Development after Statism

How can industrial production be managed without the guidance of the state? Adnan Naseemullah discusses industrial development in a new era of drastically constricted state capacity, from the perspective of the manufacturing firm. India's manufacturing economy has been growing after state promotion has receded. How, then, does Indian manufacturing develop in this context? Naseemullah argues that Indian firms must create production structures themselves, investing in networks of capital and labor without signals from above. Depending on manufacturers' backgrounds, these relationships are based either on formal rules or on personal ties, creating a patchwork of institutions that crosscut region and sector. As a result, many firms have been able to regain some certainty for investment, but at the cost of national coherence and the possibility of broader transformation. As a mirror case, this book also explores Pakistan's industrial trajectories, in which similar dynamics suggest the broader applicability of this framework.

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Development after Statism

Industrial Firms and the Political Economy of South Asia

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Preface

Growing up in relative comfort in a country of poor people, it was difficult not to wonder what economic and political changes would need to occur for the economically excluded to have access to the level of ease and opportunity I could take for granted. Development, in other words, was an ever-present idiom. The idea of development made us feel hopeful that poverty and inequality were not predetermined. Liberal political elites, professional middle classes, foreign donors, multilateral agencies, nongovernmental organizations, and even political and social activists could be part of a common project to address the causes of inequity and change the lives of the poor and downtrodden.

My undergraduate and postgraduate education taught me the deep and inherent conflict within the development project, however. From the violent nature of state formation and the pervasive influence of colonialism to the nationalist projects of industrialization and the challenge of structural adjustment, the study of development entailed understanding the often-clashing perspectives and preferences of disparate actors, even while assessing the social and political outcomes of different regimes of development policy. It also demanded rigor and facility in a variety of different disciplinary perspectives and methodological tools. Yet what made the study of development so exciting was its relevance to vital, contemporary political debates: from the adjustment responses to financial crises in East and Southeast Asia, to the debt forgiveness policies of the World Bank and the IMF, to the rise of inequalities and populist reactions in developing countries. In the study of South Asia, development seemed to be at the very heart of struggles over national meaning, state legitimacy, and social citizenship from the beginning. For all their differences, Jawaharlal Nehru and Muhammad Ali Jinnah both spoke of development in the same breath as freedom, and its political salience has not diminished since.

From the mid-2000s, however, the political economy of development as an intellectual enterprise and as a research program has narrowed significantly. In the disciplines of political science and economics, at least, the vast majority of work under this label now consists of explanations for the variation in the provision by governments of public and social goods. In recent years, the syllabi of graduate courses, the content of research seminars, and the subjects of articles and monographs have come to understand the political economy of development in these restricted terms.

There are a number of reasons for this convergence. First, it marks a continuation of a trend that sought to rebalance a postwar focus on large-scale capital-intensive projects such as bridges, dams, and steel mills by the World Bank and other donors. Frances Stewart's heralded "basic needs" approach argued that development planning needed to take into account how citizens could have their basic needs in health care and education better met, rather than simply focus on growth. Basic needs, understood as social goods provision, now drive the development agenda. Second, a focus on social goods provision as more straightforwardly measurable outcomes dovetailed with the World Bank's reorientation toward more rigorous program monitoring and assessment. Third, it follows the recent methodological popularity of "clean" causal identification and the use of randomized controlled studies among social scientists. Intervention in the provision of social goods at the local level serves as an ideal target for research involving such experimental design and has significant policy relevance. Finally, variations in these outcomes are deeply implicated in a framework that is often deployed to understand the politics of developing countries: that of clientelism. Political scientists in particular seek to identify the drivers of the nexus among corruption, patronage in electoral politics, and the diversion of resources away from universal programmatic provision of public and social goods at local and regional levels.

It is hard to question a research agenda that seeks to determine how to make poor people healthier and better educated in order, following Amartya Sen, to provide them with the foundations for greater individual freedom and autonomy in their lives. Understanding how and why some governments succeed and others fail in their responsibilities to ensure universal access to such social goods is also deeply important for the study of politics and society. But the present research agenda in

the political economy of development, particularly in South Asia, is silent on an important question: once people are healthier and more educated, where will they find decent, sustainable employment?

Such a question has traditionally been implicated in the structural transformation of an economy, away from agriculture and toward industry. After all, most advanced, industrialized countries built a strong and politically assertive middle and working class through such a transformation, and no populous middle-income country has ever left that category without one. Industrialization, and the wealth it created, led to struggles between capital and labor and the establishment of social rights and structures that could defend equality of opportunity. Such a transformation was at the very core of projects of nationalist development through industrialization in countries emerging from colonial and dependent rule. Their politics were committed to redeploying state power to refashion markets and investment in order to create the conditions for mass employment in value-added sectors and industrial self-sufficiency.

The economic crises of the 1980s and early 1990s proved to be a watershed in the state's project of transforming the economy, however. Through liberalizing market reforms in most developing countries, both policy makers and scholars of development have generally ceded the responsibility for the shape and makeup of the economy to market outcomes, which do not generally favor industrialization. While the causes and mechanisms of market reform garnered much scholarly attention, few have considered the implications of liberalization for industrial development.

In order to understand the conditions for industrial development implicated in structural transformation, we need to know the driving forces and internal mechanisms of contemporary manufacturing. But our explanatory tools for industrial development were fashioned during a period when state-directed development was the norm. As a result, we need to update old frameworks and fashion new ones fit for purpose in the political economy of industrial development after the demise of statism. This book seeks to create some space in the political economy of development for discussions of the industrialization that is taking place in a radically different context from that of the era of statism.

Why does this matter, particularly in South Asia? The relatively capital-intensive world of manufacturing, as it is currently constituted,

does not have the ability to absorb the tens of millions of new workers seeking to enter the workforce in positions that would provide them with living wages, the accumulation of savings and dignity. But it is the only portion of the economy with the *potential* to do so. Agriculture has stagnated; farmers' suicides and violent conflict among groups over land are regular features of the countryside. And the coveted jobs in technology services are reserved for those solidly in the middle class already, with university degrees, technical proficiency, and English proficiency. The vast majority of aspirants working in the services sector – the petty clerks, street hawkers, auto-rickshaw drivers, domestic servants, mechanics, barbers, cooks and *paan*-wallahs – are unlikely to see their wages rise or their positions become less precarious. Manufacturing can provide better and longer-term skilled employment because the returns to manufactured goods have clear added value, because workers have the capacity for collective bargaining over these returns, and because working in manufacturing itself enables the acquisition of skills and the accumulation of savings.

This ideal seems a very long distance from the realities of manufacturing in South Asia today. But in order for us to think about how manufacturing can acquire the capability to fulfil this rule, we must understand the past trajectories and current constitution of industry in the subcontinent. Further, we need to understand why manufacturing has not actually declined after liberalization, when our current understandings of industrial development necessitate the autonomous and powerful state to direct industrial investment.

To that end, this book offers a theoretical framework, a history, and an argument. Modifying the "varieties of capitalism" microfoundations at the firm level, I locate investment in manufacturing within a coherent network of institutional relationships between the firm and key factors of production. The sources of such institutional networks vary over time, however. During the period of nationalist development in India, the state governed the factor markets necessary for industrial investment. Yet starting from the 1980s, those commitments were withdrawn through the long and intensely political process of liberalizing market reform.

Despite this withdrawal, manufacturing has persisted and developed over the last two and half decades since the state's withdrawal. In order to understand how this could be the case, I spent a year and a half interviewing the actors primarily responsible for manufacturers – the

proprietors, directors, and managers of manufacturing firms in the private sector across India. Through hundreds of conversations in gleaming boardrooms and dusty workshops, I found the requisite institutional relationships and industrial governance to be located not in national or regional governments but at the level of the firm. Market reform has relocated institutions and, ultimately, the governance of industrial production from the state to the factory and the shop floor.

These arguments, inductively arising from fourteen months of interview-based field research, were coupled with other research and analysis that sought to test the external validity of my claims. I used a dataset of roughly eight thousand Indian industrial firms to see whether what I saw in my qualitative research would be evident over a wider universe of manufacturing firms in India. In selecting manufacturing firms, my intention was to widen my interview sample of approximately 160 firms but ensure comparability between the two samples. As a result, my large-N analysis is conducted on a dataset that does not represent the full range of manufacturing concerns. In particular, it largely the misses the small workshops and petty fabrication outfits that have been the subject of excellent study by scholars in economic sociology, geography, and anthropology. A comprehensive econometric analysis of causes and mechanisms of production in the full universe of Indian manufacturing is very much necessary, but unfortunately it falls beyond the scope of this book.

To see whether these arguments can travel across national boundaries, I conducted research in Pakistan as well as India. In an effort to extend the explanations of industrial governance after liberalization, I have conducted research and analysis in a neighboring country, partitioned from the same colonial territory and sharing many social characteristics but differing dramatically in the nature of state formation and attendant processes of statist industrialization. Such a design provides at least a suggestion of the potential relevance and utility of this firm-level framework to other cases of countries in the middle-income category with continuing industrialization after market reform.

This book has two key implications for the politics of development in South Asia and beyond. First, it calls for some humility in thinking about the power of the state to affect economic outcomes. If the strategies and tactics of industrial promotion are to be reframed successfully in contemporary South Asia, it must start with recognition of the state's changed role in the industrial economy. Of course, this also

suggests some recognition on the part of those who maintain an exclusive focus on social goods provision that what the state might do in providing social goods to fulfill basic needs does not fully encompass the means and ends of development. Second, the book suggests that the industrial bourgeoisie cannot be easily thought of a class or interest group united in policy preference and political alignment. Manufacturers have a variety of experiences and act to instantiate those values on the political economy. This complicates any simple narrative of political and economic reform and can have large implications for the politics of both countries. In general, the book affords what I hope is a new perspective on the politics and economics of manufacturing in South Asia, entailing new frameworks with which we might understand its internally complex nature and its trajectory over time.

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Abbreviations

ACMA	Automotive Component Manufacturers' Association
AIML	All-India Muslim League
ANP	Awami National Party
API	Active Pharmaceutical Ingredients
ASSOCHAM	Associated Chambers of Commerce and Industry
BJP	Bharatiya Janata Party
BRIC	Brazil, Russia, India, China
CBTPA	Caribbean Basin Trade Partnership Act
CEI	Council for Engineering Industry
CII	Confederation of Indian Industry
CITU	Center for Industrial Trade Unions
CKD	Complete Knock-Down [Kits]
CMIE	Center for the Monitoring of the Indian Economy
CPI	Communist Party of India
CPM	Communist Party of India-Marxist
CRAMS	Contract Research and Manufacturing Systems
DFI	Development Finance Institutions
DMK	Dravida Munettra Kazagham
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chambers of Commerce and Industry
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GKU	Girni Kamgar Union
GM	General Motors
GVC	Global Value Chains
HDFC	Housing Development Finance Corporation
HM	Hindustan Motors
HMS	Hind Mazdoor Sangh
HR	Human Resources

ICICI	Industrial Credit and Investment Corporation of India
ICT	Information and Communications Technology
IDBI	Industrial Development Bank of India
IIM	Indian Institutes of Management
IIT	Indian Institutes of Technology
IMF	International Monetary Fund
IMWO	International Metal Workers' Organization
INTUC	Indian National Trade Union Congress
IPO	Initial Public Offering
IT	Information Technology
JV	Joint Venture
LIBOR	London Inter-Bank Offered Rate
LIC	Life Insurance Corporation (of India)
LUMS	Lahore University of Management Sciences
MD	Managing Director
MFA	Multi-Fiber Agreement
MNC	Multinational Corporation
MOSPI	Ministry of Statistics and Programme Implementation, India
MQM	Muttahida Quami Movement
NAFTA	North American Free Trade Agreement
NCR	National Capital Region (New Delhi)
NIC	Newly Industrializing Countries
NIFT	National Institute of Fashion Technology
NPC	National Planning Committee
NREGA	National Rural Employment Guarantee Act
NWP	Nonwage Portion (of total labor costs)
OBC	Other Backward Classes
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturer
OPEC	Organization of Petroleum-Exporting Countries
PAL	Premier Automotive Limited
PICIC	Pakistan Industrial Credit and Investment Corporation
PIDC	Pakistan Industrial Development Corporation
PIFC	Pakistan Industrial Finance Corporation
PIL	Public Interest Litigation

PML-N	Pakistan Muslim League-Nawaz
PML-Q	Pakistan Muslim League-Quaid
PPP	Pakistan People's Party
PWF	Pakistan Workers' Federation
R&D	Research and Development
RBI	Reserve Bank of India
RIM	Reliance Industry Mobile
RMMS	Rashtriya Mill Mazdoor Sangh
SBI	State Bank of India
SEZ	Special Economic Zone
SLR	Statutory Liquidity Ratio
SME	Small or Medium Enterprise
TELCO	Tata Engineering and Locomotive Corporation
TRIPS	Trade-Related Intellectual Property Rights
TUFS	Textile Upgradation Fund Scheme
TVS	TV Sundaram (automotive company)
TWU	Textile Workers Union
UDCT	University Department of Chemical Technology, Mumbai
UP	Uttar Pradesh
USAID	United States Agency for International Development
VoC	Varieties of Capitalism
WDI	World Development Indicators, World Bank
WTO	World Trade Organization