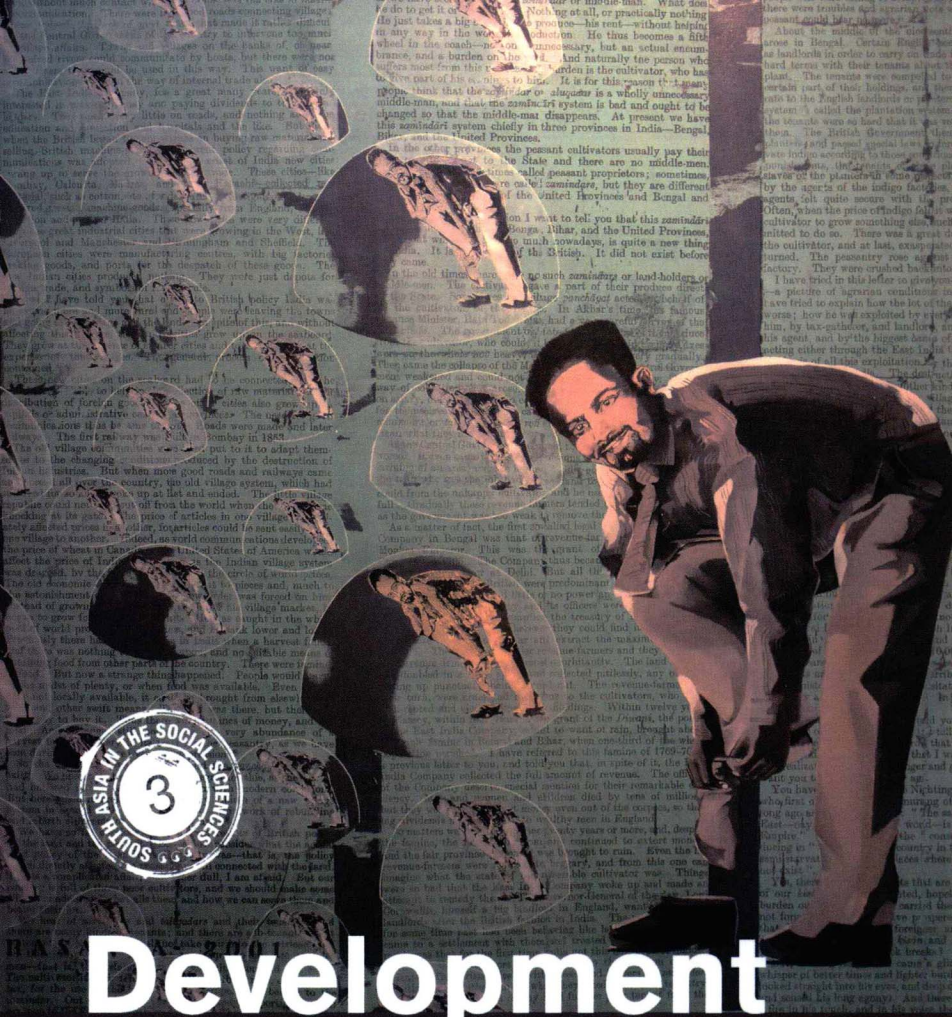

Development after Statism

Industrial Firms and the Political Economy of South Asia

ADNAN NASEEMULLAH

Development after Statism

Industrial Firms and the Political Economy of South Asia

ADNAN NASEEMULLAH
King's College London

CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE
UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning, and research at the highest international levels of excellence.

www.cambridge.org
Information on this title: www.cambridge.org/9781107158634

First published 2017

A catalog record for this publication is available from the British Library.

Library of Congress Cataloging-in-Publication Data
Names: Naseemullah, Adnan, author.
Title: Development after statism : industrial firms and the political economy of South Asia / Adnan Naseemullah.
Description: Cambridge, United Kingdom : Cambridge University Press, 2017. | Series: South Asia in the social sciences | Includes bibliographical references and index.
Identifiers: LCCN 2016022075 | ISBN 9781107158634 (Hardback)
Subjects: LCSH: Industries–South Asia. | Industrial policy–South Asia. | Economic development–South Asia. | South Asia–Economic policy. | South Asia–Politics and government.
Classification: LCC HC430.6 .N37 2016 | DDC 338.954–dc23 LC record available at https://lccn.loc.gov/2016022075

ISBN 978-1-107-15863-4 Hardback

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.

ADNAN NASEEMULLAH is Lecturer in International Relations and South Asia in King's College London. He received his PhD in political science at the University of California, Berkeley, and has previously taught at the London School of Economics and Johns Hopkins University, where he was Scharf Fellow in Political Economy. His research interests are economic development, state capacity, and political order, in relation to the Indian subcontinent, some of which has appeared in *Studies in Comparative International Development* and *Governance*.

SOUTH ASIA IN THE SOCIAL SCIENCES

South Asia has become a laboratory for devising new institutions and practices of modern social life. Forms of capitalist enterprise, providing welfare and social services, the public role of religion, the management of ethnic conflict, popular culture and mass democracy in the countries of the region have shown a marked divergence from known patterns in other parts of the world. South Asia is now being studied for its relevance to the general theoretical understanding of modernity itself.

South Asia in the Social Sciences features books that offer innovative research on contemporary South Asia. The series focuses on the place of the region in the various global disciplines of the social sciences and highlights research that uses unconventional sources of information and novel research methods. While recognizing that most current research is focused on the larger countries, the series will attempt to showcase research on the smaller countries of the region.

Figures

1.1 GDP and Manufacturing Growth in India, 1994–2013 *page* 1
1.2 Indexed Growth in Manufacturing by Segment, 2005–2013 2
1.3 Industrial Governance during and after Statism 8
4.1 Log Debt–Capital Ratios, 1988–1991 and 2008 114
4.2 Log Debt–Capital Ratios, by State 116
4.3 Log Debt–Capital Ratios, by Industry 117
4.4 Log Debt–Capital Ratios, by Incorporation Age of Firm 119
4.5 Log Debt–Capital Ratios, by Size Decile 120
4.6 Log Debt–Capital Ratios, by Percentage Exports 121
5.1 Nonwage Proportion of Firm Labor Costs, by State 154
5.2 Nonwage Proportion of Firm Labor Costs, by Sector 156
5.3 Nonwage Proportion of Firm Labor Costs, by Firm Age Cohort 158
5.4 Nonwage Proportion of Firm Labor Costs, by Size Decile 159
5.5 Nonwage Proportion of Firm Labor Costs, by Levels of Export Orientation 161
6.1 Export Percentages of Firms, by Sector 197

Tables

4.1 Comparison of Log Debt–Capital Ratios, Preliberalization and 2008 *page* 114
4.2 Comparison of Log Debt–Capital Ratios, by State 116
4.3 Comparison of Log Debt–Capital Ratios, by Industry 117
4.4 Comparison of Log Debt–Capital Ratios, by Age Cohort 119
4.5 Comparison of Log Debt–Capital Ratios, by Size Decile 120
4.6 Comparison of Log Debt–Capital Ratios, by Percentage Exports 122
5.1 Comparison of Nonwage Proportions of Labor Cost, by State 155
5.2 Comparison of Nonwage Proportions of Labor Cost, by Industry 156
5.3 Comparison of Nonwage Proportions of Labor Cost, by Age Cohort 158
5.4 Comparison of Nonwage Proportions of Labor Cost, by Size Decile 159
5.5 Comparison of Nonwage Proportions of Labor Cost, by Levels of Export 160
A.1 OLS Regression on Log Debt–Capital Ratios 276
A.2 Median Regression on Debt–Capital Ratios 278
A.3 OLS Regression on Nonwage Proportion of Total Labor Cost 279
A.4 Median Regression on Nonwage Proportion of Total Labor Cost 280

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.

Acknowledgments

This book grew out of my graduate work at the University of California, Berkeley, and was written and revised at the London School of Economics, Johns Hopkins University, and, finally, King's College London. I am grateful to each of these institutions for providing me with opportunities through this process. Additional thanks go to multiple institutions that have helped me fund my research and writing, including the National Science Foundation Graduate Research Fellowship, the John Simpson Memorial Fellowship at UC Berkeley, and the U.S. Department of Education's Fulbright-Hays Doctoral Dissertation Research Abroad Fellowship. I have also benefited from presenting this book project at various stages at the University of California, Berkeley, Boston University, the London School of Economics, the University of Toronto, Arizona State University, the Johns Hopkins University, King's College London, the Indira Gandhi Institute for Development Studies, Mumbai University, and at the annual meetings of the Society for the Advancement of Socioeconomics and the American Political Science Association.

Extremely detailed, incisive, and sustained comments and suggestions from three anonymous reviewers have transformed this book and, in so doing, improved it immeasurably. Lucy Rhymer, my editor at Cambridge University Press, has guided the book through out; I thank her for her initial interest in the manuscript and her continuing faith in it. Robert Judkins and Anand Shanmugam have managed the production process impeccably, and Susan Thornton provided excellent copy-editing. I am also deeply grateful to the editorial board of the South Asia in the Social Sciences series at the Press – Partha Chatterjee, Christophe Jaffrelot, Pranab Bardhan, and Stuart Corbridge – for providing invaluable feedback and including my manuscript in the series, and to Qudsiya Ahmed for facilitating my inclusion.

This has been a long road, and one that I could not have walked alone. I would like to thank James Kurth, Kenneth Sharpe, and

Stephen O'Connell at Swarthmore College for their wisdom and their initial encouragement. At Berkeley, I am deeply indebted to the guidance of a number of individuals. Kiren Chaudhry first introduced me to the powerful frameworks and insights of the political economy of development. Peter Katzenstein provided valuable feedback on research design at the Institute for Qualitative Research Methods; David Collier and Laura Stoker provided stellar training in the world of research methodology. Mark Bevir, Kevin O'Brien, and Raka Ray provided key insights and interventions in the nerve-wracking process of framing a dissertation. The participants of the South Asian Politics Colloquium at Berkeley provided an intellectual mother ship and gave me a space to test out my ideas: Nafisa Akbar, Matthew Baxter, Jennifer Bussell, Francesca Jensenius, Manoj Mate, Susan Ostermann, Rahul Verma, Gilles Verniers, Anasuya Sengupta, and Vasundhara Sirnate have been excellent interlocutors. Pradeep Chhibber has been an exceptional mentor throughout, challenging my ideas with purpose and helping me negotiate evidence and concepts in the context of building a larger narrative. He has read and critiqued more drafts of this book than anyone; I am humbled by the faith he has maintained in its promise.

Fieldwork presented significant challenges, which were overcome with the assistance of a number of key people. Pratap Mehta was kind enough to host me at the Center for Policy Research in New Delhi; I benefited a great deal from his insights in Indian politics and political economy. G. Koteswara Prasad at the University of Madras provided me with assistance and support during my research in Chennai. Staff at the American Institute of Indian Studies and at the United States Educational Foundation in India negotiated research clearance for my project and provided a welcome to India, while Muhammed Razzaq and the staff at the American Institute of Pakistan Studies were gracious hosts in Lahore. In India and Pakistan, I very much appreciated the sanity-preserving company and incisive guidance of Tania Ahmed, Melia Belli, Yuti Bhatt, Beverly Bhaangi, Faisal Chaudhry, Stella Cridge, Adnan Farooqui, Raghu Karnad, Ajay Madiwale, Kate Miller, Leo Mirani, Shruti Ravindran, Anindya Saha, Barton Scott, Sucharita Sengupta, E. Sridharan, Paul Staniland, Ananya Vajpayee, and Anita Weiss. I am also owe a deep debt of gratitude to the many interview respondents who, through our conversations, built the perspectives and insights of this book.

The writing and revision of this book were made possible by the support, insight, and suggestions of colleagues and friends in London and Baltimore. At the London School of Economics, I am grateful to conservations with and encouragement from Sharad Chari, Asher Ghertner, Daphne Halikiopoulu, Steffen Hertog, Jonathan Hopkin, Bill Kissane, Christel Koop, Martin Lodge, Kira Matus, Sue Sharkey, Pon Souvannaseng, and David Woodruff. At Johns Hopkins, I am deeply thankful for the support and company of Margaret Keck, Naveeda Khan, Michael Levien, Mary Otterbein, Lester Spence, Chloe Thurston, and Emily Zackin. And finally through a difficult first year at King's, I have benefited from the support of Hannah Bond, Rudra Chaudhuri, Theo Farrell, Christophe Jaffrelot, Sunil Khilnani, Peter Kingstone, Joanna Pauk, and Srinath Raghvan. At various points during the process of writing and revision, I have greatly benefited from conversations with and comments from Amit Ahuja, Caroline Arnold, Pranab Bardhan, Douglas Fuller, William J. Hurst, Atul Kohli, R. Nagaraj, Darius Ornston, Aseema Sinha, Ashutosh Varshney, and Michael Walton. Finally, this book would not have been finished without guidance and friendship of scattered comrades and fellow travelers. I especially want to thank Sener Akturk, Jennifer Brass, Jonathan Chow, Jennifer Dixon, Tanwen Ellis, Samuel Handlin, Jonathan Hassid, Colin Moore, Raymond Orr, Bhrigupati Singh, Prerna Singh, Suzanne Scoggins, Rachel Stern, and Adam Ziegfeld. Jody LaPorte and Jessica Rich deserve special recognition for going above and beyond the call of duty as sources of inspiration, guidance, and encouragement.

I deeply appreciate how family scattered across the globe have quietly held me in their thoughts throughout this process. My grandmother, mother, sister, and brother-in-law – Mollie Barger, Jennifer Barger, Sophie Naseemullah, and Jesse Alter – have been special fountains of support and love through three transatlantic moves over five years. Last, I wish to thank my father, Muhammad Naseemullah, whose curiosity, intellect, and dedication to improving the lives of the excluded continue to serve as a source of inspiration to me. I am very sorry that he never lived to see this in print, but his passion is present on every page. I am dedicating this work to his memory.

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