



India: A New Player in Asian Production Network?, United Nations ESCAP
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This volume¹ is a most welcome and important contribution to several issues of major policy and academic interest in Asia: the role, importance and implications of in the global economy, why India (and South Asia more generally) is lagging behind East Asia in participation of International production networks (IPNs) and, whether the situation will change as rising real wages in East Asia provide an opportunity for India and other South Asian economies to leverage their labour cost.

The six chapters of this volume, the first substantive study of these issues available so far, cover the relevant theory, survey the current situation, and present an excellent discussion of the policy challenges and prospects. The editors, contributors and UNESCAP must be commended for bringing out this volume of great interest and value to both policy makers and academic analysts. The first chapter by Witada Anukoonwattaka, provides an excellent introductory overview of the issues and the broader scope of the volume. It presents a succinct but informative description of the nature, economics and implications of IPNs for trade, investment and employment. Anukoonwattaka points out that IPNs are one of the most important phenomena in today's global economy, a tangible expressions of globalization in the area of industrial organization, and both a driver and a product of deeper global and regional integration. They bring together internationally mobile capital, managerial skills and technology in a new mode of industrial organization with spatially diversified production generating new patterns of inter-industry linkages and international trade.

Anukoonwattaka points to the growing literature demonstrating the benefits that East and Southeast Asian countries have gained through better market access, employment creation, and technology transfer. With China emerging as the assembly centre of a web of regional production and trade linkages, IPNs have played a pivotal role in stimulating economic growth and paving the way for the structural transformations that have changed the economic landscape of East Asia. But two decades after India embraced globalization and opened up for international

¹ The book is edited by Witada Anukoonwattaka and Mia Mikic. Chapters were contributed by Rahul Sen, Sadhana Srivastava, Nobuaki Yamashita and the editors.

trade and investment, it remains only a marginal participant of IPNs. This is also the case with its South Asian neighbours.

It is puzzling why this is so as India's economic performance since embracing globalization in the early 1990s has been impressive, frequently drawing comparisons with the economic transformation of China since its economic reforms that started a decade earlier. But, contrary to early expectations that it would follow a similar growth path to China with rapid expansion of export oriented, labour intensive manufacturing industries, India has followed a primarily services-based growth path, emerging as a leading exporter of skill-intensive IT services. As a result India has been unable to generate large scale manufacturing sector employment as in China. Further, India has failed to even come close to matching China in attracting foreign investment, particularly foreign direct investment. Though some have claimed that India can leap-frog its way to a post-industrial services based modern economy without passing through a phase of industrialisation, there are widespread concerns about its failure to generate productive employment through growth of labour intensive industries, and the political consequences for the sustainability of the reform programme.

Two questions are raised in this context: (a) why has India failed to attract IPNs – and more generally FDI – on a scale comparable to China?; (b) will India's growing participation in regional preferential trading agreements (PTAs) or the so-called 'Free Trade Agreements' (FTAs) - pave the way for it, and neighbouring South Asian countries, to attract IPNs and integrate faster with the dynamic East Asian economies. The book helps to address these questions.

Chapter 2, which presents a comparison of IPN operations in China and India, sets the broader context. In comparing China and India, Anukoonwattaka shows, that while India's participation in IPNs has grown in recent years, it still lags way behind China in participation of IPNs; even its limited participation in IPNs is in the skill-intensive software industry, with almost negligible participation in labour-intensive manufacturing – the main area where IPNs were attracted to China by the opportunity to exploit factor-cost savings. She raises several issues about India's inability so far to utilise its perceived labour-cost advantage relative to China.

Nobuaki Yamashita explores the contrasting behaviour of Japanese and US multinational firms using data from their affiliates in India in Chapter 3. While US firms are concentrated in the export-oriented IT-services industry, Japanese firms are mostly involved in the so far largely domestic market oriented, transport equipment - automotive industry. In both cases their involvement is in quite skill-intensive sectors. In other sectors, such as computers and electronics, Japanese firms in India- despite some exports to third countries - are much more home-market oriented, compared with greater export-orientation in China. Yamashita then raises questions as to why this is the case, and speculates on how the future trends may evolve.

Chapter 4 by Rahul Sen and Sadhana Srivastava is particularly valuable because it presents the most detailed and in-depth currently available study of the nature, extent and structure of IPN operations in India, with case studies of auto-parts and electronics industries. They document the low level of product fragmentation in Indian manufacturing exports, and show that, despite some recent signs of growth in IPN activities, trade and production linkages with global MNCs are still

minimal. They discuss some of the specific constraints to greater IPN participation in India and point to the need for deeper trade, investment and domestic factor market reforms and improved infrastructure as well as regulatory reforms that can lower costs of business. They also point to differences between India and China in a range of business-cost related indicators, also discussed by Anukoonwattaka in Chapter 2, that undermine India's wage-cost edge over China. They discuss in some detail, and quite perceptively, the potential role of preferential trading agreements (Free Trade Agreements), arguing that the current design of India's PTAs – with long transition periods and implementation lags, and relatively complex and restrictive rules of origin - are not likely to significantly improve incentives for IPNs.

In Chapter 5, Mia Mikic takes up and discusses in some detail the issue of PTAs and their potential for enhancing IPN operations, addressing issues related to rules of origin as well as the importance of harmonising a broader range of regulations and policies. She examines the effectiveness of India's PTAs in relaxing or removing barriers that hinder IPN operations to achieve 'deep integration'. She concludes that only three recent PTAs have any real potential for facilitating IPNs. But there is grounds for optimism as these happen to be the three most recent agreements, signed with Japan, Republic of Korea and Singapore – who are all important players in IPN operations. In the concluding Chapter 6, Anukoonwattaka and Mikic summarise the main findings and policy recommendations.

Overall the volume clearly establishes the failure of India to attract manufacturing IPNs to exploit its labour cost advantage, and points to reasons why China has been much more successful presents much new and valuable material on this important topic. But as the first serious research project on this complex and challenging topic, it is perhaps not surprising that many of the conclusions drawn are either very general and/or require deeper research and more rigorous testing. At present they should be treated as preliminary observations and plausible conjectures, rather than rigorously confirmed findings.

The book also raises new issues and policy relevant research questions such as: What will be the impact of greater Indian participation in IPNs on India's South Asian neighbours? What is the role and impact of exchange rate changes in Asia, in the presence of widespread product fragmentation and IPN activities? I hope that this excellent volume will help to initiate a wider regional research effort to address these issues and challenges.

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