

# Making sense of India and China: some aspects of industrialization

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## *Abstract*

The two most compelling and inter-connected realities before India today are (a) gnawing inequality in our society at different levels (b) growing compulsion to industrialize in an already globalized world.

Industrialization intrinsically is a highly skewed, ruthless process. Moreover, in today's world the industrial production chain has become so completely globalized and the terms of wealth generation have so completely changed that there perhaps is no escape for India from engaging/participating in the global production process. But then the question remains how we should engage in this process, (a) without causing destitution to large sections of the people. (b) ensuring that gradually we move up the product value chain; that is, manage to enhance skills and engage in more complex/better paid production activities, freeing ourselves from low skill/low paid contract jobs or sheer unemployment. (c) Without surrendering the country's economic sovereignty.

This is the context in which we intend to look at the experiences of industrialization by the two major developing countries. India and China are the two countries, very similar and yet very different from each other historically, politically and socially; and therefore, our need to look carefully at China's experiences remains compelling, although with a serious note of caution.

On the surface, there have been striking similarities. As for example, China like India embarked upon state-directed industrialization between 1949 and 1978. This was followed by marketization/privatization between 1978 and early 1990's. Since then, there had been accelerated 'opening up' to foreign capital and major investment by foreign companies/MNC's, leading to very impressive and consistent export-led growth. The major water shed of this phase is China's entry into WTO in 2001.

But looking beyond the surface, one comes across an entirely different story. The process of industrialization essentially entails three different levels of economic thinking and activities, viz. (a) capital accumulation leading to investment (b) demand generation leading to consumption and (c) capability development leading to production of improved goods/services for domestic and international consumption. At all these three levels, China's approach has been very

different from the corresponding Indian approach. Consequently we see in this case, a very rich mosaic of many interesting experiments and outcomes in an ever changing scenario. As for example:

- The town and village enterprises (TVE's) formed under the decentralized commune system, transformed themselves into private Chinese companies through a unique state-guided marketization process (not without its share of nepotism and corruption) This essentially strengthened the 'local' before arrival of the 'global' on the scene.
- Following the strong legacy of 'decentralization', multiple production experiments were invariably allowed to mushroom under different local initiatives, using different technologies, business models etc for similar type of products. Streamlining happened ultimately through careful evaluation and selective support by the central government, based on its industrial plan and long term perspective. ('Touch the stones to cross the river' approach)
- Complementary strengths of public sector and private sector were synergized effectively, albeit with many serious pit falls.
- Existence of more complex set of ownership/property rights than mere public/private binary, allowed the state extraordinary leverage in steering the growth process in many cases.

In a nutshell, the Chinese system allowed market to allocate resources for improved performance at the enterprise level. But it did not trust the market to determine China's industrial structure.

A nuanced reading of the 'capability development process' in specific sectors of India and China is particularly fascinating. The late industrializer's dilemmas and choices come out clearly through these readings.

The entry point available to a developing country firm into a global production chain is generally as assembler/module fabricator. This does offer very useful learning; but only to a very limited extent. Going up the capability ladder ultimately means, one must learn how to do the design. Thereafter comes, development of one's own product satisfying the users' requirements and finally the brand building. In this lengthy process, the transition points are particularly difficult and risky. An inexperienced firm very often tends to make mistakes in assessing market potential of its future product, its technology options, its access to knowledge, viable route to product realization etc. Recent experiences of many developing countries in Asia (S.Korea, Taiwan, China) have shown very clearly that for formulating and developing successful strategies for development today, 'collective entrepreneurship' of the state, private companies and government R&D organizations/universities is absolutely essential. In other words, a collective organizational entity needs to be firmly in place to strategize and also to steer the

industrial development process successfully. The consensus (called BeST consensus) clearly says, the strategies that leave out the essential role of the state in this development process, are doomed to fail.

In addition to this, in late late industrialization of our exact contemporary China, we see some unique features in the technology learning process which were not present earlier, as for example in the Korean approach. These unique features are

- 'Forward engineering' (as against Korea's 'Reverse engineering') based on China's unique university-private firm linkage. Aim of this is to tap the valuable knowledge available with the universities/ public entities effectively.
- Acquisition of foreign technologies and established brands through merger/acquisition of foreign companies since 2002.
- 'Parallel learning', that is bargaining hard with foreign supplier for transfer of core technological know-how, in exchange of access to the large Chinese market.

In absence of similar pro-active state in India involved in synergizing 'collective entrepreneurship' of the Asian kind, we still have managed to do reasonably well in automobile, auto component and pharmaceutical sectors; have largely lost our foothold in the telecom sector in spite of impressive initial achievements; did very well in IT services, but lagged behind in IT products sector. Reflecting upon our successes and failures in the light of others' experiences, may generate some useful insights.

Finally, we seek to extract a set of lessons emerging out of China's experience that may be relevant to India in the current context.