scenario. It also lead to their failing to appreciate the need for international competitiveness. Importantly, the strong domestic market focus resulted in number of other related practices.

Poor Quality focus

The domestic market myopia coupled with the lack of strong domestic competition and the protectionist policies resulted in Indian business producing **shabby goods** - goods whose quality pales when compared to the quality of goods produced internationally. The automobile industry is an outstanding example of this phenomenon.

Poor Customer Focus

Yet another corollary to the phenomenon has been a total disregard for the Indian consumer. **Indian business was singularly lacking in customer focus** - the key force which drives competition in the world today. For example, Mahindra and Mahindra who have been manufacturing jeeps since the second world war, modified the steering to a right hand drive (as against the left hand drive in the original model) only in the seventies - after nearly three decades of its manufacture.

One wonders whether they have changed in this regard even today. For example, the keyboard which accompanies the personal computer that is marketed in India today, comes with a 'dollar' key (for denoting with ease the U.S.currency). It does not have a key for easy representation of the Indian rupee.

This leads us to a related issue. The lack of **cost consciousness** amongst Indian industry. They were (and perhaps continue to be) high cost producers. The price determination in the market place, due to the relatively poor degree of competition (coupled with capacity restrictions) in the domestic markets lead to the market price being determined, routinely, by the high cost producer - not by the lowest cost producer. The latter simply made super normal profits.

Poor Technology Focus

The poor technology focus of Indian business is yet another reason for the current lack of competitiveness of Indian industry today. It is not that Indian business did not buy overseas technology at a considerable price. It is estimated that nearly **50%** of our industrial production is based on imported technology. (It is also well known that the technology imports was one the primary conduits employed for leakage of capital from the country).

Indian industry stopped with importing the technology. It at best worked towards adapting the imported technology to suit our conditions. Nothing beyond. It did not make any significant efforts towards developing technology by investing in R&D. It is estimated that the ratio of R&D expenditure to the capital goods imported is of the order of 1:10 (Mashelkar, 1992).

Once again, this is in direct contrast to the Japanese corporations. Japan too started by sourcing technology from the West. But they did not stop there. Japanese corporations realising the vulnerability of competitive positions based solely on low cost labour and scale advantages went on to invest heavily in technology development. The Komatsu case referred to earlier is an outstanding example of this phenomenon.

Komatsu, in the International Construction Equipment Exposition (Conexpo) held in Houston,USA in 1981, "displayed some machines not previously seen - prototypes of products that would be marketed in 1982 or later. One of the main attractions at Conexpo was Komatsu's 1,000 hp bulldozer, bigger than Cat's top-of-the-line 700 hp machine. Officially, Cat's response was cool saying that it had no plans to follow suit. But, according to Komatsu managers, the most interested observers at their exhibit were Cat technicians. One Komatsu manager reportedly photographed four Cat managers examining and measuring the company's equipment at the exposition.' Ten years ago', he smiled,'we would have been the ones caught doing that'" (Bartlett and Rangan,1985). (The expression Cat stands for Caterpillar Tractor, the American giant earth moving equipment manufacturer).

The Government attempted to bring about a greater technology focus in Indian business through tax incentives and with programmes like Phased Manufacturing Programme(PMP). PMP, though flawed due to its time orientation rather than competitiveness orientation, failed to meet with its objectives due to lack of enthusiastic support for the programme from Indian business. The depreciating rupee did force indigenisation to some extent. However, a strong technology development focus did not emerge.

The total R & D expenses of Indian industry in 1991-92 was less than Rs. 500 crores. We are the largest producers of bicycles, fans and sewing machines in the world and yet we have seen no innovation in any of these. Recent statistics show that the R&D investments in the engineering industry range from 0.2 to 0.4 percent of the sales turnover for many major engineering companies with annual turnovers exceeding Rs.1000 crores. In comparison the international figures range from 3 to 15 % (Mashelkar,1992). When one incorporates the staggering differences in absolute sales turnovers, investment of Indian industry in R&D is rendered insignificant.

The New Scenario : Impact on Indian Business

In many fundamental ways globalisation and the policy changes initiated to integrate the Indian economy with the global one, change the rules of the game. Indian business needs to respond to the new rules. Fundamentally this calls for a change in the mind set. Indian businesses need to make basic changes in their thinking; they need to incorporate the new realities in their decision making.

Businesses function on the basis of the signals they receive from the economic system. In a controlled economy they receive a variety of non market signals as well. In the past these non market signals exercised a powerful influence on their profitability. Indian business could afford to not act upon the market signals since the system facilitated this.

Adoption of a deregulated and a more global economic system reduces the importance of the non market signals **of the kind seen so far**. Today, market signals would require greater attention. Businesses need to appreciate and respond to this. This needs to be reflected in their thinking both while planning for new projects as well as in formulating strategies for existing businesses. In the past the **the core competence** Indian businesses needed to have (or develop) was the ability to 'manage the Government'. No more. Today they need to develop core competencies in the fields of technology, quality and human resource management. Areas largely neglected in the past.

The response of the Indian industry to the changes in the economic policy has been reasonably good. Indian businesses have become both quality and cost conscious. They are adopting (or are moving towards adoption of) international quality standards like ISO 9000 to remain competitive. Similarly there have been efforts to control cost through tighter inventory control and better credit management. Further, a number of business are concentrating on their core businesses and shedding others. Mergers have also taken place with a view to gain greater critical mass and to capitalise on the ubiquitous synergy. As mentioned earlier, companies are also setting up marketing and manufacturing bases overseas. The key issue is whether these efforts are adequate for succeeding in the global market place.

Need for Change in Mind Sets

Both Indian business and Government are yet to fully appreciate the fact that deregulating an economy and integrating an economy with the global economy are two different though related issues.

Deregulation is essential to unleash the entrepreneurial energies of Indian business. This is required. However, deregulation is not enough. We need to recognise the fact that the rules of international business have changed and continue to change as nations jostle for improving their respective presence in the global market place.

Admittedly, in order to be meaningful players in the global system, we need to be internationally competitive. Indian manufacturers undoubtedly need to be competitive on the price front and on the quality front. These are necessary but not sufficient conditions. Increasingly getting the quality and price right is not enough.

This because the rules of the game in the global arena are being constantly redefined by the competing nations. The changes stem from, among other things, the attempts of the developed nations to protect their economic interests. The developed nations, finding their competitiveness getting diminished, particularly in the low technology areas, are making attempts to protect their businesses by redefining the rules.

Social and environmental issues like **human rights, ecology etc.**, are being increasingly employed to decide trade. The Clinton administration promises to adopt a 'more active, anticipatory, inclusive and flexible trade policy that would incorporate worries over the environment, competition policy, international labour standards, science and technology policy and sustainable growth policies in developing countries'. (The Economic Times, 1993 b). Trade with EC countries too is becoming increasingly constrained by ecological considerations.

While some of the concerns like in the case of ecology may be genuine, we need to recognise the fact these are often orchestrated in the international arena primarily to protect their economic interests.

Thus, the competitive battle the top managements of Indian industry face is not some kind of factory-to-factory combat. The world is moving away from niche competition, which is win-win, to head-to-head competition, which is win-lose. (Thurow,1992). Today, it is a deeper struggle among different nations to ensure that their respective citizens have the highest standard of living, each with its own distinctive set of values,priorities and goals.

Economics has dictated our current reforms and thinking. This is but natural since we have been forced to think and practice liberalisation because of our economic difficulties. We need to appreciate the fact that in today's world scenario, Indian business alone cannot cope with the pressures of globalisation and succeed. It requires active Governmental support. Especially in the international fora.

Globalisation has often been interpreted to mean less government. Not true. Nor does it mean more Government. **Successful integration into the global economy requires a 'right' Government**. A government which is different from the kind Indian business has experienced so far. Successful globalisation of Indian business requires a government, which is not hostile in terms of attitudes towards Indian business and which actively promotes the interests of Indian business including providing protection against predatory international competition. It requires a government which while ensuring strong domestic competition, facilitates acquisition of capabilities by Indian business to be globally competitive.

Most of the reform measures initiated so far have been directed towards achieving macro economic stabilisation and dismantling of the regulatory regime with a belief that it would lead to successful integration with the global economy. Perhaps it would. It has definitely highlighted the need for being globally competitive. It, however, is unlikely that greater competitiveness alone would lead to successful globalisation of Indian business. Given the current scenario, successful globalisation would require active and vigorous promotion of Indian business interests in the global arena. This can be achieved only by re-orienting our foreign policy. This has not met with adequate attention.

Re orienting the foreign policy

The globalising world requires a change in the mind set of the foreign policy maker as well. Protection and promotion of the nation's self interest is the cardinal rule in the practice of international relations. Unfortunately our performance on this front has been poor. The current poor state of the Indian economy is not only due to the failure on the economic policy front but also due to the failures on the foreign policy front. " Our foreign policy failed to foresee the ascendancy of economic development over trumping ideology and politics in international relations" (Mehta,1989).

Safeguarding our national security in military terms has dominated our foreign policy. Mao Ze Dong's famous cliche that power flows only out of the barrel of the gun has dominated our thinking. " After the first decade (after independence), we seemed to have lost faith in the fact that development and social justice are essential ingredients for national security. Japan has proved that concentration on the economic path can lead to such a towering international standing that both its military protector (the US) and its hypothetical adversary (the USSR) have to bend and plead for Japan's economic indulgence.' (Mehta,1989)

The critical role foreign policy could (and should) play in the nation's economic development was accorded secondary status. After the trauma of defeat at China's hand in the 1962 war, economic progress was put on the back burner. 'In the civil, military and political hierarchy, a firm expectation developed that there would be a repeat of the 1962 war in the proximate future. It was therefore argued that economic progress should be temporarily sacrificed. Ironically, this fear allowed China to inflict pernicious damage by a decade and a half of economic attrition of India. The historian is likely to be critical of the diplomatic professional for surrendering his judgement to the military strategists.' (Mehta,1989).

Mehta(1989), who was India's former Foreign Secretary, goes on to assert that " while playing a bold leadership role in the non-aligned movement, we took seriously the paradigms of the cold war and its accompanying propaganda rhetoric. We did not have the intellectual agility to ensure the contemporary validity of our judgments and were sluggish in prophylactic diplomacy. We failed to notice that the logic of the nuclear stalemate and galloping technology were going to repudiate the permanence of military blocs, make mockery of ideological evangelism and supersede political competition across the global stage by the overriding logic of domestic priorities and international economic complimentarities." This needs to be corrected. Urgently.

The emerging new reality requires a reorientation in our foreign policy. The governments of all the nations are actively participating in the protection of their nation's economic interests. The United States, the nation which purportedly symbolises the concept of free and open trade is perceived by the international business community as an unfair trading nation like Japan and Korea. The new Clinton administration has adopted a jingoistic stance in trade matters. It has repeatedly threatened to launch a 'full scale' trade war. According to Micky Kantor the U.S Trade Representative, the Clinton Administration considers trade as a' priority element of American security'. Such stances stem from the fundamental changes that are taking places in the global economic system. (The Economic Times, 1993 b)

Changes in the Global Economic System

The most significant change that has taken place in the global economic system is the virtual eclipse of the GATT-Bretton Woods trading system that has governed international trade since World War Two and the emergence of concept of managed trade through trading blocs. The fundamental reason for the reducing influence of multilateralism is the absence of single stabilising leader in international trade today.

It has been fairly well established that leadership plays a critical role in international trade. Until the first world war, the leadership role of United Kingdom has been widely recognised. Similarly the collapse of world trade in the period between the two world wars is attributed the absence of a strong leader.Charles Kindleberger (1986) concluded that the Great Depression of the 30s was 'so wide, so deep, and so long because the international economic system was rendered unstable by British inability and U.S. unwillingness to assume responsibility for stabilising it.'He goes on to observe that ' the main lesson of the interwar years... that for the world economy to be stabilized, there has to be a stabilizer - one stabilizer.' For the trading system, the stabilizer had, among other things,' to keep the import market open in periods of stress'.

From 1945 to 1980, the United States was the unquestioned leader in world trade. It could force other nations to agree. The creation of GATT in 1947 was the outcome of U.S.initiative. The GATT was dedicated to repressing protectionist pressure and to non discrimination among trading partners. The key thrust was towards a mutual lowering of trade barriers. The timing and the agenda of successive GATT 'rounds' of negotiations were orchestrated by the United States.

Since the 80s, there has been a definitive shift in the U.S.role from being a single stabilizer, to being one of the three stabilizers in uneasy concert with the European Community and Japan. This has caused disarray in the international trading system. For example, the multilateral trading system is evolving de facto, if not de jure, into regional trading blocs. Nations are increasingly veering towards adoption of what can be classified as a three track trading system encompassing multilateral, regional and bilateral trade. In some cases like the United States, which notwithstanding its declining influence, is in a position to impose its will by virtue of its still being one the largest markets in the world through unilateral actions like the controversial 'Super' 301. Carla Hills, U.S.Trade Representative in the Bush administration, testified before the U.S.Congress:' Our strategic goal is to open markets....we much prefer to use multilateral negotiations to achieve this end, but we will engage in bilateral and plurilateral efforts and take selective unilateral action where such can be effective'(Preeg,1992).

The multilateral trading system is being subjected to its severest test. Much depends on the results of the Uruguay Round of GATT negotiations. The United States, has sought to expand the GATT mandate beyond its traditional domain of tariff regimes and codes for non tariff barriers. At its insistence,in the current Uruguay round of negotiations issues like trade in services, intellectual property rights, and trade related investment measures have been included. The U.S objective is to integrate newly industrialised countries more fully into the GATT and bring the agriculture sector within the GATT norms for market oriented trade. The last one has been a particularly contentious issue.

Most nations consider the multilateral trading system as the first best option for international trade. If the Uruguay Round achieves only modest results, countries will focus on a second best option of regional trade agreements and the third best option of bilateral trade agreements to supplement the GATT. In fact, nations are already pursuing these options to further their respective economic interests.

The Regional System : Emerging Trading Blocs

Effective January 1,1993, Western Europe has become an unified single market. All barriers of trade between these countries has been abolished. Europe has emerged as a single frontier free market of 380 million consumers, including the members of the European Free Trade Area - Austria, Iceland, Liechtenstein, Norway, Sweden and Switzerland. Further, a number of the erstwhile East European nations have been accorded an associate member status indicating their integration into a much larger European market in the forthcoming future.

Notwithstanding the claims that the integration would not lead to less trade with the rest of the world, it is obvious that the members of the EC will receive special privileges relative to the rest of the world. If they did not there would be no reason to integrate. From India's point of view, the proximity (both historical and geographical) of the East European countries to the world largest market along with their low wages and changed economic strategies, could lead to a exercise of greater interest in these countries by the European Community rather than in a liberalising India. Selling in Europe will be harder now.

Europe is not the only trading bloc to come into being. The North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico is yet another emerging trading bloc. Once again, the proximity of Mexico could adversely affect opportunities for greater trade with United States and Canada - the other large markets in the world. In fact, NAFTA, is perceived as a forerunner to an All American Free Trade Area which include all the nations in the American continent.

The 1989 Ministerial framework for Asia Pacific Economic Cooperation (APEC) - a regional grouping of countries in the Pacific Basin seeks to establish a mechanism by which the countries in the region could take " best advantage of the possible economic complimentarities... in the region ... through closer economic cooperation...to also be a force within the world for arguing the case for a freer international trading environment " (The Financial Times, 1989). According to the former Australian Prime Minister Bob Hawke, who initiated the APEC, the aim was not to create a trading bloc. However, the APEC initiative has the potential to evolve into a regional trading bloc.

Similarly the concept of a potential East Asian trading bloc centred on Japan is being advanced. The Malaysian Prime Minister Mahathir Mohammed is calling for the formation of such a trading bloc to counter the European and North American trading blocs.

Regionalism is a reality today. It is not yet clear whether the emerging regional free trade areas would result in a global freer trade or whether they would primarily become strategic economic groupings designed to become more competitive vis-a-vis other trading blocs.

The Bilateral System : The Emerging Trade Off Measure

Bilateralism is increasingly being practiced as a defensive measure pending the successful conclusion of the Uruguay round of GATT negotiations. This is particularly true of Japan and other East Asian economies. These nations have a strong interest in strengthening the multilateral trading system since their interests are best served by GATT due to the growing internationalisation of their respective economies. The long delay in the conclusion of the Uruguay round along with the flexing of protectionist muscles by the United States and Europe due to their rising trade deficits with these countries, especially Japan, has lead to their entering into bilateral negotiations. Bilateralism provides the best safeguards for them against greater encroachments on their access to the U.S and European markets - which is crucial for sustaining the growth of their economies.

Towards Greater Dynamism ...

The global economic system is in a disarray. We need to recognise the fact that the rules of the international trade are being constantly redefined. The success of our efforts to integrate our economy with the global one is not going to be determined by our economic policy alone. **A dynamic and aggressive foreign policy is as crucial for its success. We need to define trade as the single most important item in our foreign policy agenda.** Our policy makers need to shed a number of their old assumptions. Principally, the conventional 'military security ' doctrine needs to be replaced with an 'economic security' doctrine, notwithstanding our present need to grapple with externally sponsored terrorism which is affecting our security in military terms. Lobbying with U.S for restoring the General System of Trade Preferences withdrawn by the Bush Administration is as crucial lobbying for getting the U.S. Pakistan as a terrorist state.

Our initiatives on the foreign policy front have been poor. The agreement for greater trade amongst the SAARC countries at the recent Dhaka meet is woefully inadequate and unlikely to be of significant benefit to India. We need bolder policy initiatives in this regard. We need to go beyond exempting levy of import duty on Jamdanee sarees from Bangladesh as ' a gesture of goodwill to Bangladesh and ..... as a step towards improving trade with SAARC countries' (Singh, 1993).

It has been suggested that the U.S.President Bill Clinton could settle the argument whether NAFTA would further worsen the possibility of achieving a global free trade 'by doing something rather bold - by inviting Poland and Taiwan to turn the NAFTA into the beginnings of a global free - trade agreement' (The Economist,1993).

At first, the idea may seem bizarre. However, on a careful examination it does indeed seem to afford an opportunity to achieve a breakthrough. Especially from India's point of view, since we are yet to become members of any meaningful trading bloc. The merit of this idea lies in the suggestion that one needs to re-examine the generally accepted belief that geographic proximity is essential for the formation of an effective trading bloc. We need to examine whether agreeing to the terms of the NAFTA agreement would be beneficial to us. If yes, we need to boldly pursue this line of thinking and seek membership to NAFTA. What is more, we could pursue this line with the other trading blocs as well. Often the answers lie in such bold initiatives.

We may already be late in adopting this strategy. Taiwan reportedly has already expressed an interest in joining NAFTA. The Canadian government has supported the setting up of the Asia-Pacific Foundation of Canada (APFC) whose principal objective is to establish that Canada is a member of the Asia-Pacific community. The rationale advocated is that' Canada may not be a part of Asia, but Asia is a part of Canada given that the number of Asian-Canadians --- Indo-Canadians, Chinese-Canadians, Phillipino-Canadians, Vietnamese-Canadians, the number of such hyphenated Canadians is increasing!'(The Economic Times, 1992 c).

Further, our foreign and economic policies need to be synchronised and worked out in concert. The decision of the Government to place the export of dual purpose chemicals in the negative list being a case in point. The decision, reportedly taken at the behest of the Ministry of External Affairs following the controversial seizure by Germany of an export consignment of Trimethyl Phosphate by United

Phosphorus could cause a set back to the efforts of a few Indian companies to break the near monopolistic stranglehold over this market by western companies.

Need for Cooperation

Success in globalising Indian business will not be achieved by simply providing the right policy environment. The supportive policy environment is necessary but not adequate. In a number areas the Government would need to directly involve itself in the efforts to globalise Indian business. Especially in the international fora. For example, in today's scenario, countries like ours need to battle a formidable set of market barriers. The consumer bias on the basis of product origin is one such formidable barrier. Research studies have shown that consumer bias on the basis of country of origin directly affect the acceptability of foreign products. The bias has been particularly evident against the manufactured goods of developing countries.

In order to battle this phenomenon, we need to invest substantially in communication. This has to be done in concert with Indian business. The magnitude of investment involved in this regard would daunt Indian business if it were go it alone. Further individual enterprise level efforts may not provide the critical mass required for the effort to yield meaningful results. The Government needs to partake in this effort. Additionally, the effort should not be restricted to communicating with the consumers. The Government and Indian business need to orchestrate the media, the academia and the opinion makers in other countries to achieve greater impact. Part of the successes achieved by Japan has been attributed to the Country of Origin effect working in its favour.

Our current efforts are largely directed towards disseminating the changes in the policy framework with a view to attracting and retaining overseas institutional investors. The communication effort needs to go beyond. The need today is to change the perceptions with regard to India as a country as well as with regard to the capabilities of Indian business. The potential as well as the present capabilities need to be highlighted.

Both Indian business and Government need to act in concert if India is to meet with its destiny of being a major player in the global economic scene. In the past, the relationship between Government and Indian business has largely been adversarial. This needs to be redefined. A symbiotic mutuality needs to permeate the relationship. This can be achieved only by a change in the mind sets both in Government and in Indian business.

Notes:

Bartlett, C.A. & Rangan, U.S. (1985) ' Komatsu Limited', Harvard Business School Case, 9-385-277

Deshmukh, B.G. (1992) ' Liberalisation and India's Bureaucracy', The Economic Times, November 11th.

Ghoshal, S. & Bartlett, C.A. (1988) ' Matsushita Electric Industrial (MEI) in 1987' Harvard Business School Case, 9-388-144

Kindleberger, C.P. (1986) ' The World in Depression:1929-1939', University of California Berkeley Press.

Mashelkar, R.A. (1992) ' We Get Left-Over Technology', Interview, The Economic Times, December, 26th.

Mehta, J.S. (1989) ' Forty Years of Foreign Policy', Seminar, 358-June, pp 19-24

Nath, N.C.B. (1991) ' Globalising Indian Economy:Issues We Will Face', Monograph, FAIR.

Ohmae, K. (1989) ' Managing in a Borderless World', Harvard Business Review, May-June, 1989, pp 152-161

Preeg, E.H. (1992) ' The U.S.Leadership Role in World Trade: Past, Present, and Future', The Washington Quarterly, Spring, pp 81-91

Singh, Manmohan. (1993) ' Budget Speech, 1993-94', The Economic Times, 28th February

The Economist. (1992) ' Freeing India's Economy', May 23, pp 21-23

The Economist. (1993) ' Calling Poland and Taiwan', March 13, pp 17

The Economic Times (1992 a), November, 27th
(1992 b), December, 2nd
(1992 c), December, 22nd
(1993 a), January, 2nd
(1993 b), April 1st

The Financial Times (1989), May, 11th.

Thurow, L.C. (1992) ' Who Owns the Twenty-First Century?', Sloan Management Review, Spring, Vol.33, No.3, pp 5-18

Yoffie.D.B. (1987) ' World VCR Industry,' Harvard Business School Case, 9-387-098