Spirits of Capitalism:
Explaining Industrial Variation in South Asia

By
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A dissertation in partial satisfaction of the requirements for the degree of Doctor of Philosophy in Political Science in the Graduate Division of the University of California, Berkeley

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Abstract

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Over fourteen months of field research studying manufacturing firms in South Asia – spread across three industries in fifteen cities in India and Pakistan – uncovered a remarkably consistent pattern of diversity in firm-level industrial strategy. Such a pattern cut across states and provinces, industries and national boundaries, thus presenting a challenge to state-centric explanations of firm behavior. Through interviews with more than two hundred firms, two categories of strategy emerged in every research site and in every sector. Some firms exhibited paternalistic relationships with their workers, conservative modes of financing and tended to see the state as a protector of indigenously developed norms. Other firms deployed professional institutions for the management of workers, liberal modes of financing including high levels of leverage, and tended to see that state as a promoter of international norms.

I argue that instead of strategies being derived as responses to government policy or market conditions, manufacturers in South Asia formulate relationships with other actors in the economy based on their perspective on the character of the economy and the means and ends of industrial production. Those who perceive the economy through technocratic perspectives tend to see the economy as a space ruled by universal norms and practices, and thus establish more systematic relationships with workers, finance and the state. Those who maintain embedded perspectives tend to see the economy as constituted by dense networks of individual relationships, and thus establish more personalistic relationships with workers and the state while building up finance internally. These perspectives often endure within firms over time, as second- and third-generation manufacturers follow the guidelines of the firm’s founder. They do not correlate with a particular size of firm, industry or location, but do however correlate with the education and work experience of manufacturers and the strength of institutions within the firm over time.

Such cleavages in industrial strategy and manufacturers’ perspectives reflect a broader division within South Asian society of the means and ends of economic development, one that was distilled and legitimated during national resistance against imperial rule. Some among the nationalist movement, who forwarded a vision of development based on socialistic economic planning, saw development as a rationalistic process of industrial catch-up, with the state as the central actor in disciplining and transforming society. Others held that development lay in the rejection of western
norms and values, and a return to a mythical pre-colonial society of traditional hierarchies and economic relations submerged in moral frameworks, where the state would serve as a protector of this organic society. These positions in the nationalist movement both reflected and consolidated divisions among indigenous society, divisions that are operative more than six decades later in the technocratic and embedded perspectives among manufacturers in contemporary South Asia. The continued existence of such dual modes of capitalist strategy and practice also represents a portrait of the South Asian state that – far from disciplining society into a unitary institutional framework or being prevented from doing so by capture – actively maintains and supports multiple modes of doing business. Based on the study of Indian regulatory documents, I suggest that this is because the state tries to forward several different developmental interests, from increasing exports to creating employment, simultaneously, rather than maintaining a singular focus on maximizing economic growth.
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This project started to take meaningful form in the summer of 2006, as I started noticing that industrial capitalism in India was a social phenomenon with many different constituent elements, rooted in historical experience. Yet the project itself had antecedent roots in my own experiences of growing up in Pakistan and a fantastic education, at undergraduate and post-graduate levels, that helped me make sense of that experience. I wish to take this opportunity to thank those individuals whose guidance, support and friendship have made a positive impact on the making of this dissertation.

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Samuel Huntington in 1966 suggested the importance of disciplinary institutions in general, and a particular institution has had a profound influence on this project and on my graduate experience as a whole. The South Asian Politics Colloquium at Berkeley, under the able Directorship of Pradeep Chhibber, has served as a genuine intellectual community over several years and been a welcoming space filled with humor as well as profound insight, and actual as well as intellectual nourishment. I have presented papers and chapters in front of this group more times than I can remember and I thank them for their indulgence. In particular, I am deeply indebted to my colleagues and friends Vasundhara Singh Sirnate, Manoj Mate, Matthew Baxter, Francesca Jensenius, Susan Ostermann, Nafisa Akbar, Anasuya Sengupta and Jennifer Bussell. Amit Ahuja was kind enough to travel to our colloquium on several occasions and has been a great help in conceptualizing and implementing the project over the last year.

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My parents, Muhammad Naseemullah and Jennifer Barger, have been holding me up with love and affection throughout this complicated period of my life, either from close-by or from the other side of the world. They have taught me to think and feel in equal measure and provided me with the experiences and insight at the heart of this dissertation. I dedicate this work to them.
Introduction
Explaining Diversity in Industrial Strategies

During fourteen months of field research on industrial firms in India and Pakistan, nothing was quite as striking as the sheer diversity in the strategies and practices of firms. In Lahore, two pharmaceutical manufacturers with turnovers of $1.6 million and $2 million respectively evinced fundamentally different perspectives on the changing nature of patent regimes and regulatory authority. The first maintained that regulation and intellectual property must be changed in keeping with international standards: “we want to have state-of-the-art production; we want to have exports… inspectors come from all over the world, and they should not be disappointed” (2007-lhr19). A pharmacist by training who then worked and received graduate training in New York, he had returned to Pakistan and set up a factory in 1979. He finances his manufacturing through loans from banks.

The other argued that the particularities of the national economy precluded replacing national standards with global best practices: “other countries shouldn’t interfere in our system; they are interfering in the systems of developing countries. China is not interfering, it is providing assistance… there should be trade, but not interference” (2007-lhr20). After receiving a pharmacy degree, he worked as a sales representative before starting first a wholesale business and then factories in two locations. He does not borrow from banks, but rather finances his manufacturing solely through the reinvestment of profits.

In the New Delhi National Capital Region, a textile trader turned industrialist, with a yarn fortune with $500 million in annual sales accumulated over less than a decade, operates out of a small office in the Okhla Industrial Estate (2007-del2). He buys ‘sick’ spinning mills and transforms them into productive units by means of renegotiating labor contracts. Labor relations for this firm, even given its size, are drenched in the personal. Recruitment occurs mostly from rural areas, and relationships with labor brokers or mukadams are important: “to get labor, you need to talk to people” (2007-del2). By contrast, just across state lines in the North Okhla Industrial Development Area in Uttar Pradesh, a glass office tower houses the textile operations of a venerable Marwari family, also worth $500 million in annual turnover, which has diversified and technologically upgraded their traditional spinning operations, as well as moved production downstream to fabric and apparel manufacture. Labor relations here are focused on formal, institutionalized training, or the development of human capital: “We have formal training systems – we give formal classroom and on-the-job training to all workers. We pick up youngsters with primary schoolings and we train them for 4 months or 6 months” (2007-del20). My respondent, the managing director, also placed a premium on human relations policies that institutionalize incentives for working: “A worker is a human being and you need to treat him as such: [provide] a good environment, treat him well, and pay enough to cover cost of living. Why can't he be a partner? He should be as responsible as you are -- he just needs to be motivated enough.” (2007-del20).

As I conducted more than two hundred and fifty interviews with industrialists and industry association officials, I found this deep diversity a particularly striking and constant feature of the industrial landscape in South Asia. Manufacturing firms in the same industry, sometimes literally across the street from one another, maintain fundamentally different strategies toward the recruitment and retention of workers, the acquisition of finance for running costs and expansion, and relations with the regulatory and distributive aspects of the state apparatus. And certain firms in different cities like Delhi and Madras, or even different countries like India and Pakistan, act in
parallel fashion to one another, despite geographical, cultural and political distance. The particular pattern of this diversity presents an empirical puzzle that throws up some questions regarding the place of the state in the industrialization of developing countries.

From Alexander Gerschenkron onward, the state has been at the very center of the study of the economic development of developing countries. The success of certain industrializing countries, such as South Korea, has been linked to the capacity of the state apparatus to both support and discipline capital and labor. The comparative success or failure of industrial development in developing countries has thus been explained by the capacity of the state to induce similar support and discipline.

This framework has broad implications for our understanding of the relationship between states and the principal developmental actors in capitalist economies: private sector firms. Given the extent of state intervention in developing economies, state policies and practices are expected to heavily condition how firms organize production. Governments command labor legislation, corporatist bargaining, the rationing of capital by financial institutions through banking regulation, interventions in interest and exchange rates, and programs of distribution and support to particular industries or sub-sectors.

Given the potential power of the state in directing the economy, and the ways this influences the practices of firms, how then can we explain the deep diversity in the ways firms behave in South Asia? If the developmental state framework provides an accurate portrayal of the relationship between firms and the state, a greater uniformity of firm practices is expected within industries, sub-national units and sovereign countries, as agencies of the state establish rules, provide incentives and form regimes for regulation. Thus, the pattern of firm strategies should follow the jurisdictions of provincial governments, industry-specific departments and regulatory agencies, or countries. Thus, we might expect the strategies of textile firms to look more similar to one another than those of pharmaceutical firms, firms in Madras to look more similar to one another than firms in Bombay, or Pakistani firms to share more in common with one another than firms in India.

Instead, we see a diversity that is striking but also quite particular. Firm strategies tend to accord to two durable patterns, both are present in every industry, every sub-national unit and in both countries. Some firms maintain personalistic relationships with their workers, use conservative means to acquire financing that generally avoids the use of bank loans, and relate to the state as the protector of the status quo. Other firms maintain formal and institutional relationships with their workers, use the full gamut of options for financing including bank loans and public offerings, and seek the state out as the promoter of international norms. These two sets of firm-level strategies exist side-by-side in firms of different sizes and with relatively equal levels of success and failure. How can such a divergence in strategy be explained?

In this dissertation, I argue that industrialists are conditioned by their educational backgrounds and work experiences to conceive of the economy and industrial production in a particular way, which then informs the practices and strategies of their firms. Specifically, some manufacturers perceive the economy as constituted by a network of relationships and social

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1 Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Belknap Press, 1962). Gerschenkron argued that late developing countries needed to use institutions backed up by the state to accumulate the capital necessary to ‘catch up’ to leading industrial economies.

obligations that emphasize the personal and the particular. I term this perspective *embedded*, after Karl Polanyi’s characterization of traditional economic interactions embedded in social mores.3 These embedded capitalists are not artisans; they may have factories that employ thousands and utilize the latest technologies of production to create goods that are exported globally. Yet, they understand interactions in the economy to be relational and particular, and this outlook permeates their dealings not just with other firms but also with workers, capital and the government.

Other manufacturers, by virtue of different educational backgrounds and work experiences, perceive the economy as a space for contestation that is characterized not by webs of relationships but by rules, institutions and best practices that are understood to be universally applicable across regional, industrial and national contexts. These manufacturers may run relatively modest operations geared solely toward domestic markets, yet maintain a perspective that emphasizes regulation and stability based on systems and ‘scientific’ practices. I term this perspective *technocratic*, after their profound belief in the capacity of economic activity to be regularized, universalized and subject to certain common practices.

These two kinds of capitalists, *technocratic* and *embedded*, are to be found in both India and Pakistan, within every state of India and province of Pakistan, and within every industry. They are also not clearly identified with particular levels of firm size, ownership structure or level of international exposure. Rather, they are identified by the perspectives formed by manufacturers’ training and work experience in the South Asian context, either as a first-time manufacturer or as the scion of an old industrial family.

Because of the dominant structures of ownership and styles of leadership in South Asian industry, the owners of the firm participate actively in its management and thus decision-making is centralized around an individual or a family. As a result, these perspectives translate into practices and strategies with regard to actors in the broader economy. For first-generation entrepreneurs, this link between perspective and strategy is particularly strong as the manufacturer starts off industrial enterprise initially by deploying capital, arranging financing, hiring blue-collar workers and white-collar employees, and arranging permissions with the regulatory apparatus. The lens through which she sees these specific activities and the character of their investment in general then serves as a guide for the establishment of these strategies. As firms age and subsequent generations take over the business, these perspectives might still animate the practices and strategies of the firm if the original entrepreneurs’ vision maintains its hold on her successors. However, there are other instances in which second- or third-generation manufacturers make a radical break and implement restructuring in the context of crisis, decline or a clash among the owners. In either case, however, perspectives, formed out of educational background and work experience, have powerful effects of firm strategy in the majority of industrial firms in South Asia.

If social explanation is usually historical in nature, our concepts should not be arbitrary but rather be grounded in historical and political experience. I argue the conceptual difference between embedded and technocratic capitalism among manufacturers in the 21st century can be seen as a clarion echo of debates among nationalist leaders in India – and the two different sides of South Asian middle-class society they represented – about the meaning and practice of economic development following imperialist rule. Nationalist ideologies and politicians in the decades before Indian (and Pakistani) independence expressed two dramatically different visions of the spirit behind the post-colonial economy, whether it was to be animated by the impulse to catch up with the West or by the traditions, practices and values of a reified organic society. These different articulations by

powerful and creative individuals at once reflected and distilled two conceptualizations of the developing economy held by different groups among the Indian middle classes. Thus, technocratic and embedded perspectives among South Asian industrialists reflect a division among middle class and elite portions of South Asian society about what development means and what the state’s place in it is, with important consequences for the politics and societal struggles in both countries.

This chapter proceeds as follows. First, I will further conceptualize the diversity in industrial strategy among manufacturers in India and Pakistan that motivates this work, as well as frame the ways I investigated this phenomenon through field research. Second, I will elaborate on my contention that the ways perspectives through which manufacturers see the economy, formed through educational background and professional experience, motivate different practices and strategy. Third, I will introduce the discussion on the political consequences of these practices and strategies. I will conclude by briefly discussing the implications of this study and providing a road map of the other chapters in the dissertation.

Diversity in Industrial Strategy

I conceptualize the industrial strategies of firms as a set of relational policies toward other aggregate actors in the economy -- notably labor, capital and the government – that are crucial for the proper execution of industrial production. This relational understanding of strategy is indebted to the Varieties of Capitalism approach. Peter Hall and David Soskice write:

we take the view that critical to [core competencies or economic capabilities] is the quality of the relationships the firm is able to establish, both internally, with its own employees, and externally, with a range of actors that include suppliers, clients, collaborators, stakeholders, trade unions, business associations and governments.\(^4\)

Hall and Soskice define five spheres with which firms must “develop relationships to solve coordination problems central to their core competencies”: industrial relations (bargaining on wages), vocational education and training (securing a workforce with requisite skills), corporate governance (access to finance and attracting investors), inter-firm relations and coordination problems vis a vis employees (avoiding adverse selection and moral hazard).\(^5\) These spheres are elaborations on the nature of relationships between firms, capital and labor central to this dissertation, even though the complexity of firms’ relationships with regulatory and distributional aspects of the government are less than completely specified in Hall and Soskice’s framework. Further, the micro-foundations of this approach crucially assert a focus on the firm and its relationships with other economic actors as a core entry point for studies in industrial political economy.

In formulating ‘industrial strategy’ as a category, I follow the notion of corporate coherence in the economics of the firm,\(^6\) which asserts that a firm’s practices are not constituted by short-term and ad hoc responses to factor and product markets, but a relatively coherent set of strategies over the long term. The reasons for expecting a certain level of coherence in any market context are fairly

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\(^5\) Ibid., pp. 6-7.

straightforward. Industrial firms must invest in plant and capital goods over long time horizons, and relationships with the firm’s partners entail a certain amount of confidence and trust that precludes reacting immediately and drastically to price and demand shocks.\textsuperscript{7}

There are also mechanisms for the creation and reproduction of coherent industrial strategy among firms in my sample that are particular to the South Asian context. There, ownership and management structures even in big corporations are concentrated in the hands of a few individuals, most often linked through family or kinship ties. Therefore, it is reasonable to assume that the perspectives of manufacturers — heads of industrial groups, CEOs, directors, partners and proprietors — would make the decisions and establish the practices that drive industrial strategy.

The only way to discover a firm’s industrial strategy in South Asia — its long-term relationships with capital, labor, and the state — is to ask owners, directors and / or managers of the firm, in the context of semi-structured but also open-ended interviews. There are two major reasons for this. First, not many firms in either Pakistan or India are publicly traded and thus legally obligated to maintain public records. The preponderance of private firms is especially pronounced in manufacturing; utilities, banks and real estate companies dominate the Karachi and Bombay Stock Exchanges. Reliance on public firm-level data would thus lead to significant under-sampling and selection bias.

Second, even a firm’s official annual report cannot represent the relational and thus durable aspects of its behavior. While such reports — and I have collected and reviewed several dozen — might contain yearly financial or product data, they do not present or explain the trajectory of the firm’s investment over the long term, and are silent on the firm’s policies toward labor and the state. There are no reliable proxies for firm-level industrial strategy; a firm’s outward characteristics do not exhibit any significant correlation with its policies and relationships with other actors in the economy. The information about a firm’s history, its products and its relationships with capital, labor and the state can only be achieved through discussions with a firm’s owners, directors or managers, i.e., those familiar with the firm’s past history and current practices.

Fortunately, the structure of management and ownership in South Asia greatly facilitates the data-gathering process. A majority of my respondents were owners or co-owners and directors or chairmen\textsuperscript{8} of their companies. Thus, interviews usually yield a close narrative of the history of the firm, key decisions they and other family members have made, and how this relates to the means by which they handle the acquisition of capital, the recruitment and retention of capital, and relationships with the state. The nature of my interviews were comprehensive enough that I am confident that they at least correctly represent my respondent’s perception of economic production, and the relationships, policies and practices that are formed on the basis of that perception.

My research design was thus a straightforward one. I was obligated to research as many different firms in as many different contexts as I could, given time and resources. Thus, I conducted more than 250 interviews with respondents at different firms in three industries, two countries and fifteen cities to maximize variation on different aspects of a firm and thus see whether any of these aspects correlated with the patterns of diversity and similarity I was seeing. Through this process, I am fairly confident that the different types of institutional contexts or firm attributes do not easily correlate with one type of industrial strategy or another.


\textsuperscript{8} Out of more than 250 interviews, less than five of my respondents were women. Sadly, I believe this is representative of industry in India and Pakistan.
**Two Countries**

Perhaps the most common source of institutional variation in comparative politics is at the national level. Countries have different endowments, histories and political struggles that lead to the formation of different political institutions, which in turn should lead to different industrial strategies. Research in both Pakistan and India provides a good test for the strength of explanations that relate to national institutions. While the two countries were borne out of the same colonial empire, their political trajectories since independence have been markedly different. India has remained a multiethnic, multilingual democracy for all but twenty-two months since 1947. Subject to greater intervention in the economy by a state apparatus committed to socialist planning in the early years, the Indian economy has liberalized considerably and state power has become a great deal more decentralized.

In contrast, Pakistan has struggled with long periods of authoritarian rule by the military, a powerful and Punjabi-dominated central state, and a structurally inequitable agrarian society. It has also been more open to the international economy and strategically allied with the United States for a great deal longer than India. One would certainly expect the two countries – with different histories, state structures and political institutions – to structure the incentives and constraints of economic actors differently.

Yet, I found common patterns of diversity in the two countries. Firms in Karachi and firms in Madras might have similar policies towards labor recruitment and retention, despite responding to the policies of different national governments. And a group of firms within Pakistan and within India might exhibit divergent strategies of labor recruitment or capital acquisition from one another. These similarities between Pakistani and Indian firms and differences within the national space strongly suggest that national-level institutions do not determine industrial strategy.

**Three Industries**

After conducting preliminary field research on South Asian industry, I decided to focus my research on three industries: textiles (including the manufacture of yarn, fabric and garments), automotive components and pharmaceuticals. I chose these industries because they represent different stages of industrialization in South Asia, yet all are still present and remain competitive today. Each industry in India and Pakistan is subject to different government policies and incentives. All three industries have also been subject to a wide array of government regulation, from government licensing to export policy to the allocation of credit.

The textile sector was also the first industry to have modern mechanized manufacturing in the Indian subcontinent, starting in the 1870s. After independence, India and Pakistan placed major restrictions on the industry through licensing and import permits, and allocation of credit. Garment production, based mainly for export markets, was subject to restrictions of the multilateral quota system of the Agreement on Textiles and Clothing (ATC) until 2005. The production of automotive components was one of the most important targets for import-substitution, and the domestic manufacturing of modern vehicles in India and Pakistan in the 1980s was through joint ventures between state-owned companies and Suzuki Motors. India has, through import-substitution and process patent regulation, become a major producer and innovator of drugs since the 1990s, while Pakistan has achieved substantial production in off-patent medicine. Both governments have

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9 For more on industry-specific dynamics, see Chapters 3-6.
powerful influences on the industry through drug regulation and patent regime implementation. Thus in a state-institutional reading, we would expect certain commonalities of industrial strategy among firms in the same industry.

Yet, there is marked diversity of industrial strategy at the firm level in all three industries in both India and Pakistan. Textile and garment manufacturers might employ their workers through the formal mechanisms of human resources or the personalistic practices of mukadams, or labor recruiters. Automotive component manufacturers might borrow from Citibank and financial markets for capital goods, or they might spurn borrowing altogether and reinvest yearly profits, or use Islamic finance. Pharmaceutical manufacturers might support regulations that follow US Food and Drug Administration guidelines or domestically developed rules for the production of the same drugs for the same markets. This diversity among firms facing the same industry-wide incentives and constraints strongly suggests that industry-specific state institutions do not determine industrial strategy.

Fifteen cities

Within the two countries, I conducted research in the geographic regions in which the greatest concentration of industries was located. Many recent studies in political science have focused on subnational / regional variation to gain analytical traction on variation within countries. Scholars have pointed to the importance of regional institutions, particularly state or provincial governments, in orienting or enabling firms toward developmental outcomes. This is particularly the case with economic reform policies focusing on administrative decentralization. If sub-federal institutions did significantly influence industrial strategy, we would expect to see firms in the same area operating differently from firms under the jurisdiction of other state or provincial government institutions.

My empirical research did not bear this out. I interviewed industrialists in five major metropolises in India and Pakistan – Lahore, Karachi, the Delhi National Capital Region, Bombay, Madras – and several smaller cities: Gujranwalla, Sialkot, Faisalabad, Ludhiana, Chandigarh, Surat, Ahmedabad, Pune, Tiruppur and Coimbatore. These research sites were located across seven Indian states – Delhi, Uttar Pradesh, Haryana, Punjab, Maharashtra, Gujarat and Tamil Nadu – and Punjab and Sindh, the two most developed and populous Pakistani provinces. I saw significant variation in industrial strategy among firms in the same geographic location, and firms in cities thousands of miles apart from one another exhibited parallel strategies. This diversity among firms under the jurisdiction of the same subnational institutions strongly suggests that industry-specific institutions do not determine industrial strategy.

Size, Structures of Ownership and International Exposure

In the course of research, I was able to test whether other standard explanations of the determinants of firm behavior could indeed explain the variation in industrial strategy. I interviewed firms at many different sizes, measured in terms of annual sales turnover, and found that firms of the same size still formed different industrial strategies. While it is not the case that size simply does not matter – divisions within gigantic conglomerates such as Reliance Industries are often run by professional managers and directors who might be recruited by other managers and have very little contact with

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the apex leadership – I argue that size is simply not a reliable indicator for industrial strategy, absent an understanding of the firm’s culture and thus often the perspectives of those who founded and lead the corporation. Moreover, while the giant corporation such as Reliance in India is at the forefront of media attention and the popular imagination in the sub-continent, it is less representative of Indian or Pakistani industry than small, medium-sized or even quite large corporations that specialize in the production of a single category of goods: fabric and made-ups, say, or bulk drugs and formulations. Their directors, owners or partners are substantially involved in production strategies and decisions, and exhibit an expertise and a coherence of strategy that a multi-product conglomerate could not.

I interviewed firms that were export oriented and firms that were solely committed to producing for the domestic economy, testing the assumption that international contact might lead to differences in a firm’s practices. Yet, I found this did not adequately explain the diversity in strategy. There were many manufacturers that were wholly export-oriented who expressed their understanding of production in deeply personalistic terms, and manufacturers committed to the formal institutions of production who produced only for the domestic market. Moreover, many of the firms I interviewed produced for both domestic and international markets, and nonetheless had coherent strategies of production that did not correlate to the mix of markets. Lastly, the majority of my sample was made up of family firms, and thus structures of ownership alone could not account for the diversity in industrial strategy among the firms I was interviewing. Even for publicly listed companies among my sample, the founding family or set of directors maintained a much larger share of equity than was necessary even for maintaining minimal corporate control.

Through a process of deliberately maximizing the variation on the dependent variable through interviewing as many industrialists in as many locations within the industries on my study, through a combination of ‘cold-calling’ and ‘snowball sampling’, I was able to see if any of a variety of institutional explanations could explain the empirical variety of industrial strategies in South Asia. If firms were responding to institutional incentives and constraints, the pattern of firm-level industrial strategies should conform to institutional constellations; firms under national, regional or industry-wide rules of the game are expected to have some common perspectives and strategies. Yet, I found that industrial strategies were often orthogonal to institutional jurisdictions; there was much variation among firms facing similar institutional incentives and constraints.

Manufacturer’s Perspectives

In this dissertation, I argue that manufacturers’ practices and strategies are formed not in response to external cues but on the basis of their own conceptualizations of the economy, the state and the interaction between the two. These perspectives are a product of manufacturers’ educational backgrounds and work experiences, and are reproduced through repeated interactions with other actors in the economy. Among my interview sample, two industrialists in the same town and operating in the same industry might see the economy and relationships between its actors as constituted by differing modes of interaction. Because the economy itself is largely constituted by these relationships – between firms, between employers and workers, between lenders and borrowers, between regulators and the regulators – the character of these relationships is immensely important for generating the practices and strategies of the firm. In this section, I will offer up some recent work in political economy that emphasizes the importance of internal perspectives rather than

11 This research strategy has family resemblances to ‘most different systems’ approach. See Adam Przeworski and Henry Teune, The Logic of Comparative Social Enquiry (New York: Wiley-Interscience, 1970).
responses to external conditions, and explain how my argument both carries on this burgeoning
tradition of ‘constructivist political economy’ and departs from it in particular ways. Then, I will
discuss further the nature of the two operative perspectives in this work – technocratic and
embedded – and how they arise out of manufacturers’ educational backgrounds and work
experiences.

**Internal Perspectives vs. External Conditions**

Central to core assumptions in institutional economics is the idea that the actions of individual
actors are responses to external, objective conditions; self-interested actors attempt to maximize
expected utility given budget constraints, firms in perfectly competitive industries adhere to a price
that is determined by every other firm’s actions, and the actions of individual parties to a negotiation
are dependent on other parties’ interests and capacities. Given this interdependence, institutions are
thus formed in response to needs for greater predictability in economic activity.\(^ {12}\) Such ‘objectivist’
frameworks are driven powerfully by the idea that individuals are rational, calculating and capable of
acting to maximize their interests in a institutional sphere where prices, government regulations,
interest on loans, wages for workers and incentives or benefits are generally known and predictable.

Such objectivity in economics stands behind assumptions in political economy research as
well, and it allows scholars to use concepts like dilemmas of collective action, revealed preference
and credible coercion to understand the responses of capitalists to a given institutional context. In
much scholarship in political economy, state policies, the international context and conflicts over
time between different actors in the economy have yielded legible, durable and cohesive institutional
constellations within which firms are able to operate with less uncertainty given these ‘established
rules of the game’. This research has thus generally yielded national or subnational models of
capitalism, on the assumption that firms and other actors would converge on common responses to
a single institutional context. Thus countries over time establish a series of institutional practices and
networks within which capitalists must conduct business, from labor relations and vocational
training to financial institutions and regulations on corporate governance.\(^ {13}\)

Yet economic actors in developing country contexts face a great deal more uncertainty when
faced with making these sorts of decisions. States and their interaction with society have not yielded
just one set of cohesive institutions, but a great array of complex, confusing and sometimes
contradictory ones. Such an array arises out of politics unique to post-colonial societies such as
those of South Asia: the multiple modes of governance in colonial societies, historically deep
interactions with the international economy without meaningful state mediation of those
interactions, the underdevelopment of state coercion and the weakness or informality of other
organizations that aggregate and organize society such as trade unions and political parties.\(^ {14}\)

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existence of multiple institutional modes dramatically increases uncertainty for those who invest in industries. Given that the weakness of formal institutions, how do capitalists decide on their practices and strategies? I argue that internal perspectives – the ways that manufacturers see and make sense of the economy – take the place of external institutional cues as guidance in these contexts.

Scholars of the politics of economic transition have been particularly keen observers of the power of internal perspectives in fashioning political economy outcomes, because these are the contexts in which the rules of the game are in flux. Yoshiko Herrera, in her book *Imagined Economies*, argues that the reasons why some regional elites in the Russian Federation aggressively pursued fiscal autonomy, while others did not, stems from those elites’ subjective perceptions of the economic condition of their region rather than objective or structural conditions. Herrera outlines an ‘Imagined Economies’ framework with which to understand the constructed nature of economic perceptions based on schema theory in cognitive science, historical institutionalism, and Bourdieu’s concept of *habitus*. These theoretical traditions all combine to help us delineate a process by which material ‘facts’ are interpreted relative to other values, beliefs and institutions to arrive at intersubjective understandings of economic conditions within regional elite communities and thus particular political interests.

Keith Darden, studying the variable participation of post-Soviet states in regional and international economic institutions, arrives at a similar intellectual framework grounded in constructivist international relations theory and pragmatist philosophical approaches, wherein national interests are understood as ideas that help actors make sense of the world, rather than objective structural constraints. Darden stresses that different countries of the former Soviet Union pursued integration or autarky not based on realist structures or neoliberal self-interest but on four different ways of understanding the economy: organicist, liberal, extractionist or mercantilist. These four cognitive frames served as lenses through which political elites in each post-Soviet state either welcomed or spurned opportunities for economic integration in regional institutions and multilateral trade agreements like the WTO.

Both Herrera and Darden make significant advances in the development of a constructivist yet an empirically grounded political economy that move beyond the deployment of ‘objective’ material interests and political constraints in situations where institutional constellations are being negotiated. Yet both also face conceptual limitations entailed by their empirical questions. Herrera’s work is subnational, but as she is interested in a continuum of fiscal autonomy within a federated state, she does not provide a fully formed content of the cognitive frames of individual policy-makers. Instead, optimism or pessimism relative to ‘objective’ economic conditions in Russian regions leads causally to the results in question. Darden, on the other hand, outlines for his cases fully formed cognitive lenses or ways of seeing the economy that are grounded in Soviet history. Yet, as his object of study is relationships within a set of fifteen countries, he applies his four cognitive frames to elites at the national level, thus discounting subnational variation.

While both India and Pakistan experienced market-oriented liberalization in the 1990s, neither had to dismantle fully planned economies and thus maintained relative continuity over time. Thus, I argue that South Asian economies are largely characterized by the durability of multiple institutional modes over time rather than the transition from one to another. Because of these

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differences, both the object of study and the modes of ideational explanation must necessarily be quite different from these important works.

First, in my research I focus not on political or bureaucratic elites, but rather on industrial capitalists. This is partly because these individuals are the actual agents of industrial development in private sector economies. Thus, if we are interested in how state directives and institutional configurations operate, we must look at how they affect firms and their leaders. Second, instead of looking at the impact of ideas on particular formative policies at national or state capitals, such as establishing fiscal autonomy or acceding to trade agreements, I focus on the more quotidian policies, strategies and relationships that constitute industrial production. In the political economy of developing countries, the devil is often in the details and a particular manufacturer’s way of understanding the economy and his consequent handling of relationships with workers, with banks and with agents of the government provides a unique perspective on how industrial production is arranged. Third, because I am talking about the perspectives of individual capitalists rather than governments or political elites, these perspectives must be grounded in their experiences as students, employees, and investors rather than the political frames of constructivist international relations or the optimism or pessimism of state elites regarding their region’s economic performance. I will present these perspectives and their foundations below.

In general, I believe that perspectives and values of actors have a powerful formative influence on the making of the relationships that constitute capitalist economies, particularly when there are multiple sets of institutions. Vague discomfort with grand cultural mechanisms as an integral part of research in political economy has in the past has led to an emphasis on rationality and responses to state policy in the behavior of capitalists, and constructivist political economy can provide a welcome corrective by bringing into focus capitalists’ cognitive perspectives and attendant strategies in contexts where what is rational is not immediately clear. In the next paragraphs, I outline in greater detail the two ideational perspectives or cognitive lenses that I believe provide this guidance to industrialists in South Asia. I then briefly discuss the roots of this conceptual difference in the understanding of development by different sections of middle class society in response to imperial economic policy.

**Embedded vs. Technocratic Capitalism**

Among South Asian society, two very different ways of understanding the economy serve as lenses through which individual actors make sense of their world. These perspectives are not burdensome; they prove invaluable to economic actors. They provide individuals direction and serve as a model for consistent and coherent behavior that is in keeping with particular norms and values. It must be emphasized that neither one nor the other cognitive lens has proved to be the ‘right’ one, leading to greater efficiency or economic success. This is because the Indian and Pakistani economies contain a vast and varied terrain of opportunities and pitfalls, in which the lack of convergence in behavior signals the lack of any one superior pathway to economic success. Rather, successful enterprises are able to establish and maintain durable and flexible relationships with other economic actors, generating and reinforcing a specific constellation of institutions within which firms of a particular mode operate. I will now characterize these different perspectives and what continues to generate these distinctions in contemporary South Asia.

When I started field research into industrial firms in Pakistan, what struck me almost immediately was how manufacturers characterized the skills and practices involved in their work quite differently. Some industrialists discussed the establishment of systems, of best practices and
how they established institutionalized practices in their factories and their loans with banks or interactions with inspectors of the state. Their offices were, more often than not, quiet and structured, with more delegation to those closer to the manufacturing process. Other industrialists were more personally involved, basing their work on a web of particular customary relationships with workers, with other firms and with the state; their offices were more often than not a flurry of activity around a huge desk that served as a combination of an institutional archive, an arena of decision-making and a marker of status. I consider the first group of manufacturers to be acting within a cognitive lens or perspective I call technocratic, through which the economy is seen as an arena of contention with universal rules and international ‘best’ practices; I consider the second to be operating through a lens or perspective I call embedded, wherein the economy is understood to be a constellation of individualistic relationships mediated by traditional culture and customary practices.

How were these categories coded? The first, and most crucial from the point of view of research, indicator was of educational background. There are several reasons for the primacy of educational background. First, it is a fairly objective indicator and one that respondents most often mentioned – which degrees they received and from which institutions – in discussions of their personal background. Education is a highly valued asset in South Asian society, making schooling important for socialization and educational choice an important indicator of individual and family priorities. Second and relatedly, many scholars have cited education and professional training as a core determination of different outlooks, practices and professional strategies. Third, there is wide variety of educational experiences among manufacturers in my sample so my explanatory variable is not particularly truncated.

In India and Pakistan, the educational backgrounds of technocratic and embedded capitalists demonstrated a stark dichotomy. Manufacturers with embedded perspectives were most often educated in mainstream local universities and polytechnics, albeit some quite distinguished ones such as the University of Punjab and Delhi University. Most received diploma or undergraduate degrees, often in commerce or specialty fields like pharmacy or engineering. By contrast, technocratic manufacturers tended to be educated in universities abroad, mostly in the US or Europe, or in elite technical institutions in India, such as the autonomous University Department of Chemical Technology (UDCT) in Bombay, the Indian Institutes of Technology (IITs) or of Management (IIMs). The two types of educational backgrounds relate to two different types of socialization and the establishment of different social networks through which capital and connections are generated. Educational background was thus a crucial first indicator for categorizing perspectives.

Work experience was another important indicator. Most first-generation entrepreneurs in my sample pursued careers before they invested in their own enterprise. Such work experience is important, and follows the same lines as education. Thus, significant work experience abroad – as a banker in the Gulf, or a doctor in America – tends to shape technocratic perspectives in the absence of foreign education, whereas work as a trader or even an engineer or a bank employee in domestic markets lends an experience of relationality that characterizes the embedded perspective. There are some particular professions even in the domestic economy that are so deeply linked to the international economy – high fashion and information technology, for instance – that also tend to yield technocratic outlooks even when the work experience is in the domestic economy. In general, educational background and work experience tend to correlate with one another, as someone with a foreign or elite domestic education is likely to work abroad, but work experience can serve to

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provide a technocratic perspective to those who would otherwise be coded as embedded based on educational experience alone.

This coding gets more complicated with firms that span several generations, for a couple of reasons. First, the perspective of those who founded the firm and those who are currently in charge of it are often different. Second, as a practical matter, one is unlikely to be able to interview more than one representative of the firm. With such firms, I tried to get an accurate picture of the perspective of the firm’s founder — whether he was a PhD in biochemistry from Germany or a Punjabi farmer with no formal education — and whether this perspective still animates the practices of the firm. Usually, a hard break in industrial strategy that related to changes in management is evident from period of decline and stagnation followed by structural transformation, and respondents will often talk about these types of experiences. Alternatively, respondents who are still actively inspired by the vision of the founder often refer back to his experiences and example. In short, the strength of the founder’s perspective, absent serious shocks to the firm’s system, often define whether the current generation follow that perspective or define their own based on their own educational backgrounds and work experiences. The strength and weakness of that vision has to be subjectively measured, but is often written into the history of the firm.

Interviews with manufacturers yielded important information that can be used as indictors of their perspective, or how they see the world. Educational background is a fairly clear indicator and one that was provided in almost every interview I conducted, given the importance of education in South Asia. Work experience was a little more complicated, but nevertheless a valuable clue as to how the entrepreneur sees the economy. For multi-generational firms, I had to gauge whether the firm’s current outlook represented a general continuity or a break from the perspectives of past generations. In this way, interviews yielded information about my respondents that was vitally important for categorizing them into different perspectives on the economy and the meaning and ends of industrial production, with important implications for firm strategies.

This characterization might sound all encompassing. It is important, however, to recognize aspects of a respondent that I did not consider when coding for perspectives. These include what region or ethnic community they come from, their religious community, their age or the age of their firm. In general, I tended to avoid ascriptive characteristics because these have at best a second-order effect in the way that industrialists think of the economy and establish characteristics. Moreover, members of ethnic and religious communities — Gujarati Jains, Marwaris, Chiniots, Sikhs, Christians — exhibit a wide variation in background and perspective that does not make these characteristics particularly useful indicators for the way they see their work.

Where do these perspectives come from, or to put it differently, why do Indian and Pakistani industrialists have such a wide variation of background, training or work experience? As I will argue in chapter two, I believe that this conceptual dichotomy arises out of two very different responses among members of Indian middle-class society to the economic policies of the British raj. This difference is clearly demonstrated — and these different folk philosophies distilled and legitimated for a societal audience — by an intense debate among Indian nationalist politicians on the meaning and character of the post-colonial economy. This debate represents ideas that existed in the early twentieth century, but that have early twenty-first century analogues in the ways that manufacturers think about the economy and deploy their practices and strategies along those lines.
Table 1: Perspectives and Industrial Strategy

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Elements of Firm-Level Industrial Strategy</th>
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<tbody>
<tr>
<td></td>
<td>Sources of Finance</td>
</tr>
<tr>
<td>Embedded</td>
<td>Reinvestment of profits and personal capital, limited involvement with banks.</td>
</tr>
<tr>
<td>Technocratic</td>
<td>National, private and multinational banks, capital markets, public offerings.</td>
</tr>
</tbody>
</table>

Conclusion and Plan for the Dissertation

In the theoretical discussions above, I have striven to locate both my empirical puzzle and my explanatory framework in the context of approaches to the study of political economy. I have laid out my argument in two stages. First, I laid out the deep and enduring variations in firm-level industrial strategies, and discussed how my research design sets up a challenge to state-institutional explanations of firm behavior. Second, I argued that these differences can explained with reference to manufacturers tending toward divergent cognitive frames or economic perspectives – embedded and technocratic – in both India and Pakistan, and that this conceptual difference is demonstrated by the educational backgrounds and work experiences of those who invest in manufacturing.

There are several implications that arise from this work. First, I would assert that the study of state institutions are, while often useful tools in economic analysis, not a universally applicable framework when trying to understand social behavior in a complex setting. Variation within institutional jurisdiction provides a stiff empirical challenge to the universal deployment of state-institutional analysis, as an expression of unitary interests, as an organizational principle in political economy. Second, I argue that great payoffs are to be made empirically by focusing research on the perspectives and behaviors of manufacturers in the context of a diversity of institutional constellations. Third, I demonstrate in later chapters that conceptualizations of industrial
development and variation in strategy need to be grounded historically if we are to understand the sources of current perspectives, practices and strategies. Dual ideas that exist and are reproduced within South Asian society may rise out of a response to the colonial experience but such divergence in the means and ends of economic development continue to provide meaning and guidance for industrial actors a century later. Lastly, I argue that this variation in strategy and the perspectives that stands behind it has important consequences for how we understand the political and social relationship between states and firms within the context of third-world industrialization. Divergence in manufacturers' practices and strategies, as I will argue in chapter seven, are paralleled by divergence in state policies and regulation that allows for dual modes of capitalism within one state.

The rest of this dissertation follows from the themes of this chapter. In Chapter two, I go into greater depth in sketching the historical roots and legitimation of the conceptual difference at the heart of the study, in vociferous debates in the nationalist movement over the meaning of postcolonial development. The claim I make is not that industrialists are directly or functionally influenced by different nationalists' positions of development, but rather historically situates a fundamental difference between different sections of South Asian society about the meaning and ends of the industrializing economy. Such a difference also finds articulation in the multiple goals of the state that threatens a unitary developmentalist model of state interest.

In chapters three through six, I discuss my empirical research into industrial strategies and manufacturers' divergent perspectives in the context of particular industries. Chapter three discusses the spinners, weavers and finishers of the textile sector. It outlines the differences between the high technology often integrated production of yarn and cloth, and the more low-altitude and often disaggregated and yet wildly successful production of spinning mills and powerloom operators. Chapter four discusses the perspectives around the production of readymade garments, for domestic and international markets. This contention – between technocratic and embedded capitalists – is formally over branding, labor policies and design, but impacts the industrial strategies of these firms. Chapter five reflects on the strategies and backgrounds of automotive component manufacturers, the vanguard of 'indigenization', or national automotive production. Chapter six presents the struggles of national pharmaceutical producers over issues of patent regulation and government oversight.

Chapter seven moves from manufacturers to the Indian state, using a review of government regulatory documents to trace out the interests and actions of the Indian state with regard to industrial policy and regulation. Analyzing policies and practices on foreign trade, finance and labor regulation, I find that the multiple goals and interests of the government at lower levels allows space for and ultimately supports two very different modes of industrial capitalism; such a perspective is less easily seen using models of state strength and weakness. Chapter eight concludes, with more reflection on this study's implications and some comparative reflection on other industrializing contexts.
Chapter Two
Nationalist Development and Modes of Capitalism

The central argument of this dissertation is that industrialists in India and Pakistan see the process of industrial production through two different cognitive lenses. They thus form different industrial strategies: ways of forming relationships with other firms, workers, banks and the government. These firm-level industrial strategies aggregate upward to produce two modes of capitalism that do not correlate with the different jurisdictions of state agents, sub-national governments or international boundaries. I labeled these two perspectives embedded and technocratic. They stand for two nuanced yet distinct ways of seeing the economy.

But from where do these concepts originate? They correlate strongly with educational background or work experience, which allows the coding of manufacturers’ perspectives based on their personal histories. Yet do these perspectives merely constitute an empirical or interpretive regularity, without any attendant sense of how these perspectives fit into broader narratives of industrialization in South Asia and beyond? In other words, did I simply make up these categories and found them useful for describing industrial variation, or was there a historical or theoretical reason why industrialists in the Indian subcontinent in the 21st century might have perspectives that fall into these two conceptual categories?

In this chapter, I argue that divergent contemporary perspectives come out of a cleavage within South Asian society on the meaning and ends of development that arose from divergent responses to British economic imperialism in the late 19th and early 20th centuries. This cleavage led to a vociferous debate on the character of the post-colonial economy among nationalist leaders, thus solidifying and legitimating differences of the meaning of industry and industrial development that kept the cleavage alive and relevant in the next several decades. The two poles within nationalist debate – ‘economic planning’ and ‘organic society’ – do not have a direct impact on the perspectives of contemporary industrialists. The formal ideological content of these positions are very different -- with the former tied to Soviet-style planned growth and the latter to agrarian anti-industrialism, both of which are ideologically obsolete in contemporary South Asia – but there is a powerful correlation between the character and form these nationalists’ arguments take and contemporary perspectives among industrialists. They are also both informed by an engagement with the West, or resistance to it. Such parallels allow a tentative argument about the continuing bifurcation within South Asian society about the meaning of economic development, with profound consequences for state-society relations in the economy.

This chapter proceeds as follows. First, I discuss the early nationalists engagement with economic issues in the 19th century. Second, I outline changes in British economic policy that set the context for nationalist debate on development in the 1930s. Third, I will present both the economic planning approach to nationalist development: its ideas, its proponents and allies in the private sector. Fourth, I will apply the same analysis to the organic society approach. I will conclude with discussing how these two visions some comparative reflections of ideational dualism in the context of the development of Pakistan and other cost-colonial societies.

**Economic Perspectives among Early Nationalists**

The ideological force of the nationalist movement against British rule centered on the state of the Indian economy under British administration, first under the East India Company and after 1857, under the British Indian government. The Indian subcontinent was, objectively, poor. British
apologists of imperialism argued that India’s economic backwardness relative to western countries was the result of a despotic society with retrograde political and economic practices. The aim of British colonial rule was then to educate and thus bring out of moral backwardness the Indian subcontinent through the practice of the best arts of political and economic governance. As Ben Zachariah writes, “the official British argument in India, as elsewhere, was centered on the beneficial nature of the colonial connection for finance, trade and commerce, its ‘modernizing’ role through contact with the scientific and developed West and its crucial role in preserving peace, law and order”. Thus, colonial authorities viewed the development of colonized countries as based on teleological modernization. The ideological argument against imperial rule started with nationalists rejecting the notion of British tutelage through a questioning of the causes of Indian underdevelopment. Far from the British aiding India’s recovery from backwardness, nationalists “attributed ‘backwardness’ to the effects of colonial rule itself; in this scheme of things, economic backwardness, which was a consequence of colonial rule, was itself the cause of other forms of backwardness.”

By the end of the 19th century, the debate between the nationalist leadership and the British state over the causes of backwardness began in earnest. On this account in 1890, G.V. Joshi argued, against the British logic of poverty caused through overpopulation, that the roots of poverty lay “not so much in the fact of an alleged overpopulation as in the admitted patent evil of underproduction.” This was particularly the case, it was argued, in reference to famines and persistent agricultural decline. These perspectives, as nationalists sought more and more answers to why the Indian masses were impoverished, shifted to a distinctive critique of imperial administration, with industry, including deindustrialization and the decline of handicrafts, at its very centre.

For a concrete basis of a substantial critique of British policy, early Indian nationalists looked to the decline of its textile industry. In the 18th century, the textile industry in the subcontinent was supplying the world with its high-quality fabric, and by the closing years of the 19th century, Indian spinners and weavers had lost not only their foreign markets but also their internal ones as well. There was also a belief that the eradication of indigenous production contributed to famines and rural poverty as millions of men and women previously engaged in textile production were forced to fall back on the precarious agricultural sector as a means of subsistence. In his collection of economic essays first published in 1898, Justice G.M. Ranade said,

India, fifty years ago, clothed herself in her own Manufactures, and now she is clothed by her distant masters. The same is the case with Wool, Silk and other Textiles, with oils and hides... this is our condition, and when the whole situation is thus taken at one view, we feel that we are standing on the edge of a precipice, and the slightest push down will drive us into an abyss below of unmixed and absolute

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1 Ben Zachriah, *Developing India: an Intellectual and Social History, 1930-1950* (Delhi: Oxford University Press, 2005), p. 5. It is important to remember that this view was part of an international colonial discourse: Rudyard Kipling wrote “the White Man’s Burden” in reference to American colonial governance of the Philippines: “To serve your captives’ need; / To wait in heavy harness, / On fluttered folk and wild-- / Your new-caught, sullen peoples, /Half-devil and half-child.”

2 Zachariah, p. 5.


5 Chandra, p. 58.
helplessness.\textsuperscript{6}

Ranade also made a prescient critique of British trade policy along the lines of dependencia analysis of the mid-twentieth century, wherein India was on the road to becoming “a Plantation, growing raw produce to be shipped by British Agents in British Ships, to be worked into Fabrics by British skill and capital, to be re-exported to the Dependency by British merchants to their corresponding British Firms in India and elsewhere”.\textsuperscript{7}

Nationalists were, however, split on whether the cause of the decline was solely due to the policies of the British – namely in the adverse tariff policy that closed British markets to Indian handicrafts, while keeping Indian markets open to Lancashire textiles – or whether it was also the case that western ‘machine’ technology was out-competing handmade fabric.\textsuperscript{8} While most early nationalist leaders, including Ranade, the ‘apostle of industrialization in modern India,’ advocated the establishment of large-scale modern industry as a way forward for Indian national progress, Satish Chandra Mukerjea, the editor of the \textit{Calcutta Dawn}, presaged Gandhi’s concerns about large-scale industry as engendering capitalist inequality and worker militancy. He argued for a proto-Gandhian emphasis on family-based handicrafts fixed in a view of ‘corporate ethical life’, wherein each community had a fixed and recognized place in a spiritualized Indian society and body-politic.\textsuperscript{9}

For the furtherance of industrialization, most of the nationalist leadership agreed on the need for greater capital resources among the Indian population – including an end to the drain of resources from India to Britain – and for greater technical education,\textsuperscript{10} but again early nationalists were split on the best means to cultivate ‘entrepreneurial spirit.’ Some argued for transforming the institutions of religious and cultural life as counseled by Ranade and other social reformers, while others advocated searching within their own traditions, for “they believed that since these virtues were to be found in the Hindus in the most ancient past and had only been lost in the interim period due to social and religious degradation, the remedy lay in going back to the pristine past and in going begging to the West”.\textsuperscript{11} Such disagreements reflect the dual nature of the broader nationalist movement as representative of Indian middle-class society, with impulses to look inward to ‘authentic Indian’ traditions and to look outward to ‘modern’ technologies and mores.

Manu Goswami, in her incisive book on the making of the modern Indian economy, described how different nationalist responses to economic imperialism were grounded in competing formulations of the national community.\textsuperscript{12} She notes that the ways in which the nationalist movement perceived and responded to economic imperialism fell into two different schools of nationalist political economy in the pre-Gandhi Congress movement. The Bombay School, including Mahadev Govind Ranade and Dadabhai Naoroji, focused on the modernizing issues of colonial financing, banking and industrial manufacture. The Bengal School, including Romesh Chander Dutt, Bipin Chandra Pal and Radhakamal Mukherjee, by contrast, “principally concerned itself with issues of land-revenue restructuring, agrarian relations, and peasant indebtedness, and more crucially, emphasized the particularity of ‘indigenous’ institutions and practices.”\textsuperscript{13} These differences between

\textsuperscript{6} Renande, Essays, cited in Chandra, p. 57.
\textsuperscript{7} Ibid., p. 59.
\textsuperscript{8} Ibid., pp. 62-64.
\textsuperscript{9} Mukherjea, “The Indian Economic Problem”, 1900 cited in Chandra, 70.
\textsuperscript{10} Ibid., 73-81.
\textsuperscript{11} Ibid., 81-84.
\textsuperscript{12} Manu Goswami, \textit{Producing India: from Colonial Economy to National Space} (Chicago: Univ. of Chicago Press, 2004).
\textsuperscript{13} Goswami, p. 236.
the two schools served as powerful orientations for the next generation of nationalists – Mohandas K. Gandhi, Muhammad Ali Jinnah, Jawaharlal Nehru, Vallabhbhai Patel, Subhas Chandra Bose, B.R. Ambedkar and others – who carried these theoretical perspectives on the colonial economy forward into more developed articulations and programs as independence from the British increasingly became a reality.

**Imperial Economic Policy**

To fully understand the divergent nationalist critiques of British economic imperialism, as they solidified the 1930s, it is important to outline British policy regime on the economy of India, and how it changed, however marginally, between the classical liberalism of the period before the First World War and the modified liberalism in the context of the interwar years. Ideas and ideational change are certainly constrained by a real-world context of power and interest. British India was, in this context, under the power and authority of the British state, whether directly through the British Indian government headed by the Viceroy’s Council or more indirectly by Parliament and Whitehall through the India Office. Yet the ways in which British administrators thought of their role and justified their authority served as the crucial raw material for later anti-imperialist critiques.

The first ‘colonial economy’ in India, established by the East India Company in the middle of the 18th century, involved the extraction of agricultural surplus by the Company raj, usually indirectly through the zamindari (feudal land-holding) system of tax farming and periodic Assessments and Settlements. This surplus would then be used to balance out Britain’s balance of trade deficit with China. It also involved interventions in land tenure – largely in favor of newly commercial high caste colonial bureaucrats and against ancien régime Mughal nobility -- and the coerced cultivation of export commodities, notably opium and indigo, which was supported by a complex system of rural indebtedness. Yet, the Company raj was first and foremost a commercial system that enriched the Company’s Board and immiserated Indian peasants without giving much thought to viewing India as an independent economy, due to the awkward authority of Company rule and the multiple sovereignties that existed through the middle of the nineteenth century.

After the Rebellion of 1857 and the passing of authority from the Company to the British state, British India started to be understood as a country with one government, though not sovereign, and an economy that was understood as a unit more than simply the aggregation of local economies. The exchange between Britain and India progressed from pure extraction to a system of Home Charges – “a fair price for good government, infrastructure and the privilege of borrowing in the world’s cheapest capital market” – and offsetting agricultural taxation. The difference was a more developed system of inter-country finance involving ‘sovereign’ debt. India was perennially in a balance of trade deficit in relation to Britain, and the resulting debt was borne by English financiers, who invested in the Indian economy:

the concomitants of [borrowing capital from London] – balanced budgets and a rupee strictly linked to sterling in a statutory ratio – were the prerequisites of British Indian finance, the official argument being that unbalanced budgets or a floating rupee might damage India’s creditworthiness in the eyes of the City of London and might even lead to a default of her debts.  

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14 Ibid., Ch 2.
16 Zachariah, p. 29.
Imperial administrators saw no contradiction between Indian social welfare and high Home Charges or systematic deficits. British manufacturers benefited from the large and unhindered market for their goods, and the British state benefited from the Indian army, one of the world’s largest, being self-financing. The British rulers in India, however, hewed closely to the belief that unfettered contact with the most enlightened liberal society at the time would develop India both materially and morally. Further, British example in policy and practice – in free trade, in government non-intervention, in the maintenance of ‘ancient constitutions’ and traditional practices – was thought to fundamentally elevate Indian society. Laissez-faire economics would thus lead to a rising tide for all Indian boats.

The responsibility of the government of India was to make sure there were no serious distortions, particularly ones that upset the harmonious complementarity between the capital-rich, manufacturing-oriented British economy and the capital-poor, agricultural Indian economy. In this context, indigenous manufacturing was looked on with suspicion:

…there was the long-standing British argument of India being basically an agricultural country, temperamentally unsuited to industrialization, with industrial goods being capable of cheaper production in Britain; an appeal to this idea of the international division of labour was combined with a denial of the incompatibility of British and Indian positions on economic issues, and claims that the painful transition to an industrial society which Britain had undergone was unnecessary for India.17

Thus in the heyday of British imperial control, India was seen as the ideal subordinate trading partner to the metropole, bound by both law and policy to honor its financial and trading obligations, and in a subordinate position as pupil to a wizened tutor of free trade, strong government and ‘sound finance.’

By the 1920s and 1930s, however, economic orthodoxy and progressive era paternalism of British policy in India was challenged by the Great Depression, political change in India and in Britain, and new ideas on trade and the economy that were being formulated in response to both, notably the Keynesian revolution and the impact of economic planning in the Soviet Union. The Depression led indirectly to the collapse of agricultural prices that made it harder for the Government of India to run balanced budgets. This led to financial commitments to London being met mostly with tariffs and income taxes; such revenue requirements diminished India’s capacity to serve as a market for British manufactured goods.18 The global system of trade based on the Gold Standard19 started breaking down with reciprocal increasing of tariff barriers; the colonial Indian economy was heretofore based on open international markets and thus suffered from such an abrupt change in the environment.20

17 Ibid., p. 35. The Famine Commission in 1930 did recommended a diversification of industry so a smaller proportion of the population be directly dependent on agriculture, yet it fell well short of the industrialization advocated by the nationalist movement, and was generally in line with British paternalism (Zachariah, p. 28).
Colonial economic administrators sought to remake India’s relationship to Britain in the context of a system of imperial trading preferences, wherein British manufacturers would still have privileged access to Indian markets even in the context of greater protection vis a vis the rest of the world. In this way, the British Empire/Commonwealth could, as a bloc, standalone in a mercantilist world trading system. The British government sought to maintain previous doctrine of paternalistic orthodoxy while trying to adjust to the new realities of a competitive and protectionist world system.

Such attempts at adaptation to new ideas and circumstances can be seen in the economic policy-makers in the Viceroy’s Council and the India Office in London, yet old policies die hard. Sir George Schuster, the Finance Member (Minister) of the Council and a supporter of more Keynesian intervention, ended up pushing forward the balanced budgets of the old orthodoxy throughout the Depression years. Schuster’s successor, Sir James Grigg, was considered ‘the very caricature of a free marketeer’: “I am still a firm believer in individualism and my experience in India has confirmed my view that there is no real hope for the world until it gets back much more nearly to free trade...”

By this period, the economic and commercial framework of the nineteenth century world order was breaking down, and India, as a dependent colony of a declining hegemon, had little ability to cushion the economic blows from the Depression. Imperial administrators were willing prisoners of a confused framework that combined orientalist stereotypes of India – of “the eternal peasant, the manipulative politician, the exploitative capitalist” – with the dueling concepts of economic orthodoxy of sound finance, balanced budgets and free trade and the new mercantilist system of imperial preference.

This lack of coherence in policy served as a crucial space of political opportunity for competing nationalist visions of development, particularly as Indians took an increasing role in governance through the Government of India Acts of 1909 and 1935. Nationalist politicians and ideologues, led by Nehru on one side and Gandhi on the other, formulated separate visions of the meaning of a new national economic development. Development debates within the nationalist movement fell into two broad camps, one with a dominant tone and one of slightly lower key. The former was guided by an idiom of economic planning, was supported by Congress Socialists and their leader, Jawaharlal Nehru, as well as – perhaps incongruously – scientific experts and industrialists. The latter was oriented by a more holistic understanding of the organic relationship between individual and society, and generally by the philosophy of Mohandas K. Gandhi. This more culturally exceptionalist perspective had broad appeal with more conservative members and leaders of the Congress party.

Both perspectives had at their very core a common understanding of the causes of backwardness in India: that it was a direct consequence of British colonialism. Yet, each had very different understandings of how the British underdeveloped India, and thus what can reverse this state of affairs. Further, the two divergent understandings of economic development have very different roots in different wings of middle-class and elite indigenous society. In the following sections, I will attempt to lay out as honestly as possible the assumptions, perspectives and goals embodied in these divergent perspectives.

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21 These ideas were formally expressed in the Imperial Economic Conference, held in Ottawa in 1932. See Zacharaiah, pp. 31-32.
22 Grigg, cited in ibid., p. 93.
23 Ibid., pp. 130-131.
Congress Socialists and Statist Economic Planning

The dominant development discourse in the decades before independence surrounded the philosophy of economic planning, or as defined by the National Planning Committee, “the technical coordination, by disinterested experts, of consumption, production, investment, trade and income distribution in accordance with the social objectives set by bodies representative of the nation.” Planning discourses and the practices that were inspired by them reflected strong currents in Indian society of individuals, in the private sector in politics, for modernization by industrialization, as a means of using economic institutions to pull society forward from traditional roots to the modernity and standard of living enjoyed by industrialized and industrializing countries. I argue that the legitimation and articulation of these ideas and agendas by key figures in the nationalist movement solidified particular perspectives of the economy and the related means and ends of development.

Economic planning, as both an idiom for development and an economic philosophy, emanated out of particular critiques on British policy, namely that colonial authorities had kept India rural, poor and backward by keeping her markets open to the flood of manufactured imports and by enforcing balanced budgets, open markets and laissez-faire, and in so doing maintaining the power or traditional elites and preventing India from developing industrial capacity. ‘Imperial drain’ theories added to this picture; Home Charges and sterling debt, far from helping India, meant that wealth generated from agricultural production would stream out of the subcontinent and into the balance sheets of the City of London and the revenues of Whitehall. In short, Britain was, by enforcing rule by the invisible hand of the market, keeping India in a state of economic subjugation for the former’s economic benefit, as an eternally open market for industrial goods, as a ready source of soldiers for the maintenance of global military supremacy. As Jawaharlal Nehru, serving as the chair of the National Planning Committee of the Congress in the 1940s, put it:

The very basis of our Planning is a free India, democratically fashioned, where no external authority can interfere or obstruct the nation’s work. Political domination is patent enough but a far more insidious thing is economic domination. While the public can see and feel political domination, and therefore react to it, it is not so conscious of the economic stranglehold which throttles the life of the nation and prevents industrial and other growth.

Economic planning in independent India would take control of economic governance and transform the Indian economy from British policies of purposive underdevelopment towards nationalist goals.

And yet, economic planning – as idiom or philosophy – meant a great deal more than simply changing economic policies. Apart from fairly obvious policy measures inherent in import substitution, such as the use of trade protection and investment to encourage industrialization, economic planning entailed a whole worldview that lumped together rule by ‘politically neutral’ scientific and technological policies, a notion of modernity that was based on rationality and post-Enlightenment values of individuation and materialism, and the idea that the state can and should serve as a modernizing force that would pull society from the strangleholds of traditional structures and into a new, liberal, notion of personal freedom. What this meant concretely is a monomaniacal obsession with industrialization, or the channeling of society’s resources from low-yield investments, such as traditional agriculture, to higher-yield aggregative investments aimed at quickly raising living

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standards, such as the manufacturing of more and more developed consumer and ultimately producer goods. As such, economic planning is more like a philosophy or worldview than a set of discrete policies; planning was code for modernist epistemology, more rational ordering of economic exchange, and social transformation through the breaking-down of traditional society.

In this, economic planning took much philosophical and political direction from the New Deal in America, distasteful yet effective Fascist experiments in Italy and Germany in the 1930s, and more generally from the statist reaction in many countries to the Great Depression. Yet far surpassing all others, the industrial successes of the Soviet Union served as a chief inspiration, given that Czarist Russia was the most economically backward of all European states in the nineteenth century and that the USSR had managed to achieve phenomenal economic and industrial growth in the first decades of its existence. Nehru wrote to his daughter Indira Gandhi in 1937:

The argument about the success or otherwise of the Five Year Plan is pointless. The answer to it is really the present state of the Soviet Union. And a further is the fact that this plan has impressed itself on the imagination of the world. Everybody talks of ‘Planning’ now, … the Soviets have put magic into the word.  

Yet, even though the philosophy of planning was deeply radical and bent on wholesale transformation, the politics of economic planning were much more complicated and led to a pluralistic leavening away from radicalism. Within the nationalist movement and public actors affiliated with it, three very different constituencies supported economic planning in their own different and often conflicting ways.

The first group, Congress Socialists and radical intellectuals, viewed planning as a key facet of a specifically socialist transformation, which included the nationalization or collectivization of the means of production and redistribution of income and assets based on egalitarian values and productive usage. The Congress Socialist Party, for instance, stated in their manifesto:

The CSP sets before the masses a clear goal: the attainment of Independence and the establishment of a State in which power shall rest in them and which would work for the restless elimination of those who exploit them. It is the ambition of the party to make of the masses a conscious solid phalanx by dispossessing them of their tribal and communal selves, and arousing in them the sense of class solidarity which their class-interest demands of them...  

Thus economic planning stood hand-in-hand with the increased articulation of class interest and opposition, and the control of the state for the purposes of the elimination of the enemies of the proletariat. Other more academic yet no less radical intellectuals were skeptical of the ability of planning to produce broad-based development absent more revolutionary social transformation. Gyanchand, the LSE-trained economist, spelled out this skepticism in an article in the Indian Journal of Economics in 1935:

Planned economy and the maintenance of the status quo are mutually incompatible propositions, and if we want to keep step with the rest of the world in its march, real or

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27 Cited in Zachariah, p. 227.
simulated, towards planned economy, we must be prepared for a complete economic and social transformation; and whatever be the method by which we reach this goal, it will essentially involve a revolution in our whole national life, and revolutions can never be carried out without a shift in the centre of gravity of our social, economic and political factors of our national life. The India of planned economy… must, in its mechanism and informing purpose, be entirely different from the India of today…

Thus, according to leftist supporters, both the political consequences, and to some extent, the preconditions, of true economic planning is social revolution, which seemed a fairly unlikely proposition given the varied and even conservative politics of the nationalist movement.

Yet, economic planning itself was also supported as reigning political philosophy by two other groups ideologically to the right of the socialists. One consisted of scientists and technical professionals who would staff planning agencies and who subscribed to language of political neutrality and ‘rule by experts’. Technocracy had a long lineage in Indian nationalism as the British were blamed for not supporting scientific training or technological training. Scientists and technical experts that were at the forefront of planning included Meghnand Saha, a physicist, Sir. M. Visvesvaraya, a civil engineer, and PC Mahalanobis, a physicist-turned-statistician who would be the guiding force behind the first three post-Independence Plans. Visvesvaraya was not as politically aligned with the Congress movement as some of the other scientific experts – he had an imperial bureaucrat and then the Dewan (chief minister) of the princely state of Mysore – but he believed that if planning by the imperial government was it was “the duty of the leaders and economic experts of the country to advance independent proposals” to influence government policy and to stimulate private sector industrialization.

The third group might seem somewhat incongruous in terms of socialist-inspired economic planning: many of the largest and influential Indian industrialists, particularly those with some affiliation with the nationalist movement, stated their fundamental support for economic planning as the appropriate direction for the post-Independence economy. Major support for planning among the Indian business community was declared at the annual meeting of the Federation of Indian Chambers of Commerce and Industry (FICCI) in 1934, with major figures like GD Birla discussing the need to substantially increase standard of living through government intervention.

A full throated articulation of private sector support to the goal of economic planning was evident in the ‘Bombay Plan’ of 1944, a document authored by seven leading industrialists: Sir Parushottam Thakurdas, JRD Tata, GD Birla, Sir Ardeshir Dalal, Sir Lala Sri Ram, Kasturbhai Lalbhai, AD Shroff and Sir John Mathai. The Plan called for doubling the national income by 1960 through industrial investment and state sponsorship of key ‘basic’ upstream industries, such as power, steel, chemicals and fertilizers and cement.

While some scholars view the Bombay Plan as a strategic move on the part of the business community to outflank the growing political power of the Congress left and thus forestall explicitly socialistic measures such as nationalization, redistribution of capital and collectivization while

29 Zahariah, p. 236.
30 Cited in Zachariah, p. 214.
31 Zachariah, p. 214.
32 P. Thakurdas et al., A Brief Memorandum Outlining a Plan of Economic Development for India (Bombay, January 1944), p. 50.
enabling protection and government support,\textsuperscript{33} it is possible to look at the actions of these capitalists more charitably. Industrialists like Birla and Tata were fundamentally committed to industrialization; as such, they were quite different from parts of the capitalist community – both British and Indian -- that were largely involved in commodity trading, plantation agriculture, and other non-industrial pursuits. In this, industrialists’ identities and interests were aligned with the philosophy of economic planning, and in particular its commitment to the industrial sector, the rational epistemology entailed in science and technology, and intervention through investment away from laissez-faire hand of the market.

Where the industrialists differed from the Congress Left was in the idea that private industry and government are actually partners in a parallel enterprise, where individual firms in the private sector had been pursuing the goal of industrialization but did not have access to enough capital to invest in upstream manufacturing, particularly given the unprotected nature of Indian markets and competition from exports. A post-Independence government should, thus, not restrict or nationalize private industrial investment, but rather support it in its efforts to gradually industrialize the country and increase living standards while causing minimal disruption to existing societal structures and distribution of wealth. Gyanchand was dismissive of GD Birla’s attempt to characterize the point of economic planning in “layman’s language… should be to bring the maximum prosperity with a reasonable amount of effort.”\textsuperscript{34} The Congress-affiliated Left and industrial capitalists were thus formally united on the ends of economic planning, but in fierce disagreement on the means toward those ends.

Two powerful figures in the Congress Movement, both two presidents of the Congress, managed these disagreements. On the more radical side was Subhas Chandra Bose, named netaji or respected leader. Bose came from a respected family of lawyers in Calcutta, who attended the Scottish Church College and then Fitzwilliam House at the University of Cambridge, and then became an elite bureaucrat in the Indian Civil Service before his entry into nationalist politics. Bose, who was Congress President in 1938-1939, convened the National Planning Committee under the chairmanship of Jawaharlal Nehru. His views on planning were doctrinaire. Regarding the official position on development, he stated, “…I may say without exaggeration that the rising generation are in favor of industrialization and for several reasons,” which included solving the problem of unemployment, national reconstruction, national reconstruction based on Socialism, ability to compete with foreign industries, improving the standard of living of the people at large.\textsuperscript{35} The scientism of planning also held appeal; development entailed “far-reaching cooperation between science and politics.”\textsuperscript{36} Bose, because of his militant stance towards complete independence by means civil and armed, left mainstream Congress politics and ended up leading the Indian National Army against the British in World War II. As such, after his presidency, Bose was not part of the debate during the crucial period of the 1940s.

More central was the towering figure of Jawaharlal Nehru, certainly one of the most influential statesmen in the nationalist movement and perhaps the most powerful advocate of economic planning. Nehru, the son of a prominent Congress leader and barrister, was educated at elite English institutes – Harrow School and the science trip of at Trinity College, Cambridge – and

\textsuperscript{33} AK Bagchi, \textit{Capital and Labour Redefined} (London: Anthem Press, 2002).
\textsuperscript{34} Gyanchand, p. 178-179.
\textsuperscript{36} Ibid.
maintained close links with progressive and socialist thinkers.\textsuperscript{37} Nehru’s Fabian socialist leanings were explicit, deeply-felt and widely known, along with his commitment to science and technology:

I realized that science was not only a pleasant diversion and abstraction, but was of the very texture of life, without which our modern world would vanish away. Politics led me to economics and this led me inevitably to science and the scientific approach to all our problems and to life itself. It was science alone that could solve these problems of hunger and poverty, of insanitation and illiteracy, of superstition and deadening custom and tradition, of vast resources running to waste, of a rich country inhabited by starving people.\textsuperscript{38}

Moreover, Nehru was an unapologetic modernizer, firmly set within a rationalistic epistemology that often accompanied a commitment to technocratic solutions to social problems:

Perhaps it is true, as you say, that I look at the facts from the Westerner point of view, though I have not divorced myself from facts in India. I move about the country a great deal and see vast numbers of people in the villages and in the towns. Nevertheless it is true that my outlook on life and politics is what might be called scientific.\textsuperscript{39}

The obvious consequence of such an outlook is to see culture and social structure in village India as backward perspectives to be overcome, through scientific education, industrialization, urbanization and overall rationalization of social structures and economic processes that is at the very heart of economic planning. While, as we shall see below, Gandhi saw in the villages an ideal order that could serve as the solution to India’s underdevelopment, Nehru saw in those same sites the very root of that underdevelopment.

Yet even though Nehru was perhaps more than anyone committed to the philosophy of economic planning, he had to mediate the conflict between the Congress left and the industrialists over the means. From the assumption of the Congress presidency in 1929 until independence in 1947, Nehru was both a leader of the Congress Socialists and a central figure in the movement as a whole; as such, he was frequently in the position of reconciling his explicit socialism with the more pluralist demands of the Nationalist coalition. This had the result of diluting the specifically state socialist aspects of economic planning, such as government control of productive assets, and thus hewing closer to the orientations of the Bombay Plan rather than the perspectives of the Congress left. During the interim government in 1946–47, for instance, Nehru opposed Finance Minister and future Prime Minister of Pakistan Liaqat Ali Khan’s populist budget that imposed a heavy income tax on industrialists, fearing “anti-industrialist policies because of their adverse impact on the native industrialists who would protect India’s economic future.”\textsuperscript{40} The inclusion of several prominent businessmen in the National Planning Committee in the 1930s signaled Nehru’s pluralism, as well as a realization that private industry was politically powerful and a conflict would not be advantageous to the goal of economic planning:

\textsuperscript{37} E.g., Nehru and his daughter Indira, when visiting London in 1937, made a ‘pilgrimage’ to see Sidney and Beatrice Webb, Fabian economists and founders of the LSE, then in their eighties. See Katherine Frank, \textit{Indira: The Life of Indira Nehru Gandhi} (New York: Harcourt), p. 134.

\textsuperscript{38} Nehru, address to Indian Science Congress, 1938. Cited in Zachariah, p. 238.

\textsuperscript{39} Nehru, letter to Ahmed Bashir, 1939. Cited in Zachariah, p. 239.

\textsuperscript{40} Chakrabarty, “Jawaharlal Nehru and Planning,” p. 281.
The middle class is too strong to be pushed out and there is a tremendous lack of human material in any other class to take its place effectively, or to run a planned society… a premature conflict on class lines would lead to a break-up and possibly a prolonged inability to build up anything.\textsuperscript{41}

This inclusion angered many in the Congress left, who believed that the very existence of the nationalist movement is to promulgate such a confrontation between the bourgeoisie and the proletariat, toward social revolution and the establishment of a classless society. And yet, two factors limited the revolutionary vigour of the Congress Left: the deep sentiments of democratic pluralism that were important for a heterogeneous movement against the British, and the recognition that the bourgeoisie in India was not a homogenous category. Thus Nehru and other leaders, such as Subhas Chandra Bose, engineered a détente through the process of setting up the institutions of planning between leftists and the industrial bourgeoisie, allowing for the major faultlines in development discourse to be between Gandhians and economic planners rather than industrial capitalists and socialists who were attracted in common to the ideal of planning.

In the 1920s and 1930s, the aftermath of World War I and the Great Depression caused a crisis in laissez-faire ideology that accompanied Keynesianism, the New Deal, the rise of the Soviet Union as a major industrial power and the seeming success of fascist experiments in reconstruction. It also led to a shaking of imperial ideology in India, which up until then had been monolithic. Into this political opportunity space came a number of nationalist ideologues, politicians and fellow travelers, who saw salvation in the purposive reorganization of society along the lines of rationalistic epistemology, technocratic governance and industrial investment that would allow drastic and long-term increases in the standard of living for all Indians.

The philosophy of economic planning was supported by both socialists and industrialists, thus allowing for a kind of political pluralism, and was then built into the institutions of economic governance in post-Independence India, including the prominence of the Planning Commission, chaired by the Prime Minister himself until his death in 1964, and a complex system of industrial licensing, tariff protection and import quotas, bank-directed capital and ultimately import-substitution industrialization. While many over the next decades saw this ‘license-permit-quota raj’ as merely an obstruction to economic growth and the cause of massive and distorting rent-seeking, it is important to understand that the impetus of this system was the philosophical importance of economic planning in post-colonial economic development. Both the left and the corporate industrial private sector supported economic planning, because both were committed toward intervention away from a low productivity, mainly agrarian status quo that would have been sustained by laissez-faire and international comparative advantage. Thus, even the industrialists of the Bombay Plan benefited a great deal from the protection from import competition, while preventing the government from either nationalizing their assets or disciplining their activities.\textsuperscript{42}

It is not surprising that the supporters of economic planning were largely educated abroad. Individuals like Nehru and Bose, not to mention PC Mahalanobis and JRD Tata, were part of a segment of Indian middle class and elite society with deep and substantive interactions with progressive elements of British and European thought. In one sense, these families were the very instantiation of the ‘Native Englishmen’ of Thomas Babington Macaulay’s 1834 Minute on Indian Education,\textsuperscript{43} yet their contacts with Europe was not in support of the Empire but with liberals,

\textsuperscript{41} Nehru to KT Shah, Secretary to NPC, 1939. Cited in Zachariah, p. 218.
reformers and radicals who were using both science and political thought to re-imagine the European order. Planners were taking the ideological resources from internationalist socialism and communism and applying it as a lens to the Indian condition in mid-century.

The socialist content of economic planning has receded a great deal, both internationally with the fall of the Berlin Wall and in both India and Pakistan with liberalization.44 Yet the form of planning – rational epistemology, looking outward for models, systemic approaches to problems, a reliance on institutions – has persisted even though the context has changed; a faith in free markets has by and large replaced a faith in planned economies, but the character of that faith has not changed. When aspiring Indians and Pakistanis go abroad, they head to business schools and institutes of technology, not to get themselves positions as bureaucrats in the public sector but as managers and directors in corporations both foreign and domestic. In this sense, planned economy philosophies of nationalist thinkers and the technocratic perspectives of contemporary industrialists share epistemic roots in a liberal universalism that is informed by a sense of faith and progress, a faith in science and technology, and a deep feeling for modernization as a salutary process. This conceptual meta-regime has deep roots in society in South Asia, as Indians responded to imperial domination by adopting many of its ideals to launch stark criticisms against imperial realities.

Congress Conservatives and the Organic Society

Against the popularity of economic planning in the interwar years, conservatives among the Congress coalition, led by MK Gandhi, argued that a fundamentally different perspective of backwardness and the paths to overcome it. Gandhi’s holistic spiritual philosophy contained within it both political and economic theories of anti-colonial development that contrasted sharply with the rationalistic idioms of development and progress that were espoused by the Congress Left. Gandhi’s philosophy, his politics and the interpretations of both by his acolytes and political successors are complicated and interconnected and thus it is not easy to distill thoughts on an economic order. Yet, I argue that Gandhi and his political allies articulated and legitimated a powerful normative discourse on development, with the idiom of the charka or spinning wheel at the center, as it was in the center of the flag of the Indian National Congress.45 These discourses reflected a certain section of middle class Indian society that were animated by a particular understanding of tradition and its role in establishing order in a postcolonial economy.

Gandhi’s social philosophy – holistic in both presentation and content – arose out of intellectual trends of the late nineteenth and early twentieth centuries. In particular, Gandhi’s thought was inspired by movements in India and abroad that arose from disaffection with western understandings of modernity, progress, materialism and technology. As a young man from a relatively orthodox Vaishnavite Hindu background studying for the bar in London, he found comfort from the relentless self-congratulatory materialism of English society in Henry Salt’s Plea for Vegetarianism, Arnold’s and Tilak’s translations of the Bhagavad Gita, the latter of which was read as a metaphysical meditation rather than a literalist historical account: “Even in 1888-9… I felt it was not a historical work, but that under the guise of physical warfare, [the Gita] described the duel that perpetually went on in the hearts of mankind and that the physical warfare was brought in to make

45 The charka appeared on Congress flags as early as 1921, but was adopted officially in 1931. The contemporary flag of the Congress has an open hand, and that of the Republic of India substituted the charka for Ashoka’s wheel in 1950.
the description of the internal duel more alluring.” Explicit inspirations for Gandhi’s seminal philosophical work, the 1909 *Hind Swaraj*, were from largely spiritualist, romantic or anti-materialist writers, mostly from the West:

Whilst the views expressed in *Hind Swaraj* are held by me, I have but endeavored humbly to follow Tolstoy, Ruskin, Thoreau, Emerson and other writers besides the masters of Indian philosophy. Tolstoy has been one of my teachers for a number of years. Those who want to see corroboration of the views submitted in the following chapters, will find it in the works of the above-named masters. In this referencing, Gandhi brought together strains of a contra-modernist tradition in the West with transformed understandings of Sanskrit classics to achieve a synthesis that uses India’s own traditions to follow writers increasingly uncomfortable with certain aspects of Enlightenment thought.

He also actively adopted aspects of Theosophy and other religious reform movements to come to a full-throated critique of British domination as wholly alien in character, one that was destroying the ancient bonds and values that had held together Indian society during a mythical Golden Age. Gandhi and the Theosophists believed that a national India should be constituted of an “organic community of individuals bound together to pursue spiritual enlightenment through a recognition of personal duty… the Aryan polity, with its caste system, was designed to serve the religious purpose of advancing the universal process of spiritual evolution.” British laws, practices and values had a fundamentally corrosive character because they were built on acquisition, use-value and exchange that disregarded the social framework in which these activities were ideally embedded.

As a result, Gandhi’s philosophy and politics was far-reaching and transformative. While he criticized British rule, he also criticized the ‘machine culture’ and cult of productivity that reduced individuals to appendages in industrial processes, and the attendant process of urbanization, which meant leaving one’s native place, one’s family, one’s community. Gandhi envisioned and independent India of self-reliant village republic with mass employment through craft and village industries – thus the importance of *khadi* or homespun cloth and the spinning wheel or *charka* as a symbol of it – and such was fundamentally opposed to the aggregation of capital entailed in Socialist planning. As Lloyd Rudolph notes, in *Hind Swaraj*, Gandhi used the concept of *swaraj* or ‘self-rule’ in a variety of postmodern ways. One way was a critique of modern formal organizations such as corporate and state bureaucracies, entities that Max Weber said reduced humans to cogs in the bureaucratic machinery. Gandhi was ‘anti-Fordist’ well before the academy invented its negative analysis of mass production and mass consumption. As he put it, he was for production by the masses and against mass production, that is production on assembly lines.

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47 Gandhi, cited in Rudolph, p. 17.
49 Rudolph, p. 35.
Such critique hearkens back to some of the early writings of Marx, but for Gandhi, alienation entailed in industrial production cannot be reversed with changes in the ownership of productive means, but rather the return to a society in which both politics and economics embedded in traditional society’s norms and values. Gandhi’s political, social, economic and moral vision were thus cut from the whole cloth of a rejection of liberalism and a ‘return’ to the right-ordering of social reciprocity in community.

Gandhi is perhaps the single most central figure of the Independence movement, but he has an awkward relationship to it. Despite being the President of Congress in its 1924 Belgaum Session and was widely seen as the leader of the movement, Gandhi kept out of formal politics and policymaking for much of his career, instead leading campaigns and being imprisoned for large stretches, living in ashrams at Sabarmati and Wardha and profoundly influencing nationalist politics indirectly through friends and disciples. As a result, Gandhi’s thoughts on economic development were more philosophical than a practical vision of politics and economics. For the latter, we turn to another central nationalist figure, Vallabhbhai Patel, who served as India’s first Deputy Prime Minister and Home Minister and was the leading voice among Congress conservatives.

Patel was born in 1875 to a peasant farmer in Gujarat. He was educated to matriculation and then self-educated as a lawyer – vakil or pleader – and practiced in Godhra before going to London at 35 for training as a barrister, and returning to Ahmedabad less than two years later to establish a successful practice in Ahmedabad. In the 1920s, while serving as the head of Ahmedabad municipality, he became involved in nationalist politics. He became an acolyte of Gandhi, eventually leading satyagraha or civil disobedience campaigns at Kheda and Bardoli in Gujarat. His politics throughout the independence movement were conservative with a strong Gandhian flavor, and throughout his political career fought with Congress Socialists over strategy and policy. Patel is perhaps best known for his involvement in the integration of princely states, at times by force, and for his intransigence against the Muslim League and Jinnah. Yet, Patel’s perspectives on development are vitally important for translating Gandhi’s somewhat esoteric philosophy to more concrete politics and thus understanding the other side of Congress and middle class Indian society from the Socialists.

Patel’s political outlook comes first from a deep opposition to European culture. He confessed that as a barrister in Ahmedabad, he partook in ‘club life’ but then rejected it as a Gandhian nationalist:

… I used to imitate the British and their ways closely. That is quite true. … I used to think that for our unfortunate country our best policy was to imitate the foreigner. I had been taught to think that the people of our country were of poor character and unworthy and that it was only the foreigner ruling over us who was good and had the ability to improve our condition. We could only be slaves. This was the sort of poison that was being instilled in our minds. I was anxious to go abroad to see the people of England who living 5000 miles away, were able to rule us for so long.

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Wearing *khadi* or homespun took on the symbolic meaning of this rejection, in highly moralistic terms: “the people of India are afraid not only of the Britshers but of those who wear the western dress. Even though [the British] are not as sinful as the latter.” Patel’s conversion from western manners and apparel to those of Indian-made clothing paralleled the political importance of khadi to the entire Congress movement, which will be discussed in greater detail. Yet, unlike some Congressmen who wore khadi as a matter of duty or popular sentiment, Patel’s wearing of homespun was politically charged, not just against the British but also against the millowners and industrialists of the period:

> Millions of people live in huts. If they are able to earn something, it would be an act of benevolence on your part. If city-dwellers like us set an example, it will be emulated by the villagers. It would be helpful if we are clad in khadi cloth, and it will inspire many more to put on khadi dress… When many types are available, then why help the mills? I do not want you to hear the complaints of Bombay and Ahmedabad Millowners. When a number of persons had courted imprisonment, at that time, the millowners entered into a contract with Lancashire and mortgaged the nation. How can we assist those who care for their own business and have no feelings for the nation’s welfare? The factory-owners shall indulge in the flattery to the government. In that sense, if we use only khadi, we would have satisfaction enough.  

Patel had a close personal relationship with at least one industrialist, fellow Gandhian Jamnalal Bajaj, and maintained cordial correspondences with several others, including Tata, Birla, Purushottamdas Thakurdas and John Mathai, in the course of the independence struggle. Yet Patel’s relationship with Bajaj in particular was personal and in the context of Gandhian discipleship, thus he was able to castigate millowners as an interest group while maintaining personal relationships with those he trusted. The emphasis on the personal and the distrust of the economic interest group goes hand-in-hand with the kind of rejection of liberal politics that characterized Gandhian politics.  

Patel also used khadi and chakra idioms to castigate Congress Socialists for their intentions in economic planning:

> I have no inferiority complex towards common citizens. I am a peasant by birth and culture and so long as peasants do not achieve their natural rights, I am not prepared to accept any kind of obstructions in respect of movement of conditions of peasants. … But I am afraid that the so-called slogan of the Socialists to “March Forward” is nothing but hollow talk. … Our young Socialist friends cut a joke about the spinning wheel and discretely talk about the use of the mechanized plough. But he who has passed his whole life in the midst of rural people and living style, as such of common man, I am fully aware what problems in restructuring village life are created by using the mechanized plough. … Our Socialists may point out to me any such village or any such association of industrial laborers, which they have been able to manage to their own satisfaction. It is very easy to organize mill workers flying red flags, but I would like to ask them what purpose is served by such hustle and bustle, and what next? The answers, which I have received on these issues, are wrapped up

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54 Founder of the Bajaj Group, a major Indian auto manufacturer, and father of the current chairman. Jamnalal Bajaj and Vallabhbhai maintained a close and personal correspondence over many years until the former’s death in 1942.
in easy silence. Therefore, I consider it my duty to warn them about the most secret dangers wrapped up in this type of loose way of thinking.

In this jeremiad against Socialist mechanization, Patel refers to his peasant roots to emphasize the social disruption of mechanized agricultural planning and industrial aggregation. Deeply distrustful of leftist agitation, we see him implicitly comparing the Socialists’ ‘loose way of thinking’ to the discipline of swaraj.

Labor was a central theme in his life, yet his vision of workers’ organization, in accord with Gandhi’s, was paternalistic and emphasized harmony between employer and laborer. Patel was a lifelong supporter of the Mazdoor Mahajan, or Textile Labor Association, an organization set up by Gandhi in 1917 that was run by the sister of a millowner, and that emphasized arbitration and cooperation over strikes. In support of the TLA’s organization and methods, he said,

It has worked for the laborers with a true spirit, and is doing selfless service. These laborers are neither credulous nor foolish enough to be cheated by those abusing the capitalists. There is no parallel to the Ahmedabad Labour Association in the whole of India. Let those who desire to abolish capitalism organize another superior association like this. If they are able to make it a reality, I am then prepared to work as a sepoy [foot-soldier] under them. … If you are cherishing the idea of mitigating the Congress or to abolish capitalists and zamindars, so long as I am alive, you will not succeed. Congress belongs to the country and everyone is welcome in it. We have not given up hopes of cooperation from capitalists and zamindars as well as native rulers. We shall have to march together to free India from foreign rule.

Both Gandhi and Patel emphasized throughout their careers that tension between Indian manufacturers and workers was detrimental to the struggle for Indian independence from the British. Yet the notion of cooperation between capital and labor had roots in the Gandhian philosophy of stewardship, that the rich would keep their money in thrust and for the benefit of the poor, and thus provide wealth for society. When he inaugurated a bridge named after Gandhi in his hometown of Ahmedabad, the Hindustan Times reported, “[Patel] urged the industrialists of Ahmedabad to look ahead and preserve the bridge which Mahatma Gandhi had built between labor and capital in Ahmedabad and was the root cause of the prosperity of Ahmedabad.” Such a relationship needed to be fostered by common cultural and personal ties as in the TLA, not via the institutions of militant representation; Patel waged a lifelong campaign against the influence of Communists in India, and Socialist planners were often lumped together with them.

Once again following Gandhi, Patel real critique of planning and industrialization was a fundamental distrust, paralleling Martin Heidegger, of machine culture. Such statements are legion among his writing, e.g.:

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55 speech at Banaras Vidhyapith, 1 August, 1934. *Collected Works*, IV.197. Jayprakash Narayan, the Socialist leader, replied, “the Sardar asks us to go to the peasants… we shall go to them not with a spinning wheel but with the militant force of an economic programme. And I hope we shall be able to do it under the Sardar’s leadership.” – quoted in the Bombay Chronicle, 19 July 1934. *Collected Works*, IV.187.


57 Speech at public meeting in Ahmedabad, reported in *Gujurat Samachar*, 6 October, 1934. *Collected Works*, IV.249.

It is the influence of machine culture that whole world is dragged into it. Our country and China have the oldest civilization and culture. But both countries are the victims of that machine culture. The world’s fast moving towards the direction of total destruction.\(^{59}\)

And,

Mass production will result in mass killing and mass slaughter, but not mass wealth. ... Western civilization is on trial. It has done immense harm. ... the ill-balanced production of machinery has brought about a state of things in which their very existence was threatened. Though they were exploiting the entire world they were now reduced to such a state that they were bound to use all their intelligence, skill and energy to destroy khadi more quickly.\(^{60}\)

The existential dread held by Gandhi and his disciples translated into a deep distrust of industrialization, particularly under the rubric of Soviet-style planning, and seeing khadi, or village industry, being the salve to problems of mass unemployment, ‘unhealthy’ agitation, and the further deterioration of Indian values by European processes. This suspicion was directed, as above, not just at the British but those who take up the British as a model, especially urbanites:

We know that cities are fattening at the cost of villages. Cities are the agents of sending money to foreign countries…. But here the city-public will never do any sacrifice but look to the villages [to sacrifice]. [Those] have simply booking knowledge advise us to do mass production and quote examples of Russia and other countries. Our mills can supply half of the cloth for the whole country. Some 12 lakhs of mill hands earn their wages. If the cloth for the whole country is to be prepared, 25 or 30 lakhs of people will get their wages. What about the remaining 32 crores of the public? Should they die in starvation?\(^{61}\)

Here the deep distrust of ‘machine culture’ and opposition to the capital accumulation of planning join together to critique the notion of aggregated industrial development and production on behalf of villages and mass employment. Gandhi sincerely believed that craft manufacture should replace industry in all but the most essential basic industries, and Patel by and large followed Gandhi’s views on the subject in political rhetoric. But what needs to be emphasized here is that khadi stands in for a culturally mediated form of work that has greater staying power that the explicit program of village industries.

After Independence, Patel was a member of the constituent assembly and the second-most powerful person in the first Nehru cabinet. As such, his ministerial responsibilities included supporting the Nehru government’s industrialization policies, especially given India’s dire economic requirements. In what seems like a reversal of his previous policies, Patel addressed the need for supporting industrial development and modern forms of industrial organization:

We must bear in mind the comparatively recent growth of our industries and the short history of our industrialization. India has been looked upon for ages as a predominantly agricultural country. Those who swore by that statement little realized the wealth of resources that were available in the country and that they would, if properly tapped and

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\(^{59}\) Letter to his daughter Maniben, 20 January 1945. Collected Works, IX.67

\(^{60}\) Speech on 15 December 1936. Collected Works, VI.164.

efficiently exploited, place this country within the forefront of industrialized countries in the world. … We have however to realize that in the process of industrialization we have to make up the leeway of decades, may be of centuries. There never have been and never can be anything like an industrialization in this country, which would quickly transform its agricultural economy into a predominantly industrial one. Our industrialization, starting at a time of more progressive ideas than what characterized the industrial revolution in Europe, has naturally to take note of modern ideas of relationship between employer and labor and between both and the general community.⁶²

There are two issues to note here. Patel in 1949 was representing a government, rather than his own views, and this speech was more than likely written by civil servants rather than reflecting his own personal views. Post-independence India, moreover, was facing acute shortages and demands for consumer commodities linked to the legitimacy of the regime. He did, however, spell out the limits to India’s industrialization plans to the public: “Take it from me that this Government has not the capacity and the means to undertake nationalization of any industry at present. If anybody talks of nationalization it is only for leadership and not for nationalization. I do not believe in that sort of leadership.”⁶³ Thus, Vallabhbhai Patel, even as a member of Nehru’s government, was evincing the same sort of support to harmonious relationships: “… it is up to businessmen to pull their weight and move confidently with the government. I am a friend of businessmen, princes and labor. So I want all interests to be put in their proper place.”⁶⁴ Inspired by Gandhi, Patel was throughout his life a Gandhian conservative fundamentally opposed to Socialist planning, and thus putting forward an alternative vision of development from Nehruvian high dirigiste planning.

Supporters of an organic society version of development had slightly different career and professional trajectories than the planners. Both Gandhi and Patel were English-trained barristers, but Gandhi was in London for only three years before his work with the Indian merchant community in South Africa began. Patel went to London much later in life after establishing a career as a local lawyer, and spent even less time at the Inns of Court before returning and working in Ahmedabad. Further, Patel’s first political experiences were with Ahmedabad municipal council, of which he was a member from 1917 till 1928.⁶⁵ Patel’s background from a farming family, plus work experiences, helped form in him a political perspective that was fundamentally in accord with Gandhi’s, emphasizing the cultural importance of villages and of the traditional culture invested in them. This perspective led him to fundamentally oppose Nehru and the Congress Socialists in their ideas of Soviet-inspired planning and to emphasize craft manufacturing and village industries.

Sixty years after Patel’s death, it is hard to see khadi as fundamental to India’s industrializing economy. Aside from government promotion of village and craft enterprise, there is no longer any serious criticism of industrialization and mechanized manufacturing itself. Further, villages themselves have been transformed by agrarian agitations⁶⁶ and the rise of lower caste individuals and communities.⁶⁷ Gandhian pastoral and khadi as an idiom for human-scale craft development is therefore largely irrelevant in terms of actual content. Yet, there are sections of Indian society who,
through their associations with trading and farming, still have a relational and moral-economic perspective of economic exchange, one that was, I believe, distilled and legitimated by the proponents of an organic society view of development. Thus, even while people like this – of local education and work experience in the markets and offices of commercial India – set up manufacturing enterprise, they maintain personal relationships with workers, a view of organic growth and a general distrust of institutions like banks who aggregate and direct capital. These individuals, the embedded capitalists in my empirical research, tend to have a perspective that is in form similar than those proponents of organic society, such as a conservative®6 defense of traditional social arrangements, even though the content is radically different. In this sense, Gandhi, Patel and others who were propounding an organic society alternative to economic planning ideologically shored up those who would later come to think of the Indian economy as a dense network of personal relationships.

**Conclusion**

I am arguing that these two different understandings of the post-imperial economy posited by two different wings of the nationalist movements have had consequences. By articulating two different worldviews at a crucial period in the formation of a post-colonial order, nationalists morally legitimated two folk philosophies among different wings of Indian middle class and elite society of what it means to be an agent of economic development. In placing this dualism at the very heart of nationalist politics, they made sure that both visions of development would endure and serve as the ideational sources of lenses through which contemporary manufacturers can perceive the economy and act based on these perceptions.

Is this simply a specific and particular story of ideas? In one sense, the particular articulations of economic planning and organic society drawn out above are products of Indian intellectuals and politicians that were contending in a debate that was grounded in India in a particular time. And yet, the sentiments and epistemological frames standing behind the specific formulations of those ideas are more, though not completely, universal in character. I argue that those sentiments – prefigured and legitimated by discourse by such eminent individuals like Nehru, Gandhi, Bose and Patel – could reemerge in a different guise in a radically different place, as for instance with embedded and technocratic perspectives on industrial production by today’s Indian industrialists. These ideas are not being transmitted directly – few industrialists are reading the collected works of any nationalist as a guide to right action – and yet the power of those contending ideas about the meaning and character of development could be carried forward into society as popular discourses and moral frames.

That I find embedded and technocratic perspectives among Pakistani industrialists suggests the potential for wider applicability of these frames. Pakistan was founded on an idea, but not an economic one and thus the Pakistani road to development was not characterized by the articulate debates characterized above.®69 Pakistan’s industrialization was presided over by individuals who were the very embodiment of demystification – high bureaucrats and military officers – and neither

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®68 In the sense of Edmund Burke’s critique of French radical liberalism. See Burke, *Reflections on the Revolution in France* (Stanford: Stanford Univ. Press, 2001 [1790]).

Bhutto’s populism or Zia’s Islamic conservatism was able to provide ideological content to Pakistan’s development. And yet, diversity in strategies in Pakistani industry is rooted in largely the same perspectives, or cognitive or moral frames that operate in India. Pakistan’s society too has always been bifurcated: some Indian Muslims who would join Pakistan were sent to Oxford, Cambridge and Sandhurst for education as barristers, doctors, engineers and military officers; others stayed close to the fields of southern Punjab or the markets of Lahore, Karachi, Lyallpur and Peshawar.  

This empirical result may point to something more fundamental about a dualism of goals and interests in many sites of third world development where the state has not intervened to destroy one or the other. Without collapsing into an empty ideal type, I suggest that neo-traditionalism, as embodied in the organic society, and modernization, as embodied in economic planning, could exist as an intellectual and moral resource for those in any country who are either debating the course of national economic development or investing as an agent in that development. In the following chapters, we will see the impact these frames have for industrial strategies in particular industries in the two countries.

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Chapter Three
The Textiles Industry

The textile industry in India and Pakistan is vitally important: it is the second largest employer of labor after agriculture and until relatively recently, by far the greatest provider of foreign exchange and domestic investment. It provides a downstream market for the pickers and ginners of cotton and the producers of synthetic fibers and a supply of goods for the domestic and international demand for cloth and clothing. Historically, it has provided the initial indigenous investment for much of the industrial activity of the rest of the economy.

As such, those who invest in the textile industry in these two countries need to be studied even despite the complexity and the illegibility rising out of different sub-sectors, individual firm trajectories, and external constraints. I aim to do this through a study of the ways manufacturers perceive industrial production at the firm level, and how these relate to their firms’ strategies in the management of labor, the acquisition of capital and their relations with the state. This data are gleaned from over a hundred interviews with industrialists and industry association officials in several cities in Pakistan and India between 2006 and 2008. I believe that this approach will provide a useful lens through which some of the complexities of a complex and fragmented industry can be understood.

This chapter proceeds as follows: first, I will discuss the history of textile manufacture in South Asia and its relationship to nationalism, industrialization and post-independence developments in India and Pakistan. I will then describe my argument that manufacturers in this industry fall into two perspectives – embedded and technocratic – that arise out of different educational backgrounds and experiences. I will then discuss how these perspectives inform key elements of industrial strategy: labor, capital and relations with the state.

The Development of the Indigenous Textiles Industry

The industrial production of textiles heralded the age of industrialization. The application of new mechanical methods to the mass production of light consumer goods like yarn and cloth – in England in the closing decades of the 18th century – paved the way for the mass reorganization and deployment of capital and labor in the service of industrial production. The industrial production of textiles came to the Indian subcontinent in the second half of the 19th century, after manufactures from Lancashire flooded the Indian market. The period of East India Company rule had seen the collapse of the production and export of craft-based textiles in India, a decline many contemporary scholars attribute to these colonial economic policies. Thus, the establishment of industrial production of textiles, largely by Indian industrialists, signaled a recognition of industrialization as a possible, perhaps even necessary, component of India’s economic development while also imbuing industrial production with a strong nationalist flavor.

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1 Textile industry in this chapter refers to the manufacturing and processing of yarn and fabric, both woven and knitted. The manufacturing of garments will be treated in the subsequent chapter.

Between 1850 and 1914, the only significant industrial development in the Indian subcontinent was in three industries: steel, and two separate textile sectors, jute and cotton. Jute was almost the exclusive preserve of English and Scottish traders who sought to locate the production of jute products – sacking, rope and sailcloth – closer to raw jute cultivation in Bengal, to compete with established processing centers in Dundee. Jute production was thus more like an enclave sector, integrated with British trading institutions like the Managing Agency Houses but with few indigenous investors and thus few linkages with the rest of the Indian economy.

The production of cotton textiles, on the other hand, was different, dominated by ‘native’ Indians who collected capital built from commodities trading – particularly from the cotton boom during the blockade of the South in the US Civil War – and deployed it in manufacturing cotton yarn and fabric. Most textile mills were located in western and southern India; the first Bombay mill was set up in 1854, the first in Ahmedabad in 1861 and the first in Coimbatore in western Madras Presidency in 1888. Mills in Bombay were set up largely by members of the Parsi community who had worked as brokers for British trading agencies; many of these factories were subsequently bought by members of the Marwari community. Mills in Gujarat, however, were established by Hindu and Jain traders and bankers from regional Hindu caste associations or guilds called mahajans, not connected with British economic concerns; traditional bankers in the Chettiar and Naidu communities formed the bulk of investment in Coimbatore mills. The cultural differentiation between ‘Bombay’ and ‘Ahmedabad’ industrialists had important consequences for the nationalist movement as it became more prominent as the principal forum for the representation of Indian interests to the imperial authorities.

The industrialization of cotton textiles was bound up with the nationalist movement in several, complicated ways. Much of the intellectual foundation of nationalist critiques of British rule was centered on the deleterious effects of British policy on India’s economic self-sufficiency. From the agitations surrounding the 1905 partition of Bengal onward, a key idiom of the nationalist movement was swadeshi, literally meaning ‘one’s own country.’ In practice, swadeshi meant forsaking imported manufactures, especially textiles, in favor of domestic goods. Two decades later, Gandhi popularized this political idiom through the making and wearing of khadi, or craft-based clothing. In part because of this idiom and the symbolic rejection of foreign goods, Indian millowners and nationalists were inseparably linked, with the former being seen as the standard-bearers for nationalist economic development. It was also the case that millowners and nationalist politicians were generally rooted in the same class and caste communities. The Indian National Congress, though divided ideologically and oriented to mass mobilization, drew its leadership from the ranks of middle class and elite professionals, and as such shared many personal and professional ties with millowners from Ahmedabad and elsewhere.

Yet for millowners, swadeshi actions were orthogonal to their own interests as capitalists. First, the cloth that was being boycotted was Manchester-made fabric to suit the tastes of urban elites, and not the much coarser cloth that Indian mills were producing for sale to peasants in India and China; they thus did not benefit from swadeshi boycotts. Second, millowners were afraid that

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these boycotts would lead to British retaliation against Indian industry, either in blocking access to markets in the East Asia or the supply of capital goods from Europe. The increasing articulation of capitalist interests and the relationship with a growing nationalist movement created many different sites of conflict and cooperation that presaged the relationship between the state and contemporary industrialists today: over direct representation of industry in the Morley-Minto Reforms created representative assemblies, over trade policies of ‘imperial preference’ in the Lees-Mody Pact and the 1932 Ottawa Conference, among others. Significant for the purposes of this dissertation is the fact that the millowners’ interests were often divided as their material interests and ideological perspectives brought them to side with the British over the Congress, or to side with one faction of the Congress Party over another. This lack of one coherent capitalist position among millowners provides a foreshadowing of the different lenses through which contemporary manufacturers in the textile industry and beyond perceive the economy and thus formulate divergent strategies of industrial production.

The Trajectory of Textile Manufacturing in Post-Independence India

The cotton textiles sector came out of Indian independence and partition as the preeminent industry in the new country. And yet, artifacts of the different strands of nationalist politics left a powerful impact on the fate of the integrated mills. Indian industrialists had managed to forestall the most radical positions of the Congress socialists through the Bombay Plan of 1944, in which seven prominent capitalists pledged their support to Nehru’s plans for import-substituting industrialization while at the same time arguing against nationalization, substantive state controls on investment or advocacy on behalf of labor. Yet Gandhi’s unyielding advocacy for the primacy of handicrafts and cottage industry led to strict limitations on increasing capacity in the mill sector, on the assumption that excess demand would then be satisfied by a disaggregated craft industry.

This channeling of support to the small-scale sector was not just supported by Gandhians but also by the dirigiste Planning Commission. P.C. Mahalanobis, the head of the Indian Statistical Institute and the ideological force behind the Second Plan, modified the Feldman model for Soviet-style industrial growth based on capital investment by arguing that the small-scale sector could be responsible for the consumer requirements of a new industrial workforce. As this sector requires little technology, more capital could be diverted to the heavy producer goods sector. Industrialists were not unhappy with this arrangement, as they channelled capital from spinning and their limited weaving operations into other, higher value-added industries.

Government restrictions on investment in the mill sector included limits on bank borrowing and the rationing of capital, import licenses for capital goods and the rationing of foreign exchange, and systems of factory inspection. Such policies were to a battery of legislation and regulation,

8 In 1906, Naoroji wrote to Dinshaw Wacha, a prominent mill agent, to voice a concern on these lines: “I wonder whether Lancashire being boycotted will retaliate by not providing India with machinery for new mills and repairs for old ones.” Quoted in Leadbeater, p. 109.
9 In the latter, Bombay industrialists supported the establishment of an imperial tariff area because it afforded protection against cheap imports from Japan, whereas Ahmedabad industrialists opposed it because of increased competition from Lancashire. See Leadbeater, pp. 132-137.
starting from a first Industrial Policy Resolution of 1948, the Cotton Textiles (Control) Order of 1948, the Industries (Development and Regulation) Act of 1951, and the various Plan documents. These had the cumulative results over four decades of strictly limiting the numbers of looms in the composite mill sector, applying various excise taxes to mill-made cloth, ordering that a certain amount of the yarn produced by the mills had to be sold to the decentralized sector, establishing high pricing of synthetic yarn and fabric relative to cotton products, and maintaining high wages and production costs. These policies led to low efficiency of mill production relative to the handlooms and especially powerloom industries.  

The result of these restrictions is a long, slow decline of the mill sector in India. This decline was most appreciable in exports. Following the Korean War boom, export performance in cotton fabrics stagnated, with India losing out global market share to Pakistan, Hong Kong, Taiwan and South Korea. The decline was evident in other areas as well: by the 1961 census, only 15 percent of the manufacturing labor force in Bombay was in the mill sector, and textiles declined from 28 percent of manufacturing value-added in 1975-77 to just 16 percent by 1981-3. In the 1980s, long drawn out industrial actions in Bombay and Ahmedabad spelled doom for the composite mills, particular as the drop in supply was taken up by the decentralized sector, on which more below.  

Since the mid-1990s, these ‘sick’ composite mills, on the verge of bankruptcy, were taken over by the National Textile Corporation (NTC) to prevent massive layoffs. Other more powerful mills entered into negotiations with unions and the state to retrench older laborers through Voluntary Retirement Schemes (VRSs), and have been able to transform their textile operations in new locations with different products. In Bombay, some of these groups have redeveloped the old mill premises, situated in prime real estate at the centre of the island city, into glass skyscrapers, malls and other locations for the new financial and consumer elite. The old industrial order, represented by the independence-era composite mill, has thus been destroyed and then superceded by two very different models of industrial organization and strategy that have arisen out of contemporary perspectives on the nature of industrial production and in the context of post-Fordist economies.  

The first is the decentralized sector, originally supported as craft and cottage industries but reincarnated as the powerloom and stand-alone spinning sectors, as well as dyeing and finishing units. Importantly, powerlooms were ‘reserved’ under institutional rules that carried over from protection of handlooms, which gave them certain advantages over large-scale mills. After deindustrialization during the Company era, the decentralized production of cloth was able to make a comeback in the twentieth century, bolstered by the availability of cheap mill-produced yarn not used for captive consumption. Yet, this new generation was far from being the Gandhian ideal; instead of the rural weaver in the autarkic village community, they were proto-capitalists capitalizing on niche markets and skills and increasingly locating production in urban settings, to which traditional weaving communities had migrated. The related transition from handlooms to

13 India’s cotton textile exports fell by half from 8.8% to 4.1% of world market-share from 1960 to 1979, while Pakistan’s market share doubled during the same period. Mazumdar, p. 1206t.  
17 For current benefits for small-scale industries, see chapter seven.  
powerlooms happened as a result of two factors: availability of power through electrification of provincial towns and the availability of second-hand automatic looms from composite mills, with which to adapt traditional weaving processes to mechanization. Haynes argues that part of the success of the powerloom sector was the result of alternative, culturally embedded means of organizing manufacturing. Workers, predominantly from weaving communities, were linked to owners through caste, family or cultural ties and thus operated on a paternalistic basis of quasi-family relations. Capital was also not forthcoming from banks, and thus investment was an intra-community and often self-financed activity between and among artisans and traders.

Over the decades from the establishment of the sector, powerlooms flourished in clusters in regional towns such as Surat, Bhiwandi, Malegaon, and Ichalkarangi in the west, and Tiruppur, Salem and Erode in the south. The sector has grown markedly, eclipsing the textile production of the composite mills; the share of powerlooms in total textile production went from 37 percent in 1980 to 68 percent in 1995, and represented 88 percent of total textile exports in 1995-1996, either in direct exports or as the raw material for garments. Although powerlooms have transformed their products from traditional handicrafts to a wider range of products, including synthetic blends, the same industrial arrangements with regard to capital and labor remain. In addition to and in collaboration with the powerloom sector, disaggregated spinning mills have emerged from the debris of the composite mill sector to absorb the demand for basic cotton yarn. These spinning mills are often present in clusters like Ludhiana and Chandigarh in Punjab and Erode, Salem and Madurai in Tamil Nadu. Because of the scale requirements of yarn production, spinning mills have to be more ‘organized’ than powerloom units, yet the owners of disaggregated spinning mills, as I will argue below, share many of the same embedded perspectives and strategies as powerloom operators.

The second major group of contemporary textile manufacturers has two main sources: scions of composite mill owning families who have managed to transform their operations after the decline in the 1980s and those who have invested in the industry from outside. Yet, there is a common theme, which centers around value addition and product differentiation. This group is a much harder to characterize than the decentralized sector, because among these firms, some have built the full value chain from spinning to weaving or knitting to dyeing and finishing – becoming latter-day or neo-composite operations – while others have concentrated on one product: yarn or fabric. Yet, there is in common an emphasis on the creation of quality and the addition of value above and beyond the basic low-count cotton yarn or cloth from decentralized sector, with a view to filling product niches and demand from either high-end domestic retailers, garment manufacturers or buyers abroad. As I will argue below, however, the choice of manufacturers to organize production in which manner is driven by perspectives built up from educational backgrounds and work experiences, rather than pure market considerations.

The Indian textile industry has come along way from its roots in the nationalist era and debates over swadeshi and industrial licensing and handicraft reservations. Independence saw the development of the industry as the foundation of India’s industrialization. Yet the architects of that

20 Haynes, pp. 178-180.
foundation – the composite textile mills of western and southern India – and the Fordist model of production they represented have been all but eliminated by the end of the twentieth century, fatally crippled by industrial action and lack of technological modernization. Taking their place, and acting largely in response to the greater flexibility and product differentiation that characterizes post-Fordist production, are two very different groups of textile manufacturers. In the next sections, following a characterization of Pakistan’s industry, I will argue that these manufacturers perceive industrial production and the relationships that constitute it in fundamentally different ways and create divergent strategies on the basis of that perception.

The Trajectory of Textile Manufacturing in Pakistan

The textile industry is enormously important in Pakistan; textiles represent 46 percent of total manufacturing and 61.1 percent of exports in 2006-2007. Yet, this industry is much newer than India’s and has been linked to the disruptive political development in the country. Thus, the story of Pakistan’s textile industry differs in marked and complex ways from that of India’s, even though I will argue that the constellation of the industry now follows a surprisingly similar pattern.

Perhaps the most obvious yet critical aspect of Pakistan’s industrial development is that, after Partition, the areas of the subcontinent that became East and West Pakistan were largely sites for agricultural cultivation that were cut off from their processing centers, with barely any industry to speak of. The new state also faced early security challenges over disputed territory with Kashmir. These security considerations and the narrow class and ethnic basis of the military and bureaucratic elite set the trend for Pakistan’s particular brand of outward-looking bureaucratic authoritarianism, interspersed by weak democratic rule.

Pakistan’s first military and civilian bureaucratic rulers engaged in an ambitious program of state-led import-substitution industrialization, not for the same ideological motivations as Nehruvian India but rather based on perceived necessity, given that foreign exchange was preserved for defense expenditure. Yet the lack of indigenous industrial development in Punjab, Sindh and East Bengal presented the Pakistani authorities with a quandary. The state’s orientation was generally capitalistic while recognizing the need for state intervention. Yet how could the government support a nonexistent private sector?

In a unique strategy, the Pakistani state in the 1950s established industrial enterprises to be sold almost immediately to private investors, acting through such institutions as the Pakistan

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24 Cotton cultivated in Punjab had been transported south to the mills of Bombay Presidency; jute cultivated in eastern Bengal had been transported west to factories in Calcutta. At Partition, as a result, there were hardly any industrial units in Pakistan.
Industrial Development Corporation (PIDC). The aim was to create an industrial bourgeoisie out of anyone with some capital and some entrepreneurial experience. At that point, this population included mostly mohajir (or migrant) traders and bankers who had migrated from western India mostly to Karachi at Partition. Thus state policy created a largely muhajir industrial oligarchy who dominated textiles as well as most other industries, in which forty-three families owned 42 percent of all industrial assets and 58.2 percent of all indigenous private assets. In textiles, mohajir textile traders set up spinning mills and composite mills mostly around the industrial hub of Karachi, and to some extent in Punjab, because of Pakistan’s advantages in producing superior long-staple raw cotton and trade protections against imported yarn. The established industrial houses involved in textile manufacture were represented by the All-Pakistan Textile Manufacturing Association, which was formed in 1952 and has been described as Pakistan’s most powerful industrial lobby.

From the mid-1960s onward, political opposition to Ayub Khan-era industrial policies—including criticisms of the limited class of beneficiaries and lack of redistribution—mounted. The rise of the Pakistan People’s Party and the Awami League, the 1971 War and Pakistan’s genocidal actions in East Bengal and the independence of Bangladesh were shock waves that passed through the country, profoundly affecting industry. These were accompanied by Zulfiqar Ali Bhutto’s populist PPP government’s nationalization of important industries, including commercial banking and agricultural processing, leading to capital flight and wariness of industrial investment on the part of the extant industrial oligarchy.

Throughout the 1980s and 1990s, Pakistan’s industrial landscape changed dramatically. The political turbulence and ethnic tensions in Karachi starting in the 1980s caused investment to decline in the city. At the same time, a new Punjabi bourgeoisie gained economic and political ascendancy. Punjabi investment in the textile industry came from two groups. The first were Chiniots, members of an ethnic community from a town in central Punjab who, much like the Marwaris in India, had traded with the British, established industrial mills in Calcutta and then Dhaka, before being forced to relocate their industrial capital to the textile towns of northern Punjab. The second were farmers, textile traders and other businessmen who had accumulated capital from the Green Revolution and Ayub’s ‘development decade’ and invested in the textile industry.

In the 1980s and 1990s, the economy liberalized and industrial policy regimes were dismantled. The state encouraged investment from overseas Pakistanis who had established capital abroad to invest in the country, often in textile enterprises. During that period, too, established industrial families, facing competition and decline, sent their children abroad to gain technical and


28 Lawrence White, “Pakistan’s Industrial Families: the Extent, Causes, and Effects of Economic Power”, Journal of Development studies 10 (April-July, 1974), p. 274t. The first, and somewhat more famous (though less verifiable) formulation of intense industrial concentration was by economist Mahbub ul Haq, who declared, based on 1968 Planning Commission data that had never been made public, that the primary beneficiaries of industrial policy were twenty-two families, who controlled 66 percent of Pakistan’s industrial wealth (Khan, p. 24).


30 Khan, p. 4.

31 Anita Weiss, Culture, Class and Development in Pakistan: the Emergence of an Industrial Bourgeoisie in Punjab (Lahore: Vanguard Books, 1991). This new ‘national’ bourgeoisie included Mian Nawaz Sharif, a textile industrialist-turned-politician who serves as prime minister twice in the 1990s and is among the most powerful individuals today.
commercial educations, and that this has led some — though certainly not all — older established firms to take paths toward modernization.  

By the late 2000s in Pakistan, when I conducted my research, the complicated narrative of industrialization in Pakistan had yielded textile manufacturers with different styles and strategies of organizing production were present in the textile industry. Yet as I will argue below, these firm-level strategies are a consequence of perspectives or frames through which individuals can make sense of the economy. In the section below, I will outline how these two perspectives — which I term embedded and technocratic — arise out of the educational backgrounds and professional experiences of industrialists as they make their way to investing in textile manufacture.

Embedded and Technocratic Perspectives among Textile Industrialists in South Asia

The process of translating narratives of industrialization in South Asia to the more workaday task of characterizing the operative beliefs and practices of manufacturers in the early twenty-first century is an onerous one in any context, but especially so for the textile industry. Spinning, weaving and processing are some of the most common industrial activities in South Asia, and thus exist in a bewildering array of contexts. Manufacturers in India and Pakistan produce in different regions and sub-sectors and are linked to different ethnic or religious communities. Nevertheless, I argue that the conceptual differentiation between embedded and technocratic perspectives is one that gives us analytical leverage across these varied contexts. As I argue in chapter two, the contemporary technocratic-embedded dualism among manufacturers has conceptual roots in debates on the meaning and practice of national economic development. From this view, these lenses serve as a cognitive and moral guide for the complex decisions and practices that one has to make as a manufacturer, decisions that might be modified but are rarely determined by the external circumstances.

Yet, how do manufacturers develop one perspective or another, and how can we as researchers tell one from the other? I aim to demonstrate below that these perspectives are formed through experiences in the industry for which educational background and professional experience are the clearest guides. As I outlined in chapter two, education abroad or in elite educational institutions might indicate the technocratic perspective, whereas domestic education or work experience (if the respondent did not go to college) generally tends to indicate an embedded perspective. Yet, in the textile industry, where may firms have long trajectories, the strength of industrial strategy yielded from previous generations relative to the backgrounds of current generations is important.

Embedded Manufacturers

The embedded lens on the economy is one that holds prominent the individual networks and relationships that collectively constitute industrial production. In India, manufacturers with embedded perspectives were most clearly evident in peri-urban areas and regional cities away from the metropolises of Delhi, Calcutta, Madras and Bombay. The powerloom cluster in Bhiwandi, less than an hour from Bombay in District Thane, for example, was established as a centre for manufacturing when a drought in eastern Uttar Pradesh in the 1960s forced many individuals, mostly Muslims, to migrate south and west to look for work. The cluster formation of economic

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32 One respondent, who went to business school in England, said that nevertheless all he knew about business was from his grandfather, the very model of an embedded manufacturer (2007-lhr26).
organization provides a means to maintaining relationships with other firms, workers and non-traditional forms of capital.

One Bhiwandi firm, with 200 powerlooms making ‘shirting’ fabric from blended yarn, was set up by the respondent’s father, who had worked as a watch-maker until the drought, migrated to Bhiwandi in 1962. After self-educating as an accountant, he worked for two pre-existing firms before starting up a small operation, with four second-hand looms, in 1970. He then built up the business gradually since then (2008-bom27). In another more established firm, my respondent entered the family trade directly – he came from a family of handloom manufacturers who had migrated to Bhiwandi from Bhopal two centuries ago and started powerloom production – by setting up 18 powerlooms and a weaving machine in 1983. He has recently invested in higher-technology shuttleless looms and ‘4-by-1’ machines that produce 2000 meters a day (2008-bom28). Yet he was uneasy with this investment, claiming that they were not good at producing ‘shirting’ fabric. He has instead thought of going back to conventional looms and concentrating on shirting and lungi production, as well as agricultural production: “I have a great liking for agriculture. My forefathers had their own farm, in addition to their looms. I have some land, but it is not yet developed” (2008-bom28). The atmosphere in Bhiwandi, in addition to the relentless noise of powerloom operations turned to dead silence when there are power cuts, is one of ‘relationality’ – the first respondent I mentioned took me to lunch, and then took me to my meeting with the latter across town, and stayed for a half-hour conversation about their respective businesses. There are, in addition, other signs of cultural cohesion: my first respondent talked at length of being an active member of the Tabligh-i-Jamaat, a Muslim missionary organization with millions of members throughout South Asia. He mentioned that many of the Muslim powerloom owners were also Tablighis, and further that different parts of town, and different products, were controlled by different sects and communities. (2008-bom27) What was missing from these discussions was talk about education and business training.

Surat, another well-known powerloom cluster, has many of the same attributes as Bhiwandi, though from different communities. One manufacturer comes from an old extended family group that started as a family of handloom weavers from the Kattri community, and who then worked on powerlooms owned by others before establishing their own factory (2008-sur5). This manufacturer’s father was educated in textile engineering at Bombay and learnt how to apply textile processing to nylon in Leeds in the 1960s, but was more influenced by his father, a trader, than by his scholarship years. The family’s small group of companies was an early adopter of partially oriented yarn (POY) texturizing and processing. This respondent mentioned that the family structure of the business lessens risk, as different operations function as independent profit centers, but that the culture of the business is diminishing as different individuals and communities enter into the business:

We used to be one of the largest manufacturers in Surat a long time back, gradually we felt that the business had a lot of unhealthy practices. Until 1975-1985, we were into fully fledged marketing of own product under the brand name [deleted], but then a lot of migrants came in and they stick to all these unhealthy practices, evading taxes, etc. We couldn't compete in integrated production. We slowly backed out -- we were a conservative family, we backed out. (2008-sur5).

An informal conversation with this respondent’s brother underlined a perceived destruction of values: the latter was deeply concerned about the lack of trust inherent in upstream and downstream relationships, in terms of suppliers of raw materials demanding payment up front, yet customers
such as garments firms or brokers not paying regularly for products. In one sense, this is a traditional neoliberal concern in India about the sanctity of contracts and rule of law, but the point is that in Surat, these concerns used to be addressed through cultural ties, and that system is seen as under threat. What remains strong is the culturally mediated forms of labour recruitment among the mostly migrant workforce, wherein mukadams or jobbers recruit co-ethnic individuals, provide them with housing, food and protection, and together form a monopoly of jobs in textile firms (2008-sur4, 2008-sur5). In places like Bhiwandi and Surat, Ludhiana and Tiruppur, production on powerlooms was a direct and ultimately successful challenge to the norms of composite fabric production by integrated mills. The industrial families and groups that provided this challenge did so by seeing the economy as a cultural network of ties that were fostered through apprenticeships and working in the family firm rather than professional education.

The challenge to the composite mills was located not just in clusters in small towns in western India but also in the industrial districts and suburbs of large cities. One of the most successful spinning firms in India, with nearly $1 billion in sales turnover in 2007-8, was established recently in Okhla by the scion of an old family of Delhi fabric traders, who deployed capital to take over spinning mills in both India and abroad after margins in trading became too thin. He joined the family business in August 1992 after graduating in commerce from Delhi University. Another, much smaller, spinning operation was established by a respondent from a Marwari textile trading family who qualified as a chartered accountant in 1974 and worked for a number of mills in northern India before setting up his own spinning unit in 1994. He also works as a broker in the Delhi commercial real estate market (2007-del25). In Bombay, families of textile traders – particularly Gujaratis, Sindhis and Marwaris – have established spinning and processing units in textile centers such as Coimbatore and Ichalkarang; one “took [textile training] up” from his parents without university (2008-bom20), whereas another received a degree in mathematics but went straight to work in the family business (2008-bom18). Throughout these interviews with respondents I have subsequently classified as embedded, both traders and those ‘in service’ for industry such as accountants tended to put more emphasis on work experience, either in family businesses or similarly situated firms, than educational qualifications.

In Pakistan, embedded industrialists grew out of similar roots, with an even more explicit ‘outsider’ position relative to the industrial oligarchy mentioned above. Powerloom weavers in the textile city of Faisalabad provide keen insights to this embedded perspective. I met one of these respondents in an office right above his factory, in an outlying area of Faisalabad known for its cluster of powerloom operations (2007-fsb3). A medical doctor by training, he has never practiced and devotes most of his waking hours to the business that was established by his father, who was a farmer in the district and invested in a modest shed of two powerlooms during the 1960s, growing piece by piece to currently operating more than a hundred. My respondent remembers having grown up with powerloom production as part of the household. He still maintains an ethic of spending more than fifteen hours in the office or in the factory, handling most aspects of the business himself or in conjunction with his brothers, rather than delegating them to managers or professionals.

This set of operations is also situated in the fabric of regional textile trading markets. The city is home to the storied sultan mundi, or yarn market, from which lower count yarn is purchased, and a network of wholesalers and middlemen, arbi in Urdu, who purchase grey fabric from powerloom operators to send to processing houses and manufacturers of home fabrics. A number

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33 On this system, more later. One labour circulation and recruitment in southern Gujarat, see also Jan Breman, *Footloose Labour* (Cambridge: Cambridge University Press, 1995).
of respondents mentioned the strength of relationships between manufacturers, middlemen and retailers, with individuals mentioning each other by name and reputation.

This cultural context of market relationships, far from self-limiting industrial capacity, can serve as a platform for successful industrial ventures. I visited the newly integrated textile production of a group founded by another Faisalabadi – “the baba [Old Man of textiles]” in the city. He had vocational training as a technician, and had served as a foreman and general manager for a number of the big spinning mills before purchasing a small number of Pakistani-made powerlooms in the early 1980s (2007-fsb5). Since then, the factory has expanded organically using reinvested profits into higher technology shuttleless looms, and then expanded into garments, warehousing and exports. Now the group has a turnover of $65 million, and yet, even while the operations have modernized, its 75-year old founder still spent most of his day on the shop floor.

As in India, embedded perspectives exist among firms in the metrolises of Pakistan as well as the regional cities. A manufacturer in Model Town, Lahore comes from a family of farmers in the small Punjabi town of Muridke, who started up a sugar refinery and then, later, a spinning mill in the district (2007-lhr8). Apart from an emphasis on farming and agricultural processing alongside yarn production, he was involved in provincial politics, serving as a member of the provincial assembly for Muridke. In this instance, experience in provincial politics and central concerns in agriculture correlate with a particular set of strategies in textile manufacture. A young respondent in Karachi, from a small Chinioti family whose father was a production supervisor for a larger mill, himself worked for another textile mill after he graduated from Lahore and moved to Karachi. He has a small but lucrative business in embroidery finishing for export garments. Yet his business and factory is situated in one of the oldest and most labyrinthine textile markets in the city, and an office environment that signals his interest in maintaining networks with traders in the market (2007-khi11).

Embedded perspectives animate many industrialists in South Asia. Many of the industrialists I interviewed would identify with the ‘self-made’ label, of pulling oneself up by one’s bootstraps from agriculture, from trading, from service with other companies into entrepreneurship. As such, they have a perspective that looks up from their roots in the villages, towns and middle class neighborhoods of ‘middle’ South Asia and puts more emphasis on work experience then their in-country educational backgrounds. As such, I argue that they would tend to see the economy as a set of developed personal relationships, and establish practices and strategies in line with this vision.

Technocratic Perspectives

In South Asia, technical education abroad or with elite educational institutions, such as IITs and IIMs, domestically most easily indicate technocratic perspectives. Yet, in the textile industry, those with these educational backgrounds come from two different sources. The first are old composite millowning families whose scions have successfully managed to cut their ties to their former business practices, often with the help of technical or business training abroad. In the Delhi NCR industrial suburb of NOIDA, an industrialist with whom I met in a gleaming new glass building leads a traditional Marwari group (2007-del20). His father-in-law set up the company as a trader and then millowner in Calcutta, and then set up mill operations in Rajasthan with support from the state government. Because his operations were in northern India and were smaller than the Bombay mills, the group was able to survive the shocks of the mill sector in western India in the 1980s. The group now is headed by his son-in-law, who was educated first in an Indian Institute of Technology and then at graduate school in Chicago, and who worked as an engineer before joining
the company. Under this transitional leadership, the group has diversified within textiles from spinning to weaving and garmenting and even upstream from textiles to power generation. The group has generally become oriented towards value-added products, or a strategy of “diversifying upward”.

In Bombay, a venerable millowning group teamed up with a multinational corporation to set up a joint-venture corporation in the 1990s for the manufacture of denim fabric for export. The firm has since cut any direct management ties to either the Indian group or the multinational, and is currently run independently and professionally along the requirements of the multinational (2008-bom36). In this instance, a pre-independence textile group in a certain amount of economic trouble voluntarily cedes control to business professionals; this professional leadership has remained in place even after the multinational pulled out. In Surat, an established textile weaving group moved into branding and fashion fabric design in the 1980s under the leadership of a managing director from the owning family who received degrees from Michigan-Ann Arbor in engineering and Stanford in mathematics, and has backward integrated into the polymerization process that creates the raw material for polyester yarn (2008-surr7).

In Pakistan, some of the big groups have successfully transformed themselves from cotton yarn manufacturers active only in the domestic market towards value addition and integration into international markets. The managing director of one of the biggest textile groups in the country described his company as operating very much like most other Chinioti family textile groups until they were faced with near-bankruptcy in 1972. At that time, a customer suggested that they focus on quality consciousness, and since then the group has been in business providing yarn and fabric for major international buyers. My respondent has since taken several management courses outside the country, even while the firm has grown considerably (2007-lhr6). Another Lahore-based entrepreneur, from a family of Chinioti traders in Karachi but who entered the military and was trained at Army Medical College, went first into the trading of raw materials and then in 2001 into spinning a special kind of yarn, called slub yarn, that is used in the fabrication of denim (2007-lhr21). This respondent, even though he comes from a family background among a network of traditional traders, has broken with the family networks and established a more technocratic perspective on building business relationships: “You have to make your name first, and your money later on. Make contracts, and then ask for premium later on; the buyers want a decent supplier. It’s about building… the brand” (2007-lhr21).

Another group of industrialists informed by technocratic perspectives are those who – after training, work and professionalization in corporate contexts overseas – decided to invest in the establishment of manufacturing operations. A Karachi industrialist, head of a firm that manufactures denim cloth and jeans, studied electrical engineering in the US. When his family decided to set up this undertaking, he did a great deal of planning and preparation in advance:

We ventured into this thing… [and] I took the responsibility: to build the plant, to find the technology (rope technology in the US, slasher technology in Europe). I said, let's go to the US to find out what they use… I started this thing up, I looked at mills in the Carolinas, Atlanta. I selected machines and set up Pakistan's first rope-dyeing plant (2007-khi08).

The industrial undertaking itself was inspired first by the fact that as Pakistan’s domestic garment manufacturing was taking off, they had to import denim from Hong Kong. Yet, unlike the previous generation of import substitution efforts, this involved the adoption of processes, techniques and perspectives from abroad to help Pakistan compete in the globalizing markets in apparel. In
Ludhiana, a major textile group – with 100,000 spindles and more than a hundred high-tech looms in the manufacture of terry towels – was started by a former child laborer who worked his way up to entrepreneurship through various businesses, before establishing a fertilizer plant and then textile operations. His humble background was nonetheless not involved with trading or working in other firms, and his perspective was most clearly signaled by his intimate involvement with higher education in Punjab, having served as a director of a polytechnic. (2007-lud3)

Products do not define the technocratic perspective as clearly as one would think. In one of my few interviews with a female industrialist, in Bombay, my respondent described how, from a middle class Sindhi family in the Breach Candy neighborhood of Bombay,她 established an embroidery business when one of her friends who had migrated to the US had started a fabric business and needed a supplier (2008-bom41). While the nature of embroidery manufacture is labour-intensive and produced by traditional communities in small karkhanas or factories, the design and deployment of this work is not. My respondent has employed several fulltime designers from the National Institute for Fashion Design (NIFT), and has a complex system of supervision and quality control. This enables her to supply to designers in high-end fashion in the west, markets that would be inconceivable to those who look to conservative cultural traditions for inspiration.

Perhaps the most interesting example of technocratic perspectives in textile manufacturing was established by a foreigner comes in neo-traditional garb. This firm, one of the most successful textile companies in India, was established by an American who came to India in the 1960s on a project with Macy’s Department Store and the Ford Foundation in support of handloom production. He set up an export-oriented unit for handicraft textiles, originally under contract with the home furnishing store Habitat. Since the 1990s, however, the emphasis has turned to the domestic retailing of handicraft apparel, manufactured by craftspeople in communities throughout the country and collected by the firm’s merchandisers (2008-del50). This orientation is enabled by a new demand among urban middle class and elite consumers for cotton handicrafts, and I would argue that, far from reflecting traditional orientations, Fabindia’s roots and strategies reflect a technocratic perspective that remains constant even while they deal with traditional producers and shift from international supply chains to the domestic markets.

I have argued above that the producers of cotton textiles – yarn, fabric and finishing elements – pursue their productive strategies in line with very different perspectives on industrial production, fashioned from their professional and educational backgrounds. As an old industrial order, established before Independence and dependent on Fordist forms of production and consumer markets, declined to obsolescence in the 1980s, two very different forms and meanings of textile production took its place. The first, in explicit challenge to the old composite mills of Ahmedabad, Bombay and Karachi, were those who invested in powerlooms, disaggregated spinning units. These individuals, establishing units in provincial towns and peri-urban areas, derived capital and experience from trading, farming and working in textile mills rather than from education or training in elite institutions. Thus, I would argue they would tend to see the economy as a network of particularistic relationships and thus form strategies in accordance with those perspectives. Other manufacturers, motivated by education and training in elite institutions, see industrial production more mechanically, as a structure of systems and practices, and form strategies and practices on the basis of this. In the sections below, I will outline some of the implications of technocratic and embedded perspectives on central elements of firm strategy: the recruitment and retention of labor, the acquisition of capital and relations with the state.

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Labor

Recruiting retaining workers and managing labor relations is a key activity for success or even survival in the textile industry. Yet there are different sorts of strategies available for the execution of these tasks. I argue that different firm-level labor strategies arise out of the different perspectives manufacturers hold on the nature of industrial production. In general, I argue that embedded manufacturers employ cultural and kinship ties to anchor workers. Through paternalistic ties and frequent interactions between the manufacturer and her workers, levels of productivity and flexibility in production are maintained. This is especially the case within industrial clusters.

Clusters like Bhiwandi, Surat and Tiruppur are characterized by city-wide labor markets across many different units and the intermediation of recruitment by jobbers or contractors. Tirthankar Roy characterizes these sets of relationships, in relation to the old model of craft production and handlooms, as close to predatory capitalism:

Few employers have the motivation to invest in welfare because the workers do not ‘belong’, and because the individual worker, being always substitutable, is rarely seen as an asset… at a deeper level, [this] reflects the short-term and opportunistic nature of the contract between employers, workers and the city itself⁴⁶.

Yet the way individual industrialists describe their strategies for recruitment and retention is to use idioms of paternalistic support rather than investment in human assets. In Bhiwandi, manufacturers recruit laborers from their own homelands in northern India, and that creates some kind of a bond:

They mostly come from UP / Bihar (close to my own native place), these farmers. They come directly to factories in search of a job, two or three people every day. All this area is powerlooms -- they come to us directly, when we need them we hire. Generally, they are experienced -- if someone is new, they come with friends and get training with them. (2008-bom27)

The city is also split up, with different mohallas or neighborhoods producing different types of material, and thus recruiting ethnically homogenous workers from different parts of India. This respondent said that in his neighborhood, where powerloom units produce sari material and blouse pieces, the workers come from the north, while elsewhere, units produce men’s ‘suiting, panting’ and recruit workers solely from Tamil Nadu and Andhra Pradesh. (2008-bom27). Another Bhiwandi manufacturer said that labor recruitment was handled through contractors, who brought teams of ‘stitchers’ who would “stay for six months plus and then leave” (2008-bom28).

Industrialists in two other clusters, Surat and Tiruppur / Coimbatore, explained at some length the strategies of recruiting and retaining labor by contractors in their cluster. A Surat manufacturer describes the operation of the contract system this way:

In textiles, ninety percent are migrants, from UP, Bihar, Orissa and Andhra Pradesh. There is a contract system, which has thrived because of no strict labor laws and progressed because of demand. They are paid handsomely, paid part of gratuity. Contractors are settled in Surat, so when someone comes here looking for a job, they must go through them.

Workers stay in one locality, because contractors control slum areas – they assign five-six workers to one house, and provide them food and security. The contractor is responsible for output: he gets paid Re 1 per meter. Workers train themselves. They have small landholdings, they go away for Holi / Barsath for two months a year. Seventy percent [of the units have] one contractor to one company. (2008-sur5).

Thus, manufacturers and contractors have developed a system over time in which the former pays the latter for output, and the latter takes care of the rest. In one sense, we might think of this as deeply hands-off, but in reality the system is based on two levels of deeply personal relationships: manufacturers with contractors, and contractors with their labor gangs. In this sense, the formal provision of means to reproduce labor is replaced with informal yet durable relations over time.

In Coimbatore, textile manufacturers have set up a system designed to bypass some of the formal mechanisms of worker welfare that have led to high labor costs and the sickness of old composite mills. One respondent, the head of a group with spinning units, described how his father-in-law set up a system called scheme labor:

You take a girl from the rural areas [in southern Tamil Nadu], you apprentice her for three years, make her live in the hostel, eat your meals -- she gets Rs. 95-100 per day, and Rs. 30,000 in the end for dowry; these are called scheme workers. This was set up by the head of [name of firm deleted] in 1993-94. If you follow the concept dutifully, the girls get useful skills and you get good workers. Now, there are bad examples, which leads to bad politics: bonded labour. Once inside, they're not allowed to go out. There have been cases of child labor – underage workers. (2008-coi7)

This system of worker management has some horrific aspects, and as the respondent indicated, great scope for abuse. But it is also a system of retention and management that brings in several different elements of culture and paternalism, wherein families send their female children for apprenticeship, and the firm makes commitments to take care of her and provide lower than usual wages, housing and food, and a lump-sum dowry payment at the end of the period. In Surat and Coimbatore, such paternalistic deals make sure that, either through contractors or through agreements with the family, workers are recruited and retained through personalistic relationships rather than formal rules and institutions.

In industrial units closer to the metropolitan cities or large towns and away from clusters, embedded manufacturers still maintain more personalistic and culturally mediated relationships with workers. One owner of a spinning unit in Chandigarh mentioned that while attrition is a problem, he endeavor to keep old workers with him (2007-cdg4). A Bombay-based manufacturer also mentioned that he has retained loyal workers from the start of his fabric printing business in 1991 (2008-bom34). A Ludhiana spinning millowner mentioned that he focuses on certain categories of workers to maintain productivity, and provides welfare as ‘charity’ to retain them and to prevent industrial action:

most of workers are women, traditional artisans. They come from villages, and are cheaper. Punjabi men have all gone to Dubai, or the US. Bihar labor is lazy, contented compared to Punjab. ... There have been no strikes over the last 30 years, the culture here is better, we are paying handsomely. We provide [medical] dispensaries for the workers, involving a charitable hospital. (2007-lud2).
For embedded manufacturers in India, the rising cost and unavailability of skilled or semi-skilled labor is a major concern, yet their strategies for handling these shortages are interestingly based on establishing personal relationships rather than rationalistic systems.

In Pakistan, embedded manufacturers are similarly disposed to construct strategies that utilize personal and cultural connections to recruit, retain and manage workers. The director of a large spinning group employing 9,000 stressed the familiarity of experienced workers in the different units, and their system of welfare provision:

some employees have been here from the very beginning – our oldest employees have been with us for 3-4 decades. People join and stay a part of the company. We bridge the gap between social requirements and what's available -- medical insurance coverage. (2007-lhr4)

A manager in a large firm in Faisalabad employing both powerlooms, finishing and weaving stressed personal connections as well, even though employment is on contract terms:

We have 300 workers on temporary, contract basis, from local areas - the villages. They go back for 15 days. They are kisan-log [peasant-folk] and handgoods craftsmen. Log ke sath [with the people], we are involved as a family, kbudi [ourselves] … You learn directly the feelings / psyche of labor. (2007-fsb3)

The owner of another large mill employing 3,000 people – based in Karachi but with industrial units in Punjab – uses the family idiom and discusses welfare in terms of moral responsibility:

thank God, recruitment and retention is OK with us, We hold on to our employees. In our office, everyone has, at minimum, working for 10 years, and there are third generation employees. To retain them, we treat them like a family. This is not an issue of salaries… when they have an issue of hospital care, I give them slip saying it will all be free. A worker was crossing the road, he died in an accident, and we took care of the family. This was a very poor family, so we gave them a sowing machine so they can stitch at home and start making money. When someone dies, how will their children survive? We do it because it is right. (2007-khi14).

In both Pakistan and India, manufacturers with embedded perspectives tend to see the solution to problems with recruitment and retention to be found in personal relationships with workers and the construction of bonds of commitment. This is obviously easier in clusters where units are small and labor contractors have established a system of recruitment into which manufacturers are networked. Yet, the fact that these perspectives, practices and strategies exist in firms with hundreds or even thousands of employees is strong evidence that it is the perspective of those who establish these policies and principles, rather than the external characteristics of the firm, that defines labor strategy.

For technocratic manufacturers in both Pakistan and India, labor recruitment, management and retention needs to be handled more formally and systematically, in such a way as to lessen arbitrariness and the personal involvement of the entrepreneur. In fact, one Lahore industrialist said, “here is an observation: if the owner walks into the operation of manufacturing -- if he interferes, the firm suffers.” (2007-lhr1). Other Pakistani manufacturers with technocratic perspectives focus
on the government’s inability to provide vocational training, and how it hampers their ability to establish formal systems for labor management:

we are trying to convert [from contract] to salaried workers -- this is a problem because it is difficult to get people to work on salaries in stitching, it's very difficult. So for that, we are opening our own vocational training school and getting fresh female operators, high school graduates. It is difficult because frankly the government should be doing this work, training them in basic skills -- it does take a lot of money and time (2007-lhr16).

Note that this preference for female labor is similar to the scheme workers in Coimbatore, except that the object is to have an organized and salaried workforce, not a rolling group of apprentices. In India many of the same preoccupation with training and formal systems apply. One Delhi-based manufacturer said that his attrition was 15 to 20 percent, but that was not a problem because “we keep on training freshers, even as engineers. So there is no unrest, no shortage; we have a proper scientific system.” (del15) Another Delhi-based industrialists described the problem with the lack of training: “75 percent live in rural areas, they are agricultural workers. How would they have training? We have formal training systems -- formal classroom and on-the-job training to all workers.” (2008-del20). The same respondent went to some lengths to explain the challenges with establishing labor management systems with clear guidelines:

A worker is a human being and we must treat him as such: provide a good environment, treat him well, and pay enough to cover cost of living. Why can't he be a partner? He should feel as responsible [for production] as you are, he needs to be motivated enough. At Tata Steel, [there are] 40,000 workers, and no trade union problems because policies are clear and clean. How do we make a harmonious relationship between managers and workers? We need to coexist peacefully, being confrontationist is not going to help… we need to take a long-term view. (2007-del20)

The emphasis on clear and clean policies – formal systems in other words – as a way of staving off labor unrest was echoed by another manufacturer: “most mills have unions, but if management is just and transparent and fair, they don’t cause problems. If not, then there is unrest.” (2007-del36). And a Bombay-based entrepreneur with a huge workforce again emphasized clear mechanisms and policies: “We have 6000 workers -- a mix of professionals and individual [line] workers. They are emotionally stable, all have professional capacity. For retention, we provide a fixed pay structure, performance management system, and formal schemes to retain workers.” (2008-bom35).

Technocratic manufacturers see the management of labor as they would like to see it, as a stable, clear and transparent system that rewards effort and otherwise provides mechanisms for worker welfare. Many of these firms then execute systems based on this perspective of workers and labor as responding to incentives and clarity.

Labor in both India and Pakistan is a difficult issue; both countries are meant to have excess labor supply and thus low wages, yet skilled labor is scarce, costly and liable to move around. Further, neither India nor Pakistan has established countrywide systems of vocational training or formal arbitration mechanisms that are present in different flavors in the developed and parts of the industrializing world. How industrialists handle these deficiencies in the absence of such systems depends on the perspectives and lenses brought to bear on industrial production. Those looking
through embedded lenses tend to see worker relations through particularistic and personalistic ties that can create commitment, whereas those looking at manufacturing through technocratic lenses only see clear, formal rules and institutions for worker recruitment and retention. These perspectives engender remarkably different strategies and practices, not just in firms of different sizes and contexts but also ones of similar outward characteristics.

**Capital**

Different perspectives on industrial production lead manufacturers in India and Pakistan to feel very differently about the acquisition of capital. Even though textiles is often thought of as labor-intensive, spinning and to a lesser extent weaving have high fixed costs in capital goods. How do different manufacturers acquire the financing necessary to invest in spindles and looms, not to mention wages and physical plant? The age of some of the firms in this industry, thus investment legacies, and the cost of raw materials might weaken the correlation between perspectives and strategies that is more clearly visible in other industries and yet there are indications of this correlation even here.

Technocratic manufacturers tend to use the full market-based options open to them, whether in loans from foreign and domestic banks, equity through public options or borrowing from international capital markets. A large manufacturer in Lahore mentioned that he was balancing lenders, meaning banks, with sponsors, meaning investors and the public (2007-lhr6). Another mentioned that he had taken out Rs. 1 billion in loans from commercial banks for 20,000 spindles and was struggling when interests raised from 4 to 14 percent, “despite personal guarantees,” he said he was considering going public to raise equity. (2007-lhr22) Several other Pakistani firms maintained a debt-equity ratio of more than one, despite the expense of capital during that period: “we hold a 60-40 ratio with the banks: Habib Bank, Muslim Commercial Bank, National Bank of Pakistan… the problem is that the second unit was expensive and now the interest rate is higher, we feel the pain” (2007-lhr31). Another mentioned a 60-40 ratio with formerly more developmental institutions like the Pakistan Industrial Credit and Investment Corporation (PICIC), now purchased by Gulf investors, as well as public investors: “We offloaded part of our equity to the public through the stock market. The price goes up and down, but factory stays the same. The stock is trading, but we get no new capital. We are giving dividends regularly, not like other companies” (2007-khi8). Others, reacting to fluctuations in the interest rate, have sought capital from abroad: “As the interest rate went up, we’ve done off-shore financing. There is the risk of [changes in] the exchange rate, but the dollar- and yen-based financing is much cheaper now. We bought Japanese machinery through [the State Bank of Pakistan]’s branch in Tokyo” (2007-lhr26). Interest rates have fluctuated wildly in Pakistan, leading those who invested to question the capability of governmental institutions to create a stable environment for investment:

When Musharraf was saying yes to everything [in the Global War on Terror], the money was flowing in. The interest rate was 2 percent, and everyone invested in textiles because of the low cost of capital. In 2004, rates jumped from 4 percent to 9 percent within nine months, which is not a sensible jump. The SBI governor said, ‘you should have forecasted it.’ Someone asked, ‘Madam, what should we have forecasted? A 5-10 percent increase, or a 100 percent increase?’ Where in the world does this happen? (2007-khi14)?
This responded mentioned that he had invested from fixed-rate LIBOR-plus loans, through foreign banks like ABN-AMRO and Citibank that were expanding their operations in Pakistan. The hazardous financial environment in Pakistan when I conducted my research hurt a lot of companies. Yet, industrialists with technocratic perspectives both saw no options but to invest using bank or public capital even with those risks, and looked to the government to intervene and stabilize markets, on which more below.

In India, where the financial environment was more stable yet nevertheless costly, technocratic manufacturers used both loans and public offerings for investment. Older firms under modernization have used decades-old relationships with banks that previously involved only short-term loans for wage and raw material expenses ('running capital' in South Asian parlance) for capital expansion: “we used to have development financing institutions for long-term lending and commercial banks for short-term. Now, everyone does everything. We borrow in rupees, term loans come from three banks, and two banks for short-term” (2008-bom10). Another firm described a cycle of loans and repayment: “We recently bought new capital machines – partly from our own money, 75 percent from Indian banks. We paid off once, but then re-expanded, so again there are loans” (2007-del28). Many firms maintained previous relationships and debt-equity ratios of more than unity from running capital, while using public offerings for expansion. One explained: “we have had some banks from day one -- Allahabad Bank, Punjab National Bank, State Bank of India – we have association with them for long time… but public issue is used for expansion. Capital markets are cheaper, but textiles are not doing that well, so there is less opportunity” (2007-del12). Others emphasize the importance of formal mechanisms of reputation in healthy balance sheets: “We get the cheapest rate of interest because we are well-rated” (2007-lud2). Some firms actually promote joint ventures with foreign firms (2008-bom16). Indian technocratic manufacturers articulate frustrations against the government’s inability to create an investor-friendly environment: One mentioned the government’s tentativeness in relation to developed financial markets:

Financial markets are still far away. Actors must get participatory notes -- the government and the Reserve Banks are still unable to let go. They got freaked out [by the amount of] money Indians have stashed elsewhere. You go one step forward and two steps backward. You send wrong signals in world market. It is giving the indication that these markets are not stable, not based on fundamentals, not worth investing in (2008-del20).

In Pakistan, the issue was that the government was not intervening enough, whereas here the government is keeping too tight a leash on the market. Yet, in another sense these are two sides of the same coin for technocrats who want to see the governments create an environment for investment. In both countries, technocratic manufacturers see no alternatives to formal relationships with institutions of banking and finance in the economy.

For embedded manufacturers in my sample, however, the acquisition of finance for working capital and expansion tends be organic, based largely on reinvested profits and family equity, rather than on debt and formal relationships with banks. Public offerings are similarly not appealing for these respondents because of the decrease in ownership and control they imply. In Pakistan, a number of my respondents said point-blank that they did not take out loans or completely paid them off. One said, “we are khudi (self-) financing, we ended all bank loans” (2007-khi2008). Others relied on banks only for running capital: “we use our own equity, and get only running capital from the banks” (2007-lhr8). Some embedded manufacturers used Islamic banking as a way
of reconciling their short-term finance needs with the Muslim interdiction against *riba*, or usury. One manufacturer said, “In 1998, we shifted to Islamic banking, which is not interest-based, for loans over 4-5 years… This is an inside vision, you follow Islam” (2007-fsb1).

In India, manufacturers looking at production through embedded lenses tended also to be cautious with loans and conservative in financing. One fabric manufacturer said that he paid for all his powerlooms himself and only maintained a bank overdraft: “we use our own capital, and operate an overdraft facility from the banks. We bought looms, paid for them. We had 24, we sold 12 of them to upgrade” (2008-bom18). Others might maintain limited relationships with banks for working capital, but avoid expansion through lending because of mistrust of financial institutions. One said, “We borrow internally, and use bank lending only for working capital. With banks, we have a constant relationship, we have only changed banks 3-4 times [over several decades]. Lending agencies are not very kind” (2008-coi7). Another mentioned that banks do not check company’s credentials carefully: “[we have] 10-20 percent bank financing for working capital and capital goods. There are lots of banks, any bank will lend to you – but they don’t do due diligence. We use own money, so we don’t pay interest” (2008-sur5). Some manufacturers maintained themselves as partnerships or sole proprietorships without even going public, and stayed away from expansion through debt: “This is a proprietorship, completely self-financed. I stay away from debt, never take bank loans. I like slow expansion with proper planning” (2008-bom28). Interestingly, a few embedded manufacturers in India who are not Muslim think of bank lending as an unethical practice. One, heading a family-held company with only an overdraft facility, said that he would “go to the bank as a last resort, I do not like going for loans -- it’s an ethical issue” (2008-coi3). Another said, “this is a partnership – we don’t borrow from the banks. According to our principles, we never take loans from bankers. It is funded from profits” (2008-bom34). Manufacturers with embedded perspectives in both India and Pakistan maintain a conservative orientation towards borrowing, which leads to a distaste with the formal institutions of the financial sector.

Strategies for financing differ among technocratic and embedded manufacturers, even though other factors can play a role in how firms are financed in this industry. There is however, I would argue, a difference in the way technocratic and embedded perspectives perceive the role of capital and finance in the economy, either as a disembodied asset with certain return requirements or as the product of toil to be reinvested for sustainable growth. In the former, bank debt or investor equity is seen in a fairly positive light, whereas in the latter, they are hazards or even immoral practices. Economists often think of reinvested profits or internal accruals as an inefficient allocation of capital\(^35\), but in this view, efficiency is one in a number of different factors in decisions regarding financing. Thus, embedded capitalists’ approach to the uncertain conditions of financing in South Asia is that of exit to the technocrat’s voice and loyalty.\(^36\)

### Relations with the State

As elsewhere, I argue that the ways firms view the state’s role in the economy crucially depends on their perspectives on the economy. Those with technocratic perspectives tend to expect the state to do more to forward progressive practices and international norms, so firms can compete

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internationally on a level playing field. Those with embedded perspectives tend to hold the state at arm’s length unless there are obvious problems – notably shortages in power – and otherwise expect the state to support the relationships that surround embedded manufacture by enforcing a sort of a status quo. In the textiles industry, with little meaningful industry-specific regulation and quite a lot of government support – through incentives and in India the Textile Upgradation Fund (TUF) scheme – perspectives and interactions leave room for a wide array of issues.

Technocratic manufacturers feel that in general, as mentioned above, the government should provide vocational training so that there can be a larger pool of skilled labor available without firms having to invest themselves in training (e.g., 2007-del20). Yet, other points of support would be appreciated. One of the central things that technocrats want from the state is clarity and consistency of policy and provision of services. One remarked: “power is cheap, but the administrative setup and support is lacking, it’s unprofessional…” (2007-del15). A Lahore-based industrialist complained of the same lack of consistency against his government: “the biggest problem with government policy is that it’s never stable. We were going to set up mill in a five-year tax free zone, they cancelled the zone after one year. Previously you had to go through procedure, but now, the policy’s changed.” (2007-Lhr30) Such lack of consistency would be infuriating in either country at the best of times, but manufacturers with technocratic perspectives especially tend to both work best on clear guidelines and invest long-term.

Another place for government support is with the international environment. Export promotion boards and government taxation and excise machinery provide some incentives, but some exporters feel like those incentives have decreased, due to the government’s foreign exchange position:

over the years, there has been an attempt to promote exports, but this is reducing. Subsidies are gone, other activities are reducing – there’s not too much there now. A tax break was there once, now gone. The overall forex situation does not make them dependent on exports, so they can afford to do less (2008-bom10).

In Pakistan, export-oriented manufacturers have found the governments’ efforts lacking, even in enforcing international rules: “the government provides rebates and some finance [for Export-Oriented Units] -- but if there are no buyers? We need economic zones, duty-free access to the US There is … access to US from Egypt, Jordan, Bahrain, they run sweatshops.” 2007-khi8). There is a feeling that the government did not prepare the environment for international policy changes, or use it as an opportunity to upgrade the industry: “lots of work could’ve been done because of the quota scheme… everyone knew it was going to stop in 2005. But absent clear government policy, businessmen wouldn’t prepare for it.” (2007-lhr1)

Other manufacturers with technocratic perspectives are positive critics of government policy, when it is supportive in terms of the right policies. One manufacturer in a well-established firm said of the Karnataka state government:

Government is very proactive and helpful irrespective of party in power or what industry, with policy matters, liberal taxation, training. Because we provide a lot of employment, we get tax holidays, investment. The Karnataka government opened 200 Skill Development Centers, the government runs IT classes. We have tax holidays of $10 million (2008-bom13).
Another very large Lahore-based manufacturer – whose father perhaps not coincidentally received the highest civilian award for services to the country – commented on how open to ideas certain sections of the Pakistani government could be: “Whenever we've gone to the government and tried to convince them on certain issues, they've been open. Other times, they have disagreed, they were not convinced. Overall, they play a supportive role.” (2007-lhr6) In general, technocratic manufacturers views on the state tend to be more critical because they have in mind certain issues that the government should be proactive about: establishing clear policies, building human capital, supporting firms abroad.

Embedded manufacturers tend to see the state from a different point of view, as a preserver of values and relationships. Their complaints tend to be more concrete, when the government is not providing obvious services or interfering with workers. A respondent in Delhi provided a prototypical list of complaints: “we have issues with labor laws, problems with infrastructure. The roads are bad, there are no dedicated rail cars, time to port is high. Power is expensive; the government isn't providing incentives.” (2007-del2). Cost and unavailability of power and other infrastructure is a deeply valid concern, but when that emphasizes social cost: “the government needs to step in and help reduce the cost of production. Government hasn't given a regular power supply” (2007-lhr4, also 2008-coi4). Infrastructure and utility supply was an issue in both India and Pakistan, it is the state’s responsibility to provide them, but among my sample this was brought up more by embedded manufacturers than technocrats.

Another aspect to embedded perspectives on the state is that of personal relationships being important to get things done. One manufacturer explicitly said, “it depends on your personal relationship with government., whether in UP, Haryana or Rajasthan. … we are trying to get a gas pipeline and the Rajasthan government is being helpful” (2007-del15). The side of South Asia known as a ‘known-to’ society is important when something concrete needs to get done, rather than general support. One respondent, referring to the nativist labor agitation led by Raj Thackeray in Bombay in the spring of 2008, said that Raj Thackeray had wanted to form a union in our company, and they had an existing union. He said, “I handed papers to Thackeray's number one guy, he said we'll do the needful, and we didn't have a problem.” (2008-bom21) Such deals are a part of industrial life in South Asia at times, yet in the embedded perspective, these relationships constitute the meaning of production, while technocrats try their best to avoid them.

Lastly, there is, in the embedded perspective, a sense that the government is placing its support on other segments of the economy, which are perceived to be more modern and photogenic, particularly IT and banking services. A manufacturer in Tamil Nadu said, “the government supports new-age sectors – it’s the service industry vs. everyone else … We’ve industrialized in spite of the government.” (2008-coi7). In Pakistan, during the Musharraf regime, many embedded manufacturers in different industries were incredulous that Shaukat Aziz, a former Vice President at Citibank, could be effectively appointed prime minister; many in and outside industry thought that he ran the economy like a bank. In terms of Musharraf himself, a Lahore-based industrialist who was also a member of the Punjab assembly said, in an articulate mix of English and Urdu:

Until the prime minister comes from the public, he will never understand the problems at the root levels. They live an upper class life, in the army, army men don’t understand the problems of the regular people. In the beginning, look, they go to the military academy,

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they’re away from home. After that, he’s posted to different places. He has a limited life. He doesn’t know what the problems are with regular people, in regular life, on regular streets, in regular society. How can he even see the people? (2007-lhr8)

During authoritarian regimes in Pakistan, in particular, there is a tendency for appointing politicians and government officials who see the world in very black and white terms. Embedded capitalists would be calling for sympathetic understanding from those who have experience with the personal ties in society. The embedded perspective is in general about embracing complexity in society’s relationships, rather than trying to avoid, ignore or destroy them.

Capitalists’ relations with the state are often fraught; neither India nor Pakistan is a particularly comfortable or easy place to start a factory, and many put blame for this at the doorstep of the government. Thus, responses are rarely uniformly positive, and industrialists’ assessments of state support or regulation of industry is never unbiased. Yet, the various responses from manufacturers with technocratic and embedded perspectives point to two very different manifestations of the state’s nature and purpose. In this context, it is not quite clear what effective state support in a developmental context should look like, when different manufacturers expect different avatars of the state to act differently either to preserve society or to drag it forward towards universalized norms.

Conclusion

The textile industry, in South Asia and elsewhere, represents the birth of the industrial age, and the initial fashioning of relationships between capitalists, workers, financiers and agents of the state that marked industrial production. Over 150 years, those relationships have been broken and remade several times, and since the 1980s – when industrial action and lack of investment spelled doom for the composite mill – have, I argue, diverged into two very different sets of firm-level strategies in the recruitment and retention of labor, the acquisition of capital and relations with the state. I argue that these strategies are motivated by industrialists looking out at the economy and the process of industrial production through one of two lenses. One perspective, which I call embedded, shows the economy and production as constituted by a dense network of personalistic ties. The other, which I call technocratic, shows the economy as a space wherein systems, formal institutions and universal norms of interaction serve as an ideal model for efficient production.

As I hope to have demonstrated, these two perspectives are generated from the different educational backgrounds and professional experiences of those who invest and manufacture in this industry, thus throwing into relief the variation in strategy and practice that characterizes textile manufacturing. This diversity again prods us to think differently about the state and its place in developing economies, whether in fact there is only one place for it and only one mode of being in it. Such questions will be brought out again through the next three empirical chapters: garments, automotive components and pharmaceuticals.
Chapter Four
The Readymade Garment Industry in South Asia

The apparel sector is a key industry for economic development for a number of reasons. Garmenting, unlike other aspects of the textile industry, requires more workers relative to fairly small amounts of fixed capital – sowing and cutting machines, washers and dryers – and thus could be scaled up or down with less difficulty than spinning and weaving. The main markets for ready-made garments are in industrialized countries, where multinationals like Walmart and the Gap have established markets for large quantities of relatively low priced clothing that is sourced from garment manufacturers in the developing world, thus enabling scale production and higher prices than available domestically.

India and Pakistan have certain advantages in global apparel markets. Both countries have domestic supplies of raw cotton and vibrant cotton textile industries. Both countries, though India more than Pakistan, have diversified into the production of synthetic yarn, which allows for domestic sourcing of blended fabric, and both have knitwear production as well as weaving. Many workers in both countries have skills in handling fabric, due to traditional garment-making artisanship. And both countries have decently strong relationships, in Europe and North America, with countries whose firms source apparel, though those relationships are closer with India at the moment given Pakistan’s perceived insecurity. At the same time, bottlenecks and challenges garment production in both India and Pakistan: infrastructure limitations lead to shortages of power, transportation problems and unreliable port facilities, high interest rates and rising labor costs puts a squeeze on profitability, and the seasonality of demand in the industry presents problems for investment and the recruitment of workers. In particular, respondents in both India and Pakistan felt threatened by the scale advantages, greater infrastructure investment and perceived general support from competitor countries, especially China.

How do garments manufacturers establish strategies and relationships to take advantage of the benefits of their context while managing the challenges posed by manufacturing in South Asia? I contend that different manufacturers – based on their backgrounds – see the process of manufacturing in different ways and thus seek to form strategies and attendant relationships on the basis of this perception. According to this framework, technocratic manufacturers tend to seek formal institutional means to recruit, train and manage workers, receive capital from financial institutions and seek the state out in order to push forward a regulatory framework based on norms set by overseas buyers. Embedded manufacturers, however, tend to seek personalistic means to the creation of a committed and skilled workforce, on the whole distrust the inflexibility of formal financial institutions and instead seek organic growth by reinvested profits, and rely on informal links and middlemen to support the contracts that bring their garments from factories in industrial estates in South Asia to Walmart and JC Penney, but also garment markets in the Middle East, Southeast Asia and Africa. Unlike some other industries, garments manufacturers with different perceptions of the production process also have different perceptions on the products, specifically on designs and brands. Studying of the garment industry in South Asia provided a fascinating snapshot of a sector that is both not very old and with many and deep connections with the international economy, such that one might expect greater uniformity of practice.

The chapter proceeds as follows. First, I will provide a brief overview of the background of the garment and apparel industries internationally and in South Asia, and how firms respond to the challenges brought about by increasing international competition. Second, I will provide some empirical justification for my central concepts, those of the differences between technocratic and
embedded manufacturers in how they understand industrial production, based on educational background and professional experience. I will then sketch the implications of these differences in how manufacturers from these two categories recruit and retain labor, acquire capital and relate to the state.

Background of Garment Production in India and Pakistan

The production of readymade clothing for domestic and foreign markets in South Asia is connected with but distinct from the much broader and older textile industry. As with traditional spinning and weaving, the stitching of garments from whole cloth was under the purview of household and artisan manufacture from antiquity. Even after spinning and weaving became aggregated and mechanized by cotton textile mills in the late 19th and 20th centuries, garmenting was a family-based or artisanal activity. Poor families would buy the cheaper mill-made cloth and family members (particularly women) would stitch saris, dhotis, lungis and shirts, while wealthier households would send fabric out to be stitched into clothing by darzis, or tailors, with craft skills passed down through families. Darzis, particularly in northern India, tended to belong to certain Muslim quams or quasi-caste communities, though of course there are many exceptions to that general rule.

Even after independence, the craft manufacture of garments in both India and Pakistan continued in this general pattern. This was both because of the labor intensity of cutting, stitching, embroidery, beadwork and the other tasks that go into making a garment, and because consumer tastes were oriented toward the fitted cotton garments that was the essence of the tailors’ craft. Among the middle class, relationships between customers and tailors were also important; specific personal knowledge of clients meant a more personalized, and thus superior, product. Such specificity was not possible or necessary with the manufacture of yarn and cloth, which had always been made in bulk, either as homespun (khadi) or factory-made textiles.

In the post-independence decades, changes in the garment trade internationally and, later, consumer preferences domestically led to the establishment of mass production in apparel. In the 1960s, the Ford Foundation and other development agencies encouraged the export of craft garments and textiles to Western markets as a part of development aid (2008-del50). At around the same time, the increasing costs of garment manufacturing in the United States and other western countries led to the first international sourcing of clothing manufacture, initially from East Asia; American apparel imports went from a negligible amount in 1960 to $21 billion in 1989 to a high of $73 billion in 2008. Yet, the mass import of clothing from producers abroad threatened declining but still very influential domestic manufacturers in developed countries.

As a result of calls for protection, the Multi-Fiber Arrangement (MFA), also known as the Agreement on Textiles and Clothing (ATC), was put in place in 1974 to facilitate the trade adjustment of domestic textile industries in developed countries. Thus, the export of apparel to western markets from 1974 to 2005 was governed tightly by a multilateral quota regime. Quotas determined how much apparel could be sourced from particular countries, thus limiting overall development through apparel export while at the same time providing each developing country a chance to export to western markets. The quota regime accompanied a steady shift of global apparel

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2 On the development and political dynamics of textile and apparel quotas, see Vinod Aggarwal, *Liberal Protectionism* (Berkeley: Univ. of California Press, 1985).
production in Asia westward, first from Hong Kong, South Korea and Taiwan first to Southeast Asia (Thailand, Malaysia) and then to South Asia (India and Pakistan, but also Bangladesh and Sri Lanka) as the cost of production in newly industrializing countries increased.  

The operation of the quota regime at the international level also lent a great deal of power to state institutions domestically. Governments needed to distribute permits to export within individual country quota allocation. Such a system necessitated substantive interactions between apparel firms and state agencies, such as the Apparel Export Promotion Council in India (2007-del41; 2007-del42), which existed as partly a government agency, partly a trade association. In India and Pakistan, these quota permits established an exclusive if sizeable club of garment exporters who had fewer incentives to innovate as their shares in the country’s fixed quota allotments were guaranteed. In the 1990s, however, even before the expiration of the MFA, guarantees of exports from South Asian countries to developed markets were being increasingly threatened by a series of inter- and intra-regional trade agreements, such as NAFTA, the EU and the Caribbean Basin Trade Partnership Act (CBTPA), which established exclusive preferential trade relationships. The regionalization of world trade was a foretaste of the challenges faced by garment exporters in the post-MFA environment.

Since the end of the MFA on January 1, 2005, international garment supply networks have become a great deal more competitive, and success has become defined more by quality, price and ability to establish and maintain niches in the network than by tariffs, quotas and the multilateral trade regime. This is simply because the declining influence of trade instruments are easily overwhelmed by the preferences of powerful multinational buyers (Walmart, JC Penney, Ralph Lauren, etc) to define the prospects of exports and firm orders. These preferences are largely based on considerations of price and quality, as well as reliability. Firms in South Asian countries, even before the quota regime ended, were relegated to the outer fringes of the value-added hierarchy, producing discount and commodity goods in mass quantities for buyer-driven commodity chains. This niche has increasingly been taken up by China, the firms of which have much higher capacity, better infrastructure for delivery and much lower unit costs.

Firms that have been able to adapt to this new regime have done so based on investments in technology and quality, often in cluster-wide coordinated adaptation as with the knitwear manufacturers in Ludhiana and Tiruppur. Both India and Pakistan have relatively vibrant upstream industries that provide garment manufacturers with a steady supply of good quality, low-cost cloth and yarn. They also have traditional skills and handicraft cultures that hold the potential for higher value-added clothing with intricate embroidery and beadwork that, when tastes for such garments are established, cannot be easily substituted. Yet, my respondents in both countries face a deep and reasonable fear that more market-share would be lost to China and countries in Southeast Asia, countries with more stable political environments and more established infrastructure. Yet export markets do not only include industrialized countries. Consumer demand for lower cost apparel in the Middle East and South East Asia, for example, constitute growing opportunities for garment manufacturers, yet with products and styles of production that might be orthogonal to producing for western buyers. Thus, producing garments for export is defined by a growing variety of destinations, products and channels that was less evident at the height of the MFA regime.

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4 Joshi, p. 15.
5 Joshi, p. 17.
Domestic markets for readymade clothing developed in the 1970s and 1980s, as middle class populations grew and tastes changed in favor of western fashion and the greater efficiency of readymade off-the-rack clothing. A number of relatively well-known domestic brands in India and Pakistan – Raymonds in the former, Bonanza in the latter – have spanned the gap between the luxury imports of foreign labels like Levi-Strauss or Pierre Cardin and tailor-made clothing, thus feeding the consumption needs of an upwardly mobile middle class clientele, shopping at malls and conscious of trends and brands (2008-bom5). In addition to outsourced manufacturing, many of these domestic brands have their own production facilities and upstream processing, weaving and spinning units.

Domestic manufacturers of branded goods come from two distinct sources: reinvigorated and transformed operations of composite mill-owning families that managed to adapt to the decline of the mills in the 1980s, and new investors from professional backgrounds who invested in response to the increasing demand for high-value consumer goods. On the other end of the scale, weavers, processors and smaller garment manufacturers invested in the downstream production of consumer goods catered toward the lower end of the market: dhotis, lungis, shirts and t-shirts, saris, and banyans for the working and lower middle classes to buy from smaller shops in older markets. Yet there is significant overlap between these two markets as lower-quality producers continuously try to upgrade and branded goods are provided to lower income consumers through retail markets. Handicraft products are also making a comeback through a national market for ‘ethnic’ clothing among the upper middle classes: a successful nation-wide distribution network of shops catering to these neo-traditional tastes funnel disaggregated handicraft production through a sophisticated buyers’ network (2008-del50). Such complexity makes it difficult to impute industrial strategy simply from market niche. As I hope to demonstrate below, in the domestic market, as in export markets, garment production arises out of a diversity in products, outlooks and strategies that is in keeping with the different strands of a fragmented consumer market.

**Technocratic and Embedded Manufacturers in the Garment Industry**

What kinds of backgrounds and experiences characterize garment manufacturers in either domestic or export sectors? My interviewees included those who had diversified from spinning and weaving and those who made initial investments in the sector in the last two or three decades. Yet, both those with previous investments in textiles and those who entered directly into garments could have either technocratic or embedded perspectives on industrial production. The most reliable guides or indicators for one perspective or the other remains educational background and / or professional experience if a first-time entrepreneur, or the strength of firm legacies from its founding if this is a multigenerational enterprise.

**Embedded Perspectives**

Embedded manufacturers who entered apparel production from other corners of the textiles industry were often those who had started professional careers as powerloom operators. The relationship between the production of woven cloth and apparel is a close one; powerlooms produce the fabric that is cut and sown into shirts and trousers. Some more traditional Indian and Pakistani garments – lungis and dhotis for men, saris, chadors and dupattas for women – are little more than finished, embroidered and hemmed pieces of fabric. Others have traditionally involved relatively easy cuts, such as the shalwar kameez, which is common for women in much of India and
ubiquitous for both men and women in Pakistan. Thus, it does not involve a great deal of extra investment to shift from the production of fabric to the making of garments: one of the powerloom factory owners I met in Bhiwandi finishes a large amount of fabric as lungis under his own brand, to be sold wholesale through dealers to stores throughout India and the Gulf (2008-bom28). Another garment manufacturer in the Andheri district of Bombay was a Marwari whose father, a retired engineer, opened up a small powerloom operation in 1991. His firm produces fabric for export in addition to shirts for local domestic brands; the garment workers were working in the hall of the crowded industrial estate when I visited (2008-bom31).

Perhaps the most successful transition between fabric and garment manufacture in India is in the city of Tiruppur, an hour East of Coimbatore on the Avinashi Road. Tiruppur is home to the Gounder community, former agriculturalists from western Tamil Nadu who, because of drought conditions, were forced to leave their fields and seek industrial work in urban centers such as Coimbatore. After a period of time as employees in extant factories, they started up their own factories, mostly in powerlooms (2008-trp1). Tiruppur became an knitwear export cluster when an merchandiser from an Italian apparel company came to the town from Bombay in 1978, and established relationships that enabled the technological advancement of the manufacturers to the standards of export:

In the beginning we were producing just the bleached white banians [rough sleeveless cotton t-shirts], and then they brought good technicians from Italy, they taught them about colored / dyeing activities. Now, from innerwear we have graduated to outerwear. We are supplying to all leading stores and leading brands: Walmart, Target, Mothercare, Gap, Nike (2008-trp1).

Even though the Tiruppur knitwear exporters have a strong and steady export market and thus substantive relationships with foreign buyers, the modes of production are based on familial and paternalistic relationships with workers. Sharad Chari describes how manufacturers as former workers were able to effectively deploy the idiom of ‘toil’ to maintain the productivity of workers through presence on the shop floor and the resulting supervision. The fact that the manufacturers of Tiruppur had work experience as workers themselves meant that their perspectives translated into paternalistic labor management strategies.

The current chairman of this Tiruppur Exporters’ Association (TEA) was also one of the first knitwear exporters in the cluster. He had originally been a mechanical engineer from the Gounder community, who was educated at Madras University and then worked for TISCO in Jamshedpur. He then started a small business manufacturing mens’ banians and briefs for the domestic market before opportunities for export opened up in the mid-1970s (2008-trp4). He was one of the few manufacturers in Tiruppur who had come from a background without work experience in textile manufacture before investing in his plant. Other knitwear manufacturers had professional backgrounds that accorded more to Chari’s descriptions. A manufacturer from the Chettiar community started as an employee at the one Tiruppur spinning mill before establishing enough capital to start up knitwear production in the ground floor of the house in a residential area that still acts as his factory (2008-trp2).

Such homegrown businesses growing out of the textile industry are present not just in Tiruppur but also in other regional cities and metropoles. In Ahmedabad, a textile trader I

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7 See also Sharad Chari, “the Agrarian Origins of the Knitwear Industrial Cluster in Tiruppur, India,” World Development 28 (March 2000).
interviewed had, in the 1980s after college, invested in a factory that made children’s clothes originally catering to the domestic market. Since 1995, he has predominantly been exporting to Dubai (2008-adb3). Another childrenswear manufacturer in Bombay was a second-generation entrepreneur. His father had been an insurance agent and worked for a garment export company before establishing his own factory in one of the old mill compounds in 1987. They take fabric from trusted suppliers in the south and convert them into made-to-order products for smaller European importers, with which the firm has personal relationships with foreign buyers built during trips abroad in the 1980s and 1990s (2008-bom8). In Delhi, I conducted an interview with one manufacturer of shirts and trousers who comes from a textile trading family in the north, who got a commerce degree from KU in 1987 before going into retail and then manufacturing. He characterized the region as a place where both suppliers and customers are located (2007-del39). What is in common between these respondents and others in my sample is long work experience and / or family firms in the textile industry as traders, employees or entrepreneurs, which I would argue would take the place of formal education in teaching them the business.

Many Indians however invested in garment manufacture as first-time entrepreneurs, without any experience in the industry. Yet embedded perspectives rise out of local education and work experience that did not emphasize global norms. An archetypical example of this orientation was a respondent with whom I conducted interview in the Paharganj area of New Delhi. An older gentleman, he had worked as a banker in a government-owned lending institution for twelve years before deciding to invest in garment manufacturing, as he felt that “both the banks and the government involve [office] politics, its better to be working for yourself” (2007-del22). He started manufacturing in Paharganj in 1986, initially making boys’ and girls’ clothing but then transitioning to women’s clothes. His operation was in several rooms in a labyrinthine industrial area, receiving raw materials and trading finished products locally.

Manufacturers in the garment clusters in Okhla and Faridabad and elsewhere in the Delhi industrial suburbs tend to be investors from the professions or other businesses. One knitwear producer in Okhla entered garment production only in 1992. His father was educated in commerce in Delhi and had been involved in business and commerce in other industries, such as surgical instruments and paper, since before independence, and had been active as a ‘freedom fighter’ (2007-del29). Another, in Faridabad, is an Indian originally from a migrant community in Kandahar, who went back to India for training in commerce and returned again to Afghanistan before the Soviet invasion. While his factory has been significantly upgraded in technology, he said that he found it difficult to get worthwhile prices on orders and costs getting higher, and he is passing on the torch to his children, who have been educated abroad, and who had a different way of looking at the business (2008-del31).

Another garment manufacturer had an elaborate Horatio Alger-esque life story. He was of a royal family in Sindh before Partition, but grew up in relative poverty as his father worked as a laborer in a textile mill while his mother stitched garments at home for a relative’s textile trading business. He started work as an employee in the same trading company, acquiring traditional printed fabric in Rajasthan and shipping it to production in Gujarat. He left and established himself as a supplier and then a manufacturer in his own right after disagreements with his employers (2007-del38). Here, the ‘school of hard knocks’ orientation was evident in our conversation, which went on at length relating his previous adversities to opportunities later down the road. In Bombay, a partnership firm producing woven fabric apparel was started by two brothers – commerce graduates from Bombay – and two of their friends from the Gujarati Jain community in 1962. One of these partners has established a trading office in New York, though it seems to exist to maintain
relationships with importers (2008-bom3). The firm is now run by the second generation, who are upgrading some of the technology but the respondent was keen to emphasize that they were all from a business community: “most of us are self-employed, traders.” The firm has remained a partnership, and is still reliant on both the quiescent industrial environment in Gujarat and established relationships with particular importers, rather than establishing their own designs or switching to the domestic market.

Another industrialist, based in Bombay but with production facilities located in Bhiwandi, Coimbatore and Hyderabad, was a chartered accountant working for an accounting firm, but with a family in the home furnishings business in Delhi (2008-bom9). In 1997, he left accountancy for export trading of ethnic garments and furnishings before getting into weaving and garmenting himself. Even though production scattered across three different locations, the different relationships entailed in manufacturing are handled personally. In Delhi, Bombay and elsewhere, even some individuals with little or no experience in the production of textiles share an embedded orientation through local education and experience with trading in domestic markets.

The major difference in the Pakistani garment industry is that it has in general been less successful than in India, for several reasons. First, political instability and travel advisories have prevented merchandisers from the transnational apparel companies and stores like the Gap, Walmart and Benetton from establishing local offices or even visiting the country (2007-lhr7; 2007-lhr9). Many of those who invested in the garmenting industry in the 1990s have experienced substantial losses and some have shut down due to lack of orders. Second, APTMA, Pakistan’s premier industrial organization representing cotton textiles, is seen to represent the interest of spinning mills over garmenters, and apparel manufacturers have not yet been able to find an effective independent voice in lobbying the government. This is also in part because garmenters tend to be smaller and more numerous than the large spinning mills, and thus more subject to problems of collective action. However, apart from the external and internal restrictions on growth, similar patterns of divergence between embedded and technocratic perspectives were evident in my interviews.

Significant previous work experience in the domestic textile industry before investing in garments tends to give rise to embedded perspectives. An industrialist in Faisalabad, mentioned in the previous chapter, entered garment manufacturing from powerloom production after serving as a manager in the oldest and largest spinning mills (2007-fsb5). His production is oriented to the domestic economy, and includes institutional garments such as doctors’ white-coats. One respondent in the Kot Lakhpat Industrial Estate in Lahore served as a textile technologist for twenty-five years with different spinning and weaving groups before he established a set of garmenting units, which he controls with authority from the top (2007-lhr9). He did receive an ‘associateship’ from the textile polytechnic in Manchester in 1967, but he afterwards returned immediately to Faisalabad. This firm’s production is 100 percent export, and produces for some high street brands such as Liz Claibourne and Old Navy, yet its practices fit into a rubric of personal control and discipline that makes the firm successful.

Embedded manufacturers in both India and Pakistan came from educational backgrounds and perhaps more importantly work experiences that were formed less by globalized norms and more by domestic education and getting to know the sector through involvement in its workings. These perspectives can be established through engagement with textile trade, with particular suppliers or buyers, or by experiencing textile production as a worker, or through powerloom production before entering apparels, or it could be established through other work in the Indian economy such as government banking or chartered accountancy. I argue that such a perspective of
embeddedness of production in social relationships is hard to leave avoid, ignore or completely
leave, even as successive generations take on the mantle. This is not to say that such a transition
away from this perspective is impossible, but that such perspectives are ‘sticky,’ and thus constitute
what amounts to a relatively enduring perspective on industrial production, distinct from more
technocratic ways of seeing the world.

Technocratic Manufacturers

Those in garment manufacturing that who see production through technocratic lenses – whether
coming from experiences inside the textile industry or from independent professional or business
backgrounds – usually are so because of formative education abroad or experiences that expose and
then predispose them to global standards, techniques and values. It is this formative exposure that
orients them to seeing India (or Pakistan) as a country in competition with other countries, notably
China, toward common goals of growth, productivity, efficiency, greater market share and greater
value in their products. I aim to demonstrate that they explicitly share a set of strategies, often
inspired from abroad even if deployed domestically, that are in line with these goals and thus the
international garment production and supply chain. In addition, as with textile production, the
differences between India and Pakistan are even less apparent because the individuals receive
education and training from generally the same sources in western elite institutions and work
experience in similarly inspired firms.

Some of the representatives of this group come from relatively old and established firms,
such as pre-independence textile mills. For instance, a respondent in Delhi, with a decades-old retail
line in readymade clothing within India, is from a respected Bikaner family who worked in civil
engineering under the Maharaja and then subsequent state governments (2007-del3). When the
family split up, an uncle migrated to Calcutta and gained early manufacturing experience working in
a relative’s banian factory before establishing his own manufacturing setup. My respondent started
off working in his uncle’s business while in university, and then went to the Indian Institute of
Management (IIM) in Calcutta, where he studied under American business school professors and
went on to teach and conduct management research. He explicitly referenced his time as one of the
first students at the IIM was what formed his perspectives on business (2007-del3). Naxalite
violence in West Bengal in the 1960s forced his return to entrepreneurship. He migrated from
Calcutta and established an apparel merchandising business in the Karol Bagh district of Delhi in the
This respondent was most proud of his early innovations in franchising his clothing label, which has
retail presence in northern India, to other garment manufacturers seeking to establish their
production (2007-del3). This is an early example of the recent technocratic orientation toward brand
identity and establishing intellectual property as a way to capture more value from apparel
production.

Responding to trends in high fashion and branding are core tenets of technocratic
perspectives in garment manufacturing; education or experience in the haute couture world, even
domestically, puts these individuals in greater touch with international norms because high fashion is
increasingly a global business. A young respondent relatively new to manufacturing started out his
education in economics and then did post-graduate studies in fashion; he served as designer for an
export house before launching his own brand in 2001 (2007-del8). We met at his small showroom of
designer clothing in a high-end mall, and our conversation centered on the consumer tastes and
preferences of the new urban elite of Delhi; production was an afterthought. The narrative of a
more established high-end fashion apparel producer in Bombay was more complex; his relatives had been working as textile traders, transporting dhotis around small villages and towns in present-day Maharashtra (2008-bom35). Yet my respondent, along with his father and uncle, broke away from the family trading business in the 1990s, established fabric production and then apparel in 2002, because “garments were the best extension of weaving” (2008-bom35). He described his ‘big break’ as a presentation at a textiles exposition in Paris. Since then, the orientation of the company has been to follow the leading fashion trends, with orders from haute couture companies such as Versacci and establishing their own brand. This firm represents a trajectory that started with the most basic and low-quality products in the industry – cotton cloth – and ended with high value-added production, computer assisted design, an entire fashion design team and constant travel to international shows and expositions to stay ahead of global treads. Such orientation entails a good deal of planning ahead: “Couture means working one and a half years ahead, to the winter of 2009” (2008-bom35). In part, the impetus for such a marked trajectory is the personality of my respondent, the managing director, who is relatively young and dynamic. Others in the office described how he had natural instincts for the world of high fashion, supplemented by constant travel and a feel for production. Unlike other fashion design firms, this one has significant and vertically integrated production from fabric to finished goods across five different units in Maharashtra. Here, value-added fashion-oriented product is wedded to technocratic industrial production through a process of generational change.

Most of the apparel manufacturers I met with in India were relatively small and integrated into clusters and industrial districts, but were definitely divided on different perspectives, education and experience. A garment exporter respondent in the NOIDA industrial estate came from a humble background, growing up in the Christian community in Kerala (2007-del33). After he migrated to Delhi for work and received secretarial training in 1978, he started work as a personal assistant to an American fashion designer who was working in India. After working as the office manager for several years and gaining experience with sampling and production, his employer hired him to take charge of production and merchandising for his Indian operations so he could concentrate on design. After several more years, he established his own firm in 1995 and his own production in 1998. He has since pursued a policy of establishing his own designs – in collaboration with in-house designers trained at the National Institute for Fashion Technology – and proactively approaching foreign merchandisers with these designs, as well as focusing on smaller importers with more limited but also more frequent orders (2007-del33). This strategy is markedly different from more embedded manufacturers who see the demand for garments as essentially given and the task is to compete for orders.

Another garment manufacturing firm, in Okhla, was established by a Delhi family in 1975; my respondent’s father, the founder, had invested in the industry because of the “greater opportunity, and not many people were entering it at the time.” (2007-del27) The respondent himself is taking over the firm, and he has a degree in textile technology from Manchester, and has thus been active in upgrading the technology and processes of the firm in line with his technological training, as well a diversification of products, into women’s wear, and markets, into Europe from the United States (2007-del27). I believe that part of what technocratic perspective provides for these manufacturers is greater flexibility and adaptation in terms of the supplier chain, but not with the processes of production itself, which can be subcontracted and institutionalized.

In Pakistan, technocratic manufacturers in the garment industry tended to be those who invested in the sector with capital they acquired as professionals. A knitwear manufacturer from Lahore was a graduate instructor in economics and an elite civil servant in the Police Service of
Pakistan for nine years before being obliged to leave for political reasons; he then served as a corporate director in one of the main textile groups for twelve years before leaving to start his own firm in 1988 (2007-lhr7). As a business executive,

I had a strong urge to break out on my own, but did not have enough money and did not come from a business family and so could not plunge into business straight away. So I worked with the Group, I learned the tricks of the trade -- how business is done in Pakistan. I got into real estate in a very small way, and then gradually built [capital] up (2007-lhr7).

He mentioned that it would have been more natural to enter spinning or weaving, because of his past business experience, but he did not have the requisite capital for these high fixed-cost industries and thus entered into knitwear with a goal of continuing value addition and investment. He also mentioned that he received an executive education course at the Harvard Business School a couple of years before establishing his own plant. Another garment manufacturer, in Karachi, came from a muhajir (migrant) family who fled from Bihar, with his father working as a research economist at the State Bank of Pakistan. He, like the respondent mentioned above, took the Central Superior Services Examination but rather than working in the civil services, he became a banker and worked for global banking institutions on producing country reports in Africa and the Middle East, including Saudi Arabia. He gathered capital and entered garment manufacturing in Pakistan in 1988, when the market was growing. In both of these stories, we something in common with Pakistani technocratic manufacturers in other industries: investment of capital gained as a professional abroad.

I argue that technocratic and embedded lenses provide portraits of the rest of the economy that are markedly different. The former shows a dense network of informal and personalistic ties, functioning on learned practices, that hold together firms and their workers, sources of capital and relations with the government. The latter portrays a space that should be governed by universalized institutions that establish systems for the firm’s needs. How manufacturers act on the basis of these perceptions in forming strategies to recruit and retain workers, acquire capital and relate to government institutions is, however, what is principally at stake here. If external conditions – labor markets, financial institutions, the agencies of the state – are acting in such a way that forces a certain uniformity to the ways that firms can recruit workers and acquire capital, then we should see a relative uniformity of firm-level strategies based on market niche or size, or region. If, however, we see diversity in firm strategies explained not by institutions or external firm characteristics, we might be able to say that different firm-level industrial strategies are generated by the ways industrialists see the economy. Below, we shall test these claims by seeing whether there are in fact differences in the ways in which firms with different perspectives handle relationships with labor, capital and the state.

Labor

Garment manufacturing is the most labor intensive of the industries I have studied, and is one of the most labor-intensive in the South Asian manufacturing sector. The management of workers is thus a vital ongoing task, and not a straightforward one. Skilled workers are in short supply in South Asia, and most workers require some sort of training, even if they are experienced with stitching and cutting. Seasonality affects labor management in two different ways. First, the different fashion seasons in western markets mean that there is a great deal of work in some parts of the year, and a great deal of slack in others. It is hard, therefore, to balance commitments to supporting a workforce...
throughout the year with the rather extreme fluctuations of apparel demand. This is especially the case when South Asia only specializes in spring and summer clothing, meaning that during the fall and winter seasons, buyers source elsewhere. Second, seasonality affects production because workers themselves, particularly from agricultural regions in North India and Pakistan, often are needed in their ‘native places’ for planting and harvesting and for important festivals like Eid and Diwali, creating huge fluctuations in labor supply. As one manufacturer noted,

They are here for the peak season, but leave for the festivals: Eid, Diwali. They go away and are not that worried about losing the job -- they can always get another job. We give them three or four days’ holiday, but people start coming back after one week, and after three or four weeks, everyone's back. They ask, ‘do I still have a job?’ (2007-del33)

As more and more international buyers are moving to systems approximating just-in-time production, wherein orders are small but more frequent, manufacturers must create labor regimes that are flexible enough to cope with fluctuations while strong enough to maintain commitment and retention. How these regimes are created and implemented, I argue, varies a great deal by the perspective of the manufacturer.

Technocratic manufacturers in both India and Pakistan tend to formalize labor management through the establishment of human resources departments and policies, and to persuade workers to stay through training and other investments that represent formal commitments. A garment manufacturer in Delhi explained, “finding but especially retaining workers is hard. The challenge is to keep them motivated, because they can find a job anywhere. We try and provide a good environment, and incentive schemes” (2007-del27). Technocrats focus on pay, incentives and the working environment as a way of retaining skilled workers. These terms are a bit repetitive in interviews with technocrats when discussing labour: “for retention, we provide a fixed payment structure, performance management system, and retention schemes… we provide equal opportunity.” (2008-bom35). Provision of housing and other concrete benefits is also important, as some technocratic manufacturers are not located in industrial districts with workers’ dormitory housing nearby. One manufacturer said, “we train labor; it takes three-four months, and then he gets used to our styling. We pay them well, so they stick with us. We take care of their entire family -- we pamper them, so they work” (2007-del8).

But the essence of the frustration for manufacturers with technocratic perspectives is the need to retain particular workers with skills and knowledge specific to the firm’s designs. One manufacturer, when discussing the seasonality of labor supply, commented: “they always go back to the factory where the payments are good, and we want them because we’ve been giving them training on our styles, our quality. There is nothing we can do about it” (2007-del33). Others have been deeply frustrated with the investments they have made in vocational training, even drawing in foreign instructors:

We recruit locally for whatever jobs are available, and do on the job training. There is a system of apprenticeship -- we call it ustad-shagir, like master and the pupil… But there is not enough education, there is not enough [vocational] training. I spent a lot of money getting expatriates to do training, but then some workers stay and others go (2007-lhr7).

Technocratic manufacturers thus are placed in a difficult spot; the more they make particularistic value-added investments, the more they are reliant on particular workers trained in these skills.
Efforts of retention through formal systems – on the job training, fixed remuneration, performance incentives and formal welfare – seem to help with retention somewhat, but are obviously not foolproof. In general, there is a frustration that vocational training is not provided by the government such that firms do not have to make formal investments in training themselves, on which more below.

For embedded manufacturers, recruitment and retention of workers is achieved and labor is managed through personalistic ties and paternalistic ‘care’ that created affective ties between workers and management, and individual workers to one another through co-ethnic recruitment. The importance of personal knowledge of individual workers is important, and that workers are known to one another. One manufacturer, talking of his workforce, said that “our labor from UP and Bihar, but mostly from Ghazipur. They are mostly Muslims, all tailors. I know most of them. There is this guy working for me, his grandfather was working for me.” (2007-del38). As discussed in greater length in the last chapter, the use of jobbers and labor contractors, although technically illegal, is more prevalent for embedded manufacturers, in part because it aligns with the perspective that labour recruitment is culturally mediated rather than formal. One manufacturer explained this system:

"We have fewer workers on our own rolls. Contractors provide whatever we require. Workers [recruited by contractors] come everyday for eight hours, some for two years or more. They are a regular workforce. You pay the contractor, and they supply the labour. There are industrial pockets: Bhiwandi, Coimbatore, Ahmedabad – this is where factories are running, so people come to find work. Once a team is built [by a contractor], they start running... Jobbers work for you – but the government rules are such sometimes you can't work in some conditions (2008-bom9)."

Other embedded manufacturers need for workers to be vetted, or ‘known to’ other workers or management. One manufacturer from Tiruppur mentioned that he did not use migrant labor, which is ubiquitous in other areas of the country. Tiruppur is perhaps an exception due to the availability of workers, but the reasons he gave against migrants was nevertheless fairly interesting: “we don't entertain migrants – we don't want trouble, so we want ‘known’ workers to introduce others, so we hire local people. Managers come from the South, but workers only from Coimbatore district, because we need to know the person” (2008-trp2). Other manufacturers just go through a more extensive selection process for workers, which in itself is contrary to the technocratic dictum that the training and environment makes a worker more or less productive. A rather severe and paternalistic manufacturer in Lahore described his labor policy thus: “I am fussy in selection: I look at an applicant’s education, family background, integrity, and check whether person is lucky or unlucky” (2007-lhr9). Possible contradictions between worker recruitment through jobbers and the need for deeper knowledge about your workers is I think resolved by the idea that engagement with workers is seen not as institutional investments in relatively undifferentiated factors of production but rather forming a web of relationships. These then provide knowledge of and thus power over workers in order to anchor them and to squeeze productivity out of them, either directly or through the familial institutions of labor contracting.

Labor recruitment and retention, as well as other aspects of labor management, is without doubt a core competency that firms have to develop in order to survive in the garment manufacturing business. Yet, different manufacturers, with different perceptions of what constitutes
the economy, go about handling this in different ways, either through the establishment of systems or the crafting of individualized relationships. The fact that firms in the two categories of my sample are relatively successful even while pursuing radically different strategies raises at least at a question about whether labor markets and institutions of labor regulation enforce common strategies for labor recruitment, investment in skills and retention. Chapter seven discusses the ways in which labor regulation regimes in India have created and maintained policy spaces for different kinds of strategies. The other aspect – that of the labor market itself – is much harder to answer because it requires understanding the strategies of workers themselves. In both India and Pakistan, though for different and complicated reasons, workers in manufacturing sectors are not generally represented by trade unions in an institutionalized fashion. As a result wage levels are defined informally through a combination of market and bargaining mechanisms, usually for particular industrial estates or clusters, and worker grievances are usually expressed through ‘weapons of the weak,’ rather than any formal mechanism. As a result, workers’ strategies are a great deal less legible than the strategies of their employers. Yet, diversity on strategy still points to flexibility and space, or even ambivalence, over the ‘right’ ways to organize labor management.

Capital

Another key issue of importance for manufacturers, and a key point of difference in strategies, is the different ways in which manufacturers in both India and Pakistan acquire the funds necessarily for expansion in plant and fixed capital, working costs – fabric and yarn, wages of workers – and depreciation. The garment business is tough as finished pieces are paid generally paid after shipping on a piece-rate, whereas many of the costs are up-front. Yet, both everyday transactions and long-terms plans for expansion are conducted under conditions of extreme uncertainty, given the volatility of the garment trade due to elasticities of demand for apparel and the turbulence of developing economies generally. Technocratic and embedded manufacturers deal with this situation and in general view capital in relation to the economy in drastically different ways. The different strategies of acquiring capital are a stark difference between the two groups across industries. In garment manufacturing, because of market uncertainties, fewer people take risks as many risks and therefore we tend to see less debt or use of financial mechanisms than in other industries, but the differences are still relatively significant.

Technocratic manufacturers tend to see banks, other financial institutions and, through the stock market, the public as the only legitimate sources of capital for working capital and long-term loans. They generally feel comfortable with leverage because of faith in the entrepreneur’s ability to get returns on investment in excess of the price of loans. This generally translates into debt-equity ratios of greater than parity. One manufacturer in Lahore started his knitwear unit with $200,000 dollars of his own capital and $550,000 of loans from banks (2007-lhr7). A large manufacturer of menswear in India uses internal accruals for working capital but bank-based term loans, negotiated by the Chief Financial Officer, for expansion (2008-bom57). Another Bombay manufacturer also

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8 One respondent mentioned that there were “local unions” in his industrial district, who seem to be jockeying for political control rather than establishing themselves as a united front against management (2007-del27). For more on formal labor representation in South Asia, see Candland, “The Cost of Incorporation: Labor Institutions, Industrial Restructuring and New Trade Union Strategies in India and Pakistan,” in Candland and Sil, eds., The Politics of Labor in a Global Age (Oxford: Oxford Univ. Press, 2001).
emphasized lending: “with bank loans and consortium capital, only need to put in twenty percent [of your own] capital, the rest you can borrow.” (2008-bom35)

A number of different garment manufacturers have stayed away from banks because of high and variable rates of interest, but have grown instead through public offerings on the stock market. One older manufacturer said that his business has grown to eight times its original size using public offerings, and has constituted a corporate board with “professional friends and colleagues with no financial interest” so as to inspire confidence (2007-del3). Another in Karachi mentioned Saudi investors putting up capital for expansion, with internally generated working capital (2007-khi7).

Embedded manufacturers, however, tend to avoid banks for anything but the most short-term loans – for raw materials over 30 or 45 days – and expand instead through the reinvestment of profits and their family capital. There are a number of good and rational reasons for this, as interest rates in both India and Pakistan were high and volatile during the period in which I was interviewing firms. Yet, these are strategies that are long-term and thus not responding to changes in the cost of borrowing. Many manufacturers said that this was a personal, almost moral, decision on their parts, that expansion by your own capital and profits, rather than bank loans or public offerings, constituted a more stable and self-reliant foundation for their enterprise. A Lahore manufacturer said, “I grow on a self-basis /sic/: no long-term loans, only working capital. All capital expenses from my own finance.” (2007-lhr9). A Bombay manufacturer with a plant in Bangalore has run his business without any involvement with banks: “We’ve been self-financed from the beginning. We set up the Bangalore plant with our own capital. We use our own capital for running costs” (2008-bom7). Others maintain a balance between their own equity and bank finance that is well above parity, often as high as eighty percent to twenty percent (2007-del31).

This distancing from the formal institutions of lending reflects a conservative orientation towards equity ownership and corporate governance. While technocratic manufacturers might have publicly traded corporations, embedded manufacturers tend to remain private and might not even set up limited liability; a Bombay manufacturer quoted above said that his firm was a three-way family partnership with no plans for incorporation, let alone public issue (2008-bom7). Both ownership and lending reflects an orientation towards deliberate action and control that is at odds with a market-based view of finance, in which firm’s cannot afford to avoid loans to grow and increase market share. A Bombay manufacturer explained: “this is a proprietorship, completely self-financed. I stay away from debt, I never take bank loans. The best thing is a slow expansion with proper planning.” (2008-bom28).

For an industry as volatile as garmenting, with intense competition and thin margins, there are no really good options for financing operations. It is therefore not surprising that manufacturers – both embedded and technocratic – might be a little uneasy about taking out big bank loans. Some manufacturers that I have classified technocratic based on their backgrounds have even stated that they avoid interactions with banks as a matter of principle: “we are self-funded; it was a conscious decision made by my father at that time” (2007-del27). Yet, given those conditions, it is relatively surprising that there would still be a diversity of financing strategies and that these would generally correlate with embedded and technocratic categories.

Relations with the State

Recruiting, retaining and managing labor as well as acquiring capital can be seen as essential functions or core competencies of garment production. Relations with the state is both a little less
essential and a much more abstract category of industrial strategy. While it is true that the
government in both India and Pakistan forms much of the structural conditions within which
manufacturing occurs, it is not clear how much of this occurs deliberately through purposive state
action or by virtue of the aggregation of quotidian interactions between the regulators and the
regulated. The ways in which the state forms regulatory industrial policy according to which goals
will be explored further in chapter seven, but here I will survey some of the attitudes to and
descriptions of state interactions from garment manufacturers in my sample. This characterization is
important, as it reflects what manufacturers feel to be the appropriate behavior of the state in the
economy.

The key area of state regulation of garments manufacturers – the distribution of export
permits under the MFA quota regime – had been void for at least two years by the time I started my
field research. Discussions in interviews in both Pakistan and India thus revolved around the ways in
which national industry could remain competitive in a post-quota environment, with manufacturers
focusing on the constraints they faced from the external environment. In Pakistan, technocratic
industrialists were deeply unhappy with the ways in which the Musharraf regime and in particular,
the Prime Minister, Shaukat Aziz, were sacrificing long term productivity for short term financial
stability:

they are looking at day-to-day, at the balance of payments - $1 billion coming in, they're
happy, the dollar reserves are $12-13 billion, they're very happy. Where it's coming from,
what is constituting this, is it temporary, is it long term, is the long-term comparative /
competitive position improving or not – all of this not their concern. (2007-lhr7).

Manufacturers across Pakistani industry, mostly with a technocratic focus on international
competition, felt that the government was not creating an enabling environment by investing in
vocational training, providing low cost loans and infrastructure to promote national industry, as
China had done. Embedded manufacturers seemed more resigned to the idea that the government
does not assist industry – in keeping with a self-sufficient orientation, but instead brought up more
concrete constraints, such as infrastructure and electricity shortages (2007-khi11, 2007-khi17). Yet,
in a sense, the points of view regarding the government in Pakistan are truncated both by the limited
size of the sample and by the fact that the Pakistani government at the time had low capacity and
had deployed that capacity to attract consumer spending and investment. One respondent said, “it’s
a political issue: from June 2005, there has been deficit financing, just printing banknotes and trying
to create an artificial boom.” (2007-khi7). Political and economic instability, quite
damaging to
Pakistani garment manufacturers facing a decline in orders from international buyers due to
insecurity, has second-order effects in terms of macroeconomic policy.

India was then and is now more stable than Pakistan and remains a major location for the
outsourcing of garment production. Differences between embedded and technocratic manufacturers
here hinge on whether the state should be the institution responsible for creating an enabling policy
environment, or whether the state is essentially expected to play a role only in protecting current
arrangements. One technocratic manufacturer said there was a need for actual government policy, as
tax and excise “exemptions are not enough.” (2008-bom35). Another said that “business structure is
weak – we need to clean up the mess, it’s making it hard to compete.” (2008-coi5). Yet another was
looking to export promotion councils for leadership: “When the quota was there, we were relying on
those with the quota. Now, there are programs from AEPC, new clusters are coming together under
AEPC… [but] the government needs to help by setting up offices abroad.” (2008-del33). One
technocrat felt like policy orientations were promising, but that priorities needed to be set and corruption curtailed: “right direction, but they need to contain corruption, mostly on the spending side, and delay poverty alleviation” (2007-del3).

Especially in an export-dominated sector like apparels, technocrats tend to see the government as taking charge of creating a framework for its team, including establishing institutions for vocational training, export facilitation and targeted loans. A number of technocratic respondents mentioned Chinese competition: “China is manufacturing at a much larger scale: 8,000 to 10,000 workers per factory, raw materials are cheaper, there is greater productivity” (2007-del27). This particular respondent was somewhat confident in India’s diversification into higher-value added products, but comparisons with China are themselves a sign of international comparisons and norms.

Embedded manufacturers, by contrast, tend to see proactive government efforts as not that essential. One manufacturer, typical of the embedded perspective said, “the government is just normal, it’s not helping but not discouraging.” (2007-del29). Another echoed the sentiment, but mentioned that the state has not kept up its basic responsibilities: “No requirement from the government, they’re not helping … Infrastructure not as per required level.” (2007-del22). Regulations themselves are seen as bothersome, and constitute a frustration for manufacturers who would prefer more complete control over their practices. With regard to labor regulations, manufacturer mentioned: “We can’t fire bad workers [because of] government policy: whatever they do, we follow because we are not big. But it is a concern. If the policy is corrected, I can give workers twenty-thirty percent more [in wages].” (2007-del39). Other industrialists mention the importance of cluster and regional associations for providing internal common governance and support as well as representations to the government; organizations like the Okhla Garment and Textiles Cluster and the Tiruppur Exporters Association fill in where the authorities have not built institutions or supported firms (2007-del31; 2008-trp4). In general, embedded capitalists’ understanding of governance and the proper place of the state is to provide stability and security, rather than active support. A number of respondents with plants in Gujarat preferred manufacturing there because of the commitment of the state government to law and order (2008-bom3, 2008-bom14, 2008-bom22, 2008-adb3).10 In this, the state serves an active role as watchman but not as a regulator or even supporter of economic activity.

The role of the state from the point of view of manufacturers is constructed both by experience and by perspectives of what the economy looks like. In both Pakistan and India, garment manufacturers with embedded and technocratic perspectives see the economy in different ways and this shapes the role that the state should play in it. While many frustrations are held in common, I argue that these industrialists tend to differ fundamentally about whether the state should provide a coordinated framework of standards and support in order to compete with other countries, or whether the state’s role should primarily be to provide stability, consistency, security and a minimum level of common goods like infrastructure. Such different expectations of the government are possible in part because the state itself has different goals and modes of behavior; three blind men can perceive an elephant as a tree, a wall and a rope only because an elephant has tree-like legs, a wall-like body and a rope-like trunk.

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10 I found such statements bitterly ironic given the amount of sectarian violence that periodically wracks the state, including the 2002 riots in which more than a thousand were killed, and tens of thousands were displaced. See Yagnik and Sheth, “Whither Gujarat: Violence and After,” Economic & Political Weekly 37 (March 16, 2002).
Conclusion

In this chapter, I have provided an overview and basic characteristics of the Indian and Pakistan garment industry in the post-MFA environment. I have provided some justification for categorizing manufacturers I have interviewed as seeing the economy through embedded or technocratic lenses, based on their educational background and professional experiences. I then presented the differences between technocratic and embedded manufacturers in terms of core elements of industrial strategy: the recruitment and retention of workers, the acquisition of capital and how manufacturers see the state’s role in their industry. Garment manufacturing is an intensely competitive business internationally and one would think that this competitiveness would enforce some common ‘best’ practices, either through collective action or through state policy. Yet, the diversity of perspectives and strategies among South Asian garment manufacturers serves as a reminder that economies both domestically and internationally have varied topographies, in which diverse ways of organizing production can be accommodated.
Chapter Five
Automotive Components

The most visible sign of South Asia’s development and the rise of middle class consumerism is traffic on the roads of metropolises like Delhi, Bombay, Madras, Karachi and Lahore as well as large towns like Faisalabad, Chandigarh, Pune and Coimbatore. Car ownership is both a remarkable feature of countries like India and Pakistan, with incomes per capita of $1040 and $950 respectively,¹ but is also evidence of its importance for an increasing number in the population with growing resources. The Indian Auto Expo of 2007, held at the Pragati Maidan exhibition grounds in New Delhi, attracted tens of thousands of visitors daily; the lines at the Metro station stretched nearly a kilometer. Such indications of growing wealth among consumers are especially vivid when less than two decades ago, only a handful of cars were on the road and owning a private car was still the privilege of the wealthy or the politically connected.

The explosion of car ownership that chokes roads to a standstill heralds a consumer revolution and rise in the purchasing power of the middle classes. Yet, it would not have been possible without another, hidden revolution in the establishment of a domestic auto industry in India and Pakistan, wherein components manufacturing firms from the 1980s started manufacturing the components that enabled Suzukis and Toyotas to be affordable, and domestic firms like Tata and Mahindra in India started manufacturing their own vehicles. For an industry known for its global oligopolies and powerful multinationals, the fact that India and Pakistan were both able to indigenize the production of components is nothing short of remarkable.

Yet the firms that manufacture components for domestic and international markets exhibit the same variation in strategy present in the other industries in this study. As elsewhere, I argue that the variation in that strategy is the result of entrepreneurs perceiving the economy and industrial production in markedly different fashion. Manufacturers with technocratic perspectives tend to see the world according to global norms of production and business, of networks and formal systems, whereas those with embedded perspectives are more likely to understand and value personalistic norms and ties between suppliers, corporate customers, workers and sources of finance. These two different perspectives lead industrialists to form practices and strategies that are different from one another, creating a pattern of diversity that cuts across popular explanations in the social sciences that focuses on the policies of the state or external firm characteristics.

This chapter proceeds as follows. I will briefly sketch the background of the auto industry in South Asia, explaining how opportunities opened up for domestic firms to indigenize auto component production. Next, I will characterize industrialists of my sample as perceiving the economy through embedded or technocratic lenses through an examination of their educational backgrounds and professional experiences. Then, I will demonstrate how these perspectives translate into different strategies of the recruitment and retention of workers, the acquisition of capital and relations with the state.

Background of the South Asian Automotive Sector

Mass automobile manufacture is little more than a century old; before Ford’s Model-T started production in 1908, craftsmen in workshops made cars to order.\(^2\) Ford’s assembly line, the interchangeability of parts and hierarchical production structures transformed the auto industry. Ford, GM and Chrysler – the three American auto majors – flooded the American market with mass produced cars on a single model of centralized production, and were soon pushing for export abroad to developing markets and then establishing overseas production, following the dictates of the product cycle.\(^3\) Before the Second World War, few countries outside of the West had domestic production of automobiles beyond the assembly of wholly imported Complete Knocked Down (CKD) assembly kits from the auto majors, and most countries imported whole vehicles from abroad.

In the post-war era, however, competition between automobile companies increased and concentrated more and more on penetrating overseas markets. Developing countries also became more assertive vis a vis transnational companies in the establishment of domestic automotive production – as opposed to simple assembly of parts manufactured abroad. This indigenization of production was often established hand-in-hand with the creation of alliances of ‘dependent development’ between the state, transnational corporations like Ford or GM and local capitalists.\(^4\) The industry in the postwar era in regions such as Latin America was thus caught up with tensions between the state and the MNC regarding the capacity of indigenous development.

In India, independence from British rule, the high dirigisme of the Nehruvian era and perceptions among MNCs of a desperately poor country brought about a more radical break with auto multinationals than in other regions of the developed world. The Tariff Commission report of 1953 ordered that automotive companies wishing to remain in operation in India would have to indigenize their production in a phased process over three years if they were to receive manufacturing licenses.\(^5\) This led Ford, GM and other foreign companies with assembly operations to leave India, based on assessments that the internal market was too small to sustain them. In their place, three domestic companies – Hindustan Motors, owned by the Birla Group and based in Calcutta, Premier Auto Limited, owned by the Walchand Group in Bombay, and Standard Auto Products in Chennai – established production facilities under government license.

Throughout the 1950s, 1960s and 1970s, cars like the Fiat and the Ambassador, by PAL and HM respectively, were the only cars on Indian roads. The Indian government, in this high water mark of socialist economic planning, saw personal vehicles as luxury goods. While the government bought Indian-made cars for official use\(^6\) and provided loans for senior civil servants to purchase

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\(^6\) Even now, the Ambassador is still the symbol of government and political power, even though an anachronism: the design is based on the Morris Oxford car, discontinued in Britain in 1950s. In addition, Ambassadors and Fiats are the mainstay of the taxi fleet in New Delhi and Bombay respectively, but I have not seen one in private use in the metropolitan cities.
these cars, car ownership before the 1980s was well beyond the ambit of even the upper middle class. Quite simply, the Indian government did not see automotive products as goods for mass private consumption, and the depletion of foreign exchange required for mass production would be a drain on national resources.

During the same period, Pakistan’s policies were less stringent than India’s in the auto segment. This allowed entrepreneurs to import CKDs and assemble foreign cars for the consumption of the Pakistani political and economic elite. Yet due to the small and concentrated nature of that elite, as outlined in chapter three, meant that, like in India, car ownership was similarly limited to those with political power and immense wealth.

In the 1970s and 1980s, politics in both India and Pakistan would transform the auto industry in the two countries. In Pakistan, Zulfiqar Ali Bhutto’s populist government, following the 1971 war with India and the independence of Bangladesh, embarked on a wave of nationalizations that included auto importers and assembly firms. To upgrade assembly firms into actual manufacturers of small affordable cars, Pakistan invited the Suzuki Motor Corporation to enter into a joint venture with a government-owned enterprise, the Pakistan Automobile Corporation or PACO, in 1983. In the same year, India chose Suzuki as the joint venture partner for its own government car enterprise, Maruti Udyog, which had been set up by Indira Gandhi’s son Sanjay in 1971. The entrance of Suzuki in both countries signaled a major shift in the structure and ethos of the auto industry in South Asia, laying the foundations for the industry we know today.

The choice of Japanese multinationals as partners by state enterprises in both countries was a deliberate one. Toyota, the Japanese auto giant, had in the postwar era established an alternative framework for engineering and industrial manufacturing that was seen as more amenable to localization and domestic production in developing countries than the American model. Japanese systems of “lean production” were better able to capture the gains from technology by decentralizing manufacturing and encouraging subcontracting, collapsing hierarchies and encouraging worker participation, and minimizing inventory through ‘just-in-time’ (JIT) production. The flexibility of production and scale of Japanese cars were attractive for developing countries, particularly in Asia; western cars were large vehicles and thus involved high operating and fuel costs, and thus any mass produced car in either India or Pakistan would have to be a small car.

The Suzuki Motor Corporation was selected from a field of eleven contenders because of the Indian government’s preference for Japanese small cars and the family-run and thus unbureaucratic nature of the company vis-à-vis keiretsu-affiliated firms or large corporations like Toyota. Suzuki was interested because of the crowding of the Japanese domestic market and the government-facilitated necessity for overseas expansion through exports and foreign direct investment. Unlike most state-owned enterprises, the Maruti Udyog-Suzuki collaboration was a tremendous success: the smaller, lighter (and thus more fuel-efficient) and cheaper Maruti 100 car was able to achieve 75 percent market share in the passenger car segment over the next decade.

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8 The Maruti Udyog incident was inextricably bound up with the politics of the Emergency period (1975-1977). For more details, see Raja Venkataramani, Japan Enters Indian Industry: the Maruti-Suzuki Joint Venture (Delhi: Radiant Publishers, 1990), p. 16.
9 Womack, Jones and Roos, The Machine that Changed the World, ch. 3.
10 Venkataramani, pp. 31, 40-41.
The success of Maruti and the politically determined entry of the Japanese multinational into the Indian auto market, the first step in a series of liberalizations, unleashed profound changes in the structure and process of auto manufacturing in India. Crucially, the Maruti-Suzuki collaboration led to an exponential increase in and development of domestic components manufacturers.12 After the path-clearing entry of Suzuki, a number of other transnational OEMs sought joint ventures with established Indian companies as a way of entering the Indian market. This phenomenon was first evident in the commercial vehicles and two- and three-wheeler segment and then spread to the passenger car segment through changes in government policy.13 By the mid-1990s, there were upwards of ten international OEMs from the US, Europe, Japan and Korea. Most have entered the market through joint ventures with a wide variety of established concerns, in the main vehicle and auto component firms. However, while government licensing requirements and restrictions on wholly owned FDI have been lifted, the incentives for local content remain for several reasons. First, the Indian government has continued to levy relatively high tariffs on importing wholly built cars, CKD assembly and imported components.14 Second, because of the lower incomes of Indian consumers, firms must sell their vehicles at a significant markdown from prices in home markets, and domestically produced components drive down costs. As a result, both international and domestic OEMs have strong incentives to build up supplier networks to substitute imports of components, technology and capital machinery like machine tools. Third, vehicles and especially components have to be adapted, at minimum cost, from home market specifications to climatic and road conditions in South Asia, which requires more substantive collaboration with parts manufacturers. Fourth, transnational vehicle manufacturers and their collaborators, such as Denso and Delphi, have followed recent international trends and identified India as a potential regional manufacturing base from which to export products to smaller developing countries (2008-exp15, 2007-mad9). Indigenous OEMs like Tata Motors and Mahindra & Mahindra are already envisioning vehicle export as a primary activity and international companies are becoming more interested in sourcing from Indian component manufacturers (2008-bom43, 2008-bom46). This global placement is partly the result of building up supplier networks since the Suzuki-Maruti collaboration in 1983.

In Pakistan, similar joint-venture agreements have led to a component supplier base that, while not as vibrant as India’s, is nonetheless relatively successful. Pakistan’s equivalent to Maruti Udyog, Awami Auto (a subsidiary of PACO), established a joint venture with Suzuki for the production of indigenized Suzuki cars. At the same time, the government authorized the creation of Millat Tractors, a state-owned enterprise that would create an indigenously built tractor with technical collaboration from the UK tractor firm Massey Ferguson (2007-lhr33). Other government enterprises led to indigenous production of commercial vehicles in collaboration with transnational corporations; many of the highly decorated trucks that ply the Grand Trunk Road and other highways were manufactured in this manner, based on designs of foreign companies like Bedford Vehicles and Toyota Hino. After the initial collaboration that formed Pak Suzuki, other
multinationals, particularly Japanese OEMs, entered the market as joint ventures with local firms\textsuperscript{15} much as the same firms had done in India. These joint ventures led to the cultivation of a component manufacturing base for much the same reasons as listed above for India: the need to indigenize components to road and weather conditions and above all the need to keep components costs low in order to manufacture cars cheap enough to sell in domestic markets.

In India and Pakistan, the density of components manufacturers has led to a diversity of products and strategies, for two reasons. First, OEMs and their suppliers are interlinked in dense relational networks rather than a simple market.\textsuperscript{16} Second, different products and levels of quality among components manufacturers engage in different strategies and thus relate to the OEM in different ways: the more able and versatile suppliers tend to make fewer relationship-specific investments, thus explaining both “vendor heterogeneity and differential treatment in buyer-seller networks”\textsuperscript{17}. Thus, the indigenization of the auto industry in India and Pakistan has led not to a homogenous group of component manufacturers but one that is diverse with respect to product and strategy.

Classically, the single most significant factor in the non-dependence of any third-world automotive industry is the indigenous production of auto components. By all accounts, the South Asian auto component industry is thriving. It is not only locally producing a significant proportion of the components for both indigenous and foreign vehicles on Indian and Pakistani roads, but also exporting parts to developing and advanced markets. According to the Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM), the industry has helped indigenize the contents of Massy Ferguson and Fiat Tractors to 87 percent, various models of Suzuki vehicles from 30 to 65 percent, Hino & Nissan trucks 40 percent, Mazada trucks 35 percent, Honda and Toyota cars 28 percent, Honda and Yamaha motorcycles 80 percent. It has also made investments of Rs. 1000 crores, employed over 40,000 workers and had exports worth $16.7 million in 2007.\textsuperscript{18}

PAAPAM’s Indian counterpart, the Automotive Component Manufacturing Association, is orders of magnitude more significant, both in terms of indigenization and the success of component firms in other areas, such as exports. ACMA member firms had a collective turnover of $18 million in 2007-8, with more than 20 percent, or $3.6 billion, in exports, mostly to international OEMs and Tier-I companies\textsuperscript{19}. My respondent at ACMA clearly identified the 1990s as the turning point at which the industry started becoming globally competitive: at liberalization, tariffs and licensing regulations decreased markedly on components while remaining on completed vehicles, and so the industry came under intense competition from imports at the same time as the international automotive industry was facing a crisis of rising costs and were thus actively looking to source abroad for cheaper components that still met quality standards (2007-del35). As a result, certain Indian component companies who had met the challenge from imported goods were able to integrate themselves into the global auto supply chain at relatively high levels, while also serving a growing demand for OEMs that were establishing themselves in India.

\textsuperscript{15} Automotive OEMs based on joint ventures in Pakistan include Dewan Farooque Motors (Hyundai and Kia), Honda Atlas, Indus Motors (Toyota), Pak Suzuki, Raja Motors (Fiat), Memon Associate Foundry (Yamaha motorcycles), Dawood Engineering / Dawood Yamaha Limited. See Pakistan Association of Automotive Parts Accessories Manufacturers, http://www.paapam.com, accessed 23\textsuperscript{rd} February, 2009.

\textsuperscript{16} Ghani and Khan, “Network Relationships and Asset Specificity in Pakistan’s Automotive Industry”.


\textsuperscript{18} http://www.paapam.com, accessed 13\textsuperscript{th} March, 2009.

\textsuperscript{19} http://www.acmainfo.com/profile.htm, accessed 13\textsuperscript{th} March, 2009. Only 25 percent of exports in the industry go to aftermarket sales, as against 75 percent a decade previously (2007-del35).
Yet, the successes of these industries have come out of the experiences of firms that have a marked diversity of strategy in the components industry. Shifting now from the basic outlines of the industry’s development through foreign and domestic OEMs, we will now turn to what I argue is the source for this variation: the embedded and technocratic perspectives through which component manufacturers perceive industrial production. In the next section, I will aim to demonstrate how these fairly durable perspectives rise out of educational backgrounds and professional experiences of those who invest in the industry.

**Backgrounds of Component Manufacturers in India and Pakistan**

Finding variation in perspectives in the automotive component industry in India and Pakistan is, on one level, a strange notion. First, the vast majority of the industrialists in the sector are engineers by training. Second, in the domestic market, most component firms sell to a limited number of OEMs, as the replacement parts or ‘after’-market has declined due to better vehicle designs, better infrastructure and part replacements through dealerships (2007-del35). Thus, making a living as an independent parts producer, without contracts with downstream companies, is virtually impossible; limiting the number of possible customers naturally limits the number of options in the market. Yet, vehicles have many different components of varying technology, design and specificity, and different companies have established different capacities. Some firms are only able to cast parts from their dies, others can design, make and modify their molds and dies. Moreover, with the opening of export markets, horizons for planning and production have greatly enlarged. Even in the domestic market, OEMs are not cut from whole cloth and do not create all of their supply relationships from the same types of firms. As a result, heterogeneity in terms of firm outlooks is not just possible, but likely. I argue that where these manufacturers receive their training – in local polytechnics or universities versus institutions abroad or elite institutions like the IITs in India – makes a large amount of difference in how engineering is deployed in the production process. In addition or instead of training, work experience – in Indian firms versus technical and corporate contexts abroad – can also form perspectives that can allow manufacturers to make sense of industrial production.

*Embedded Manufacturers*

Both the Indian and Pakistani automotive markets are subject to world-class norms in the form of the discourse and practices of transnational OEMs in-country, and export markets. There is, however, a huge and enduring demand for the less technical components that can be made in smaller batches and at much lower cost. These can be firms classified Tier II -- components of components – or they can be the manufacturers responsible for cast-metal parts without moving systems. Yet, they are as indispensable and can be as profitable as their more high-tech colleagues. In India, many of these firms are situated in industrial areas around the major automotive industrial clusters of the New Delhi NCR, the Bombay-Pune belt and Madras. Some are located in cities relatively close to major clusters in mid-size cities with engineering traditions, such as Ludhiana, Coimbatore and Rajkot in Gujarat. Yet, more than types of parts and location, local educational backgrounds and work experiences within Indian industry characterize the embedded capitalist.

My first industry interview in India was with an industrialist whose father was “in service”, a government employee working for the railways. He received his diploma in Engineering from Kashmiri Gate Polytechnic in 1972 and set up a factory in the Okhla Industrial Area, in Delhi, in
1979 for the manufacture of capital machinery for sheet metal auto parts. The firm, even from humble roots, has done relatively well, supplying to Maruti Udyog from 1984 onward (2007-del5).

For another fairly successful industrialist, an Amballa-trained engineer whose father was in the police, his experience as an entrepreneur started when he took over the gears production company for which he was working as a production manager. He was appointed as the managing director by a government financing agencies when the company became ‘sick’; it has since turned around and now has a sales turnover of Rs. 40 crores (2007-del47).

I met with many embedded manufacturers, particularly from smaller cities in the northern and western regions, at the 2007 Auto Expo in January 2008, in which there were manufacturers from a variety of former professions who invested in the industry. One firm, which manufactures water pumps and pulling systems in Jallander, was founded by a retired low-ranking military officer who had started making bicycle parts and ‘graduated’ to auto parts in the 1960s. Twenty-six percent of its sales are to government departments and the armed services (2008-exp8). Another manufacturer in Delhi began as a farmer in present-day Haryana before he opened a wire shop in the 1970s and a factory in the 1990s (2008-exp9). An industrialist based in Ludhiana had started manufacturing bullock carts and agricultural implements, and graduated to the production of harvesters and assembly of tractors (2008-exp2). This ‘graduating’ into the industry involves extended experience with Indian commerce and trading, which often forms a lens on the economy that emphasizes individual relationships.

A respondent who had traveled from Rajkot in Gujarat to participate in the exposition was manufacturing diesel engine valves for commercial vehicle Tier-I producers and the aftermarket. He was an engineer trained in Gujarat who had worked for two decades in one of the TVS Group companies before going into business for himself (2008-exp6). The Expo experience enabled me to get into contact with smaller but still very profitable manufacturers who often represented themselves or were represented by family members at the exposition. They were sitting at small booths in large exhibition halls, making pitches for orders based on intimate knowledge of products, often drinking tea and sometimes walking around and talking to friends, colleagues and competitors. Many industrialists in all industries in South Asia have working lives marked by such exhibitions, both in-country and abroad, that somehow makes concrete the notion of the industrial economy as a network of personal relationships rather than anonymous markets.

Embedded manufacturers in the southern and western regions exhibit many of the same educational and professional backgrounds. A components firm I visited in the Abattur Industrial Estate, outside Madras, had been manufacturing fuel injection parts for forty years. Its founder was a Madras-trained engineer who had worked for various established independence-era engineering companies before setting up his own firm, which is now run by his son-in-law (2007-mad5). The company itself is a concern concentrating on exports, but currently not to Western markets, and is facing fierce competition with China in developing markets.

In Bombay, firms animated by embedded perspectives were found in industrial areas in the far northern suburbs, or with units scattered among different areas. One was founded by a trader in auto spare parts who had migrated to Bombay from Rawalpindi at Partition; he had started manufacturing only in the 1980s. The company, based in Andheri and now run by his son, is half-trading, half-manufacturing gears for domestic OEM and Tier-I contracts and as job-work for other firms (2008-bom40). His family’s background was not in engineering at all: “we’ve always been in the auto trade.” Another manufacturer was educated as an engineer at a polytechnic in Matunga, in the Bombay suburbs. His father owned a grain store in the Dadar neighborhood, and my respondent worked at his father’s store after graduating and then proceeded to set up three small
engineering units in Bombay’s outer suburbs throughout the 1980s. One exporting to foreign aftermarkets, others to domestic OEMs like Eicher (2008-bom42).

Pune, also in the western region, is home to both embedded and technocratic manufacturers owing to the presence of several domestic and international OEMs. One successful manufacturing firm was founded by an self-educated mechanic from a Marathi community that specializes in craft production – “we are smithies and carpenters” -- who became the toolroom foreman for Premier Auto in the 1960s. His son, a locally trained engineer, was invited by TELCO to set up a small production unit for LCV sheet metal components (2008-pun6).

Perhaps my most interesting auto interview was one that exemplified a clash between the technocratic and embedded frameworks. The firm in question is now shut down, but until the 1990s was India’s largest forging manufacturer, with a turnover of $100 million. The organization was started by three Sikh brothers who had been “traders, farmers and then smugglers during World War II” in Burma, but were forced to flee from the country when the Communist government took control in the 1960s, after which they set up trading operations in Bombay (2008-pun04). My respondent’s father set up the small-scale manufacturing of pump sets for the diesel engine market in Pune, building gradually into a Tier-I company supplying to Bajaj and other foreign collaborations, with auto components manufacturing accounting for ninety percent of the business. My respondent and his three brothers started entering the business at this point, the former almost directly from high school, running a unit at 19 while going to night college in commerce. He set up a separate company with different products and ran it himself, until when his uncle retired and the two companies effectively, though not legally, merged. Over the next several years, the younger generation – under the leadership of my respondent, the youngest son – pushed out the older generation and oriented the company toward an expansion of technology and product:

My father… we made him redundant, we didn't give him the choice: he was unwilling to give up the rein. His formal education was zero, which was fine until he moved to a certain stage. Instead of being the obedient son, I rebelled; I started the company, so issues of permission were redundant. It was a joint family, boss. He was the ceremonial chairman, we never actually forced him out. He's also workaholic, and had his own view. He came from a background -- can't blame him, but we did not necessarily appreciate it. He was in a war, it was about survival. Ownership and other things never actually figured. I say this with hindsight: the Indian joint family is the purest form of communism -- each of us for its capabilities, each for its needs (2008-pun04).

The company, after making ambitious investments and growing 40 percent in the 1990s, had to close down due to a sub rosa conflict with a consortium of banks that forced the management out, even with other significant economic actors, like the Tatas, willing to step in and support the company. My respondent is of the opinion that the banking office in charge of these loans was in league with a rival company interested in buying up some of the assets. The conflict ended in flames with litigation and continuing frustration among most parties, and it signifies both the power and the intimate involvement of financial institutions, on which more below.

In Pakistan, of course, embedded industrialists are a large and active part of the automotive parts industry. Many produce for the domestic OEMs at the lower end of the component range – sheet metal, say, as opposed to electrical systems – or are involved in manufacturing for Tier I companies or for the aftermarket. The identifying characteristics of embedded manufacturers in Pakistan, as in India, is a combination of educational backgrounds in local universities and work
experience in domestic industry. A respondent, a mechanical engineer trained in Lahore who worked for other companies before setting up production in Shahkot in Punjab, had hired his brothers as managers and supervisors. I met one brother in a new plant of theirs in an up-and-coming industrial area near Lahore (2007-lhr24). For this family firm, Islam serves as a guiding influence for maintaining relationships with their workers and within the management; family obligations and the importance of individual labour served to tie the various parts of the firm together and provided an overall direction for progress. One of the brothers commented on the nature of their work: “bath ke saath kaam kya” (trans: [we have] worked with our hands: 2007-lhr24).

Another embedded respondent was running a successful sheet-metal business in Gujranwalla, selling parts to domestic OEMs like Honda-Atlas, came from a family based in Okara in southern Punjab (2007-grw01). His father and grandfather had been self-trained boiler engineers for the railways and for textile companies respectively, and the former started the business of trading and manufacturing auto parts in Gujranwalla. The last two generations have established relationships with OEMs entering into the Pakistani market in the 1980s and 1990s. The company itself is in the process of technological upgrading – including establishing a Computer-Assisted Design and Manufacturing (CAD/CAM) system for die-making, and thus is hoping to pull itself above the increased competition both domestically and abroad. Yet the management architecture is still very much of the old school, wherein the saith, or owner, is personally present on the workshop floor and is part of day-to-day management.

Some embedded manufacturers in Pakistan evince an orientation towards competitive self-sufficiency. A Punjabi industrialist, whose family had started trading auto parts in Sialkot and he earned a diploma and BSc in chemical engineering locally, established a foundry in an industrial estate in Karachi. He said he sits in the factory ten hours a day, 365 days a year to “protect his investments” against competition (2007-khi9). This respondent, a harried man frustrated at the slow growth and progress in Pakistan, lashed out at the inflation caused by overseas investment in Pakistani property in a manner that seems prescient given the foundations of the economic crisis starting in the autumn of 2008. The point here is not that this respondent is harkening back to an era of state-led industrialization, but rather that the embodied practices of industrial production are inconsistent with the hands-off arbitrage of financial and real-estate investment that defined the new capitalism in post-liberalization Pakistan.

In either country, manufacturers in the components industry whose training or education has been in local universities and polytechnics and / or whose work experience has been intertwined with the local industry or trade tend to have an embedded perspective on industrial production. This lens tends to focus on the economy and the relationships that constitute it as a web of individual particularistic relationships with workers, financiers, suppliers and buyers, rather than universal norms. As we shall see in the next section, this has marked effects on industrial strategy.

*Technocratic Manufacturers*

Outside of pharmaceuticals, garments, software and business processing, global outsourcing to India is largely ignored, and yet the part that Indian and Pakistani component firms play in sourcing to the global auto makers and their subsidiaries is significant and growing. Further, transnational OEMs from Toyota and Honda to Daimler-Benz and Ford have increasingly located production facilities in India, where they have both found and cultivated engineering firms with the technological capacity to replace sophisticated imported parts. The firms that are part of the effort to integrate Indian engineering and component manufacture into the standards and requirements of the world economy
tend to belong to a different group than inspired by embedded perspectives. Yet, manufacturers with technocratic lenses have started up outfits more by virtue of substantive international ties, either through education abroad or significant work experience with corporations abroad.

A good example is a company that was established as an ancillary to Maruti-Suzuki when it was first starting production in India and needed high quality, high technology partners that were not extant in the Delhi NCR. Maruti approached the chairman of the company, an engineer/architect who had received an MBA at SUNY Buffalo, to invest in an ancillary (2007-del30). The company started producing connecting rods for the Maruti 500 and then began backward integration into forging and casting of parts, and lately, pressure-die casting of aluminum. The company has gone from one plant in Gurgaon serving Maruti to having twenty-five different manufacturing units in the NCR region, Pune, Baddi in Himachal Pradesh, and Bhopal in Madhya Pradesh. It has even acquired plants in the US, UK and Germany. Its products, including engine transmission systems, are sold either to domestic OEMs or abroad in joint venture with several global Tier I companies in Germany and Japan (2007-del30). The story here, as with similar companies, is an opportunity to supply to an emergent OEM in a closed market, and thus an opportunity with great rents from which grander investments would be possible, that was only open to an industrial entrepreneur with the correct *bona fides* in education abroad to supply to a Japanese OEM.

Other companies have less close and constitutive relationships with domestic OEMs but nevertheless have been able to establish relationships with importers in Western markets by virtue of product innovation. A Delhi-based industrialist with an academic background in engineering and from a political family – his father was the Chief Minister of undivided East Punjab, but as a Gandhian, looked down on industry – started off establishing a typical, small clutch manufacturing setup after working for Standard Oil (2007-del37). What distinguishes this narrative is a decision not to tie up with a transnational as the company grew but rather went on to design clutches that were ten times more long-lasting than American and European designs in the face of Indian road conditions. He thus was able to hold onto 20 percent domestic market share in the face of international competition. As I was meeting him, this individual was planning his third trip to the United States in a month, as he was on the verge of making a deal with a major American truck manufacturer to include his clutches in their parts distribution network, thus ending a decades-old clutch monopoly in the US (2007-del37). Thus, even though this entrepreneur has not studied abroad, his elite family background, work experience with Standard Oil and the strength of his ties with firms abroad has stood in for technocratic training.

One large Delhi-based group was founded by a migrant from Pakistan who, by virtue of having upper middle class parents in academia and government service, received a scholarship for doctoral study in Germany. He eventually became a researcher for a major German chemical conglomerate and one of the richest non-resident Indians (NRIs). He then invested capital back in India, establishing electronics and plastics injection molding production for the auto industry in NOIDA in the Delhi NCR, as well as a chain of private universities (2007-del43).

Professional development can serve as the catalyst for transforming companies as one generation succeeds the next. This is particularly the case with firms in Madras established in the 1960s. The father-in-law of one of my respondents, a diploma engineer from an agricultural family in southern Tamil Nadu, started a small die casting operation in the 1960s under a Soviet-Indian technical cooperation project, first as a supplier to foundries and then establishing his own foundry. His son-in-law, a Bangalore-trained engineer with an MBA who worked in the information technology sector, took over the company in 2005 and has since been professionalizing the
management of the company, dilute dependence on the auto sector and move into more value added segments within it (2007-mad03). Another Tamil Nadu firm was established by an engineer from a trading family who started out working for Larsen and Tubro and then established his own machine shop for machining components in 1975. He moved into the ‘cold forging process’ as a way of cutting down costs. My respondent, a family member, studied engineering at the Ohio State University and spent several years working for Detroit forging firms. Upon returning, he was put in charge of exports, which account for sixty percent of sales turnover and is oriented towards supplying to firms in the US, though the firm wants to diversify to other regional markets and out of the automotive sector (2007-mad4).

Pune, a major hub for production of domestic OEMs, is also now a major production site for transnationals as well, including Daimler Benz, Volkswagen and General Motors. There are technocratic manufacturers who rose up under the tutelage of the older firms like TELCO and established themselves as independent parts manufacturers supplying domestically and internationally. One such firm was set up by a general manager in finance at Bajaj, originally from Mangalore, who set up a steel engine unit in parallel with Bajaj’s production. Now, the firm is headed by the second generation – one son has a graduate degree in mechanical engineering from Pune, and the other has an MBA from a British university – and is positioning itself to supply to GM and Daimler as well as their traditional customers, TELCO and Bajaj, by setting up new plants in greater Pune and Rudhrapur in Uttarakhand, and by expanding product portfolios (2008-pun07). Pune, like Madras and the Delhi NCR, is capable of sustaining a multiplicity of goals and orientations because of the sheer diversity of opportunities there, and thus home to both technocrats and embedded manufacturers.

Opportunities for the high-end manufacture of auto parts are more limited in Pakistan, but there are a number of technocratic industrialists in Lahore, Karachi and elsewhere, characterized by foreign education and business and family ties abroad. My first interview with a components manufacturer was with one such individual, an engineer from Lahore who started working for companies in Karachi before establishing a small operation making plastic shoes in Karachi in 1978 (2007-lhr12). Over the next two decades, he shifted to plastic injection molding for automotive applications, received further professional training at Stanford, and has diversified into technology services and containers and shifted focus to export to western markets, as well as establishing links with major OEMs in Pakistan.

Another major technocratic manufacturer in auto electronics came from an Air Force family and studied engineering in Lahore and received a pilot’s license, before working first at an industrial estate in the Gulf, then getting a post-graduate engineering degree in Los Angeles and ultimately worked for McGraw-Edison as an engineer for electronic systems for five years (2007-lhr14). In 1985, he returned to Pakistan and, given the recent shift to OE manufacturing, founded a firm manufacturing electronic components for cars and motorcycles. This individual has since established himself as a key supplier of designed and manufactured electronics to OEMs in Pakistan, and has been engaged in a number of other projects, such as setting up a new industrial area for the Punjab government and running a small aviation company out of the Lahore Aerodrome.

Along the same professional vein, in Karachi, I interviewed a professional engineer, who came from a business family and did post-graduate training in the Netherlands, who started off as a major official in the state-run Pakistan Automobile Company during the era of nationalized industry. He has since run a component engineering subsidiary of one of the big business groups in Pakistan, set up in the 1990s to meet the demand from their own Japanese joint venture OEM and others (2007-khi23). The company itself has foreign joint ventures and technical agreements with
transnational ancillaries for high technology components, and such a setup entails a technocratic perspective.

Size is not necessarily a good indication for technocratic perspectives. I met with one young manufacturer in an office under the cricket stadium in Gujranwala. He was, typically, a Lahore-trained engineer who started working for one of the established automotive players in the city before moving to the UK and getting a Masters’ in computer-assisted engineering and working for a Canadian company before setting up a company in Pakistan (2007-grw02). He has a stated commitment to facilitating the spread of computer-assisted technology from the West to less developed markets in Pakistan and the Middle East, through establishing a technology services arm and through exports of machined components to the Gulf and companies in the north of England. He even demonstrates his commitment to internationalization by living half the year outside Manchester, the other half in Pakistan. Thus, even at a small size relative to others mentioned above and at a relatively young age, his perspective is both distinctive and different from embedded firms in a regional manufacturing town like Gujranwala.

The world of auto component manufacturing is a surprisingly diverse and complex one given its relative youth, similarities of processes and skills, and the relatively concentration of buyers in the form of OEMs and other major Tier I companies. The existence and maintenance of this diversity is rooted in different educational backgrounds and professional experiences. In turn, these backgrounds are linked to a much broader divergence of perspectives about whether their economies are defined in terms of webs of personalistic ties or spaces subject to universalistic norms. The perspective of any one manufacturer defines not only the current ways of work but future goals and perceptions of challenges. As I will now show, these perspectives have a significant impact on firm-level industrial strategies, particularly in regard to the recruitment and management of labor, the acquisition of capital and relations with the state.

**Labor**

Firm strategies for the recruitment and retention of workers in South Asia are diverse and also significant. Skilled workers are scarce and firms face huge competition, particularly in industrial zones with many opportunities for employers. Auto component firms, in particular, face special constraints. First, component manufacture requires more and better skilled labor than other industries I have studied, and this cannot be easily mitigated by increasing capital intensity, as costs rise steeply and workers are an integral part of an overall strategy of flexible specialization. Second, many skilled workers are being lured away from the industry toward ‘cleaner’, more white-collar labor because of the discomfort of working in a foundry and the increasing opportunity for garmenting or low-end service work in urban India and Pakistan (2007-khi09). Third, just like in garments and other industries with many employees, there are many firms and thus a relatively low cost to any worker who walks out on one company and moves to another. Fourth, region-wide, there has been a dearth of technical and vocational training provided by the government at the same time as traditional skills in communities – in metal-working as in weaving – have been declining. In general, the recruitment and especially the retention of skilled workers was an important subject of conversation for the employers I interviewed, and it was often identified as an important challenge
for the firm. In what follows, I will briefly sketch out the different labor strategies of embedded and technocratic manufacturers.

Embedded manufacturers are generally oriented towards establishing flexible and particularistic labor management regimes. It is not just that these tend to be smaller, but that working relationships are culturally embodied rather than subject to markets or rationalized hierarchies.\(^{22}\) What this means in practice is that any strategy embedded manufacturers use to retain labor may be paternalistic, but will also be less institutionalized and more personalistic; many industrialists sit in their offices in the factory precisely to watch over workers.

One manufacturer with a small engineering shop told me that their preferred strategy was hiring young, totally unskilled and thus impressionable workers and then shape them within the context of the shop floor: “we hire fresh guys, sixteen years old. They are hired as helpers, and after two years’ experience, they can rise to fitter, fabricator, senior fabricator, foreman, etc. Generally, we are not hiring with people with experience; we hire the fresh boys and start working on them (2007-lhr27). This was echoed by a respondent from Gujranwalla, who also emphasized that the workers were recruited locally (2007-grw-01). A Delhi-based industrialist instituted a system to involve entire family units in production, called the Total Employed Family Involvement (2007-del21).

A complex system of labor subcontracting, involving coethnic jobbers or mukadams in charge of worker gangs, has been established in India to maintain the supply of labor, particularly of migrant workers.\(^{23}\) A respondent in Bombay has 100 employees, which were supplied by three or four subcontractors (2008-bom42). For others, recruitment is through relatives of existing workers, with many doing temporary jobs: another Bombay industrialist has 40 percent temporary labor, who rotate every six months, supplied by current workers and contractors (2008-bom42). Regarding migrants, one Pune industrialist, who has 400 employees mostly on contract, maintained that “once you are out of your native place, you become more productive” (2008-pun06). Hiring migrants and provided training to unskilled workers are only two among several strategies that all involve the utilization of individualistic relationships that use close personal and cultural ties to maximize the productivity and maintain the loyalties of workers.

For technocratic industrialists, the problem of labor recruitment and retention should be solved by more institutional means, either in terms of providing tangible resources that enhance productivity – the main one being transportation – or by formalizing relationships on the shop floor. The Bangalore IT-trained engineer running a factory in Madras said that the three planks of their strategy was to situate their factory in such a way as to attract labor at lower wages, to put in capital investments such that one is managing fewer workers at high skill levels – ten as opposed to a hundred – and to give them production incentives in addition to salary and ‘social security’. He does not provide the older institution of housing because “it causes disparity between workers” (2007-mad03).

The vocabulary and culture of human resources tend to take the place of more personal relationships. One Delhi firm that employs 3,700 workers employs college graduates and takes them on as associate engineers to be trained. Policies are driven by specialized ‘experts’, with no tinge of


\(^{23}\) This system is more evident in lower skilled industries such as brick-making and agricultural harvests. For more on migrant labor and subcontracting, see Chapter three and see also, Jan Breman, *Footloose Labour* (Cambridge: Cambridge University Press, 1996).
personal feeling: “retention strategies are based on Human Resources department: communicative, performance-driven… opportunities are there. We have no housing: no sweatshops like in China” (2007-del40). Unlike embedded manufacturers, technocrats are uninterested in managing workers personally, but rather wish to establish institutional systems. In Pakistan, one industrialist who trained in post-graduate computer-assisted engineering in England and has ties there is trying to establish a system of recruitment based on the universities: “now, I’m trying to make relationships with universities: I will go to the principals of the surrounding technical colleges and ask them for their best students so we can get them in their final year with offers” (2007-grw2). There are, however, instances where cultural tropes are used as a means of labor control even in an overarching strategy based on formal systems. The pilot-engineer from Lahore only hires an all-woman workforce for his auto electronics assembly line:

One thing very unique about my production facility is that its 100 percent female, to resolve the cultural issues, and I must say it’s one of the best production lines I’ve ever seen in electronics… basically, women are more dexterous than men and they can do repetitive jobs without getting mentally antagonized. And thirdly, they have the unique capacity that they can work and talk together… historically, they have been doing stitching and knitting but now they can do assembly work and still talk and do it. We actually observed that the men and the boys we had on the production line after a while got very frustrated and disturbed, so we thought of moving them out (2007-lhr14).

During the interview, I was bristling at this respondents’ blanket generalizations. I thought at the time that it was a not-so-subtle form of patriarchal control of labor, as young women have subordinate social and political power in Pakistan. Given the ideational correlate to that power structure, it would be hard to see possibilities for assertiveness, particularly among high school dropouts. While conceding the inherent patriarchy involved, the industrialist in question had established an institutional framework around these workers: they all came from the neighbourhood near the factory and were picked up and dropped by bus, and the “process control and staff management” are handled by the industrialists’ wife, the HR manager and a software engineer. They receive a fixed-salary plus overtime (2007-lhr23). It is also hard to see how these women would be employed on better terms. I visited the factory and found it pleasant, if with a rather schoolhouse feel. I see this case as not one of cultural embeddedness, but a solution to a problem of finding good, disciplined labor that can be placed into systems and institutions. In short, it is a technocratic manufacturer’s dream of committed labor rather a deep interest in forging paternalistic relationships. Labor recruitment and retention is a challenge for any industry in South Asia that has a significant component of labour input in production. Different industrialists with different perspectives on industrial production go about addressing this challenge in different ways. I have attempted to sketch out a quick picture of how embedded and technocratic manufacturers maintain and reproduce their labor forces using different strategies. For the auto engineering firms, particular challenges in skill-sets and flexibility assign a special importance to establishing systems and institutions, as with the technocrats, establishing frameworks of social obligation, as with the embedded manufacturers.
Capital

Since economic liberalization, private lending institutions have proliferated in India and banks have been denationalized in Pakistan. International banks establishing a growing presence in both countries, thus increasing theoretically increasing the competition among lending institutions and leading to convergence on the scope and terms of loans to manufacturing firms. One might assume that with the end to preferential lending, firms would be free and willing to partake in borrowing and investment, if just for running expenses, as a normalized institution of the industrial economy.

What I found through interviews, however, is that, among the automotive component sector as well as other industries, the demand for capital from conventional banking institutions varied widely by the perspective of the manufacturers. Involvement with capital markets in India and abroad signals a certain trust, a certain faith in market transactions, the government and the banking sector. It also a relatively costly signal: while I was in fieldwork in India, interest rates for commercial loans were high, while I was in Pakistan, it was even higher.\(^{24}\) Borrowing capital was expensive even despite massive influxes of foreign investment and remittances. Industrialists believed that funds were directed toward what was seen as more high-value investments, particularly in real estate, commodities and consumer loans for durable purchases (2007-khi9).

Embedded manufacturers in both India and Pakistan in general eschewed major bank lending, preferring instead to reinvest profits and grow their businesses incrementally. The sense I got from these conversations is that they were not only avoiding the high cost of capital, but also following a ‘pull oneself up by one’s bootstraps’ ideology. In India, most component sector industrialists with whom I talked in did not avoid bank lending entirely, but tended to stick with established public-sector institutions and then only for working capital rather than major investments, much as there lies a distinction between using banking facilities like checking accounts and taking out 30-year mortgages. Twenty-six out of forty-eight of the component firms I interviewed in India, or 53 percent, stated that they had little to no involvement with banks, with debt-equity ratios of less than one.

Some large companies even claimed no relationship at all to lending as a point of pride. A respondent, working for a Maruti ancillary employing 2000 workers over thirteen units in the Delhi NCR, stated, “we are debt-free, cash-rich and unlisted [on the stock exchange]…” (2008-exp17). Others started out with bank financing, but have transitioned to financing based on self-generation; a Bombay-based manufacturer said that he had a twenty-five year relationship with Canara Bank as he was establishing himself, but now internal accruals by factory operation meets his needs (2008-bom42). One firm mentioned that they get a small part of their financing from banks, 10 percent, for specific needs such as exporting or generally as insurance against an emergency (2008-exp5). Several others mentioned banks in marginal proportions of five or ten percent of total financing (2008-exp10, 2008-bom40).

The embedded perspective also frames attitudes towards ownership and public funds. Virtually all of the embedded manufacturers I interviewed ran private companies, and many were partnerships or proprietorships. This is an issue of control and freedom on the part of an entrepreneur, not to be weighed down by requirements to report to shareholders or the government: a respondent whose firm had made public issues of shares in the past said that they had bought back most extant stock because “once you have higher than 95 percent [ownership], corporate

\(^{24}\) In India, commercial loans were two-thirds higher than central bank rates for the period in question. Source: http://www.oecd.org, accessed 24\(^{th}\) February, 2009.
governance reporting requirements are waived, and there’s no need to have company secretary. It made sure promoters had complete control” (2007-mad04).

In Pakistan, manufacturers are even more adverse to involvement with banking institutions, for two reasons. First, interest rates were higher in Pakistan than in India during the period of my fieldwork. Second, Islamic jurisprudence puts greater restrictions on conventional lending through its prohibitions on *riba*, or usury. As a result, religious practice provides a stronger norm for incremental development and self-reliance. A number of the entrepreneurs I interviewed cited their faith as determining their attitudes toward finance. One said very clearly, “Allah is my main financier, all property is Allah’s” (2007-lhr24).

Islamic banking is starting to enter Pakistan from the Gulf as a way to tap into that unexplored lending market, but even this is controversial. A director in a large firm, with an otherwise relatively technocratic outlook, went on at length about these prohibitions and the capacity of new Islamic facilities to address it:

> We are mostly self-financed. We are a religiously-inclined family so we avoid loans, and interest. Islamic banking is coming in, so even people like us, who never took a loan, are getting encouraged to get involved. I'm personally not convinced that it is as Islamic, but the board has decided and we have done a few *mudharaba* (profit sharing) projects with them. It is working out, but I'm not satisfied personally. It's evolving and better than the traditional banking we had before, and I have hope it will evolve to be the true Islamic banking. But it's too young, you know? So it will take time, and we will learn from the market (2007-lhr23).

Other firms I visited in Pakistan were not as explicit about the religious basis for their distaste for bank lending. As in India, the embedded perspective entails gradualism and a conservative bias against leveraging. Many said that their financing was entirely from self-generation and reinvestment (2007-grw01, 2007-grw03, 2007-khi09, 2007-khi12, 2007-khi23). One respondent explained how the business was developed first from legacy capital and then from self-generation: “when we started the business in 1990, I used the land and machines kept by father, and since then it’s based on profits. Expansion has come from my own turnovers” (2007-khi09). In general, Pakistan’s capital markets are not easy or welcoming: high interest rates are the result of loan defaults by large politically connected firms during the period of nationalization, according to a former banker (2007-lhr28).

Banking has always been an elite activity. Thus, many Pakistani firms, particularly those of medium scale in the components industry, have grown up with the conservative orientation towards finance that is consonant with embedded perspectives.

Technocratic manufacturers in both India and Pakistan have a different perspective on finance, buttressed by a greater faith in market institutions and more linkages beyond the economy. For companies that were established during or soon after the independence era, access to rationed credit and foreign technology was a condition for their existence. However, the strategies of that era are not clearly in evidence in the current context. The technocratic perspective breeds strategies for finance that are more transparent, because it is more closely oriented to the full array of options that capital markets have to offer. In general, the strategies fall into three, by no means exclusive, categories.

First, many more technocratic manufacturers borrow from conventional banks at what they call ‘standard’ debt-equity ratios, all of which are over 1 and most fall into the ‘2 is to 1’ formula, or one-third equity to two-thirds debt, and in some cases even higher (2007-lhr12, 2007-khi05, 2007-mad03, 2008-exp01, 2008-pun02, 2008-pun06). This is in marked contrast to embedded
manufacturers, who maintain levels consistently under 1. Relatedly, many firms in India dependent on bank finance have shifted from the nationalized banks to private banks, including foreign ones. One respondent mentioned that they had shifted their bankers from the State Bank of India to Citibank (2007-del16), another went from only dealing with Kanara Bank to dealing with Citibank and Standard Chartered (2007-del18). As foreign banks continue to step up competition with domestic ones and rates converge, relationships with foreign banks can serve as a signal for up-and-coming firms with limited reputations in the market.

Second, firms that are more connected with the international economy and newer secondary finance markets will receive funding through joint ventures and through private equity participation. Such instruments ground finance in particular orientations towards technology and research, and thus are designed for those who are integrating further with the world market. The industrialist who was designing novel clutches for Indian conditions and who was on the verge of a major export drive less than humbly described his firm as “a darling of the capital market”, and mentioned that he was attempting to insulate international bankers from “financial investors and big-time players” through domestic institutions (2007-del37). Another firm focused on high technology in terms of connections with foreign components firms stated that the joint ventures are less about finance and more about “synergizing” though in the world of technology, successful synergy is tantamount to physical or financial capital (2007-del40). This respondent mentioned that their financing was relatively conservative, but that is in favor of a plan for maximizing returns rather than a distrust of capital markets: “We maintain conservative financing, under 1:1 debt equity. There’s a temptation to borrow more, but you must stick to the business model. We need to get returns on it” (2007-del40).

When companies become more integrated into international supply chains through joint ventures and other agreements with foreign companies rather than through importers, then they are more likely to employ more ‘standard’ practices regarding finance. The same holds true for domestic companies oriented towards producing patentable research: these are the kinds of projects that the venture capital industry, emerging from Silicon Valley, and domestic equivalents in terms of private equity were made for.

The third general category is that of raising money from the public through Initial Public Offerings (IPOs). Public offerings are a universally recognized means of raising funds in developed economies. In South Asia, however, stock in manufacturing firms hardly trades and most companies prefer the security of ‘private limited’ arrangements of ownership. IPOs signal a willingness to subject your work to public scrutiny and convergence to set norms about a firm should act and present itself. These norms can be frustrating for those embedded industrialists who have built up their enterprise such that it is an extension of their own self, whereas the mindset of technocrats would be in much greater accord with these norms. A director from an export-oriented foundry firm set up by an IIT graduate stated that the company was planning to go public within the year (2008-exp18). In Coimbatore, an auto parts company with roots in bus transportation was public, banked with Citibank and recently bought a unit abroad (2008-coi7). An engineer with a export-oriented production facility in Rajkot was going to conduct an IPO for the construction of a new plant (2008-exp6). The Madras firm that was run by the Bangalore engineer with experience in the software industry said that they were “toying with the idea of private equity or a public IPO, even though we are in no great need of money” (2007-mad03). As we see above, most firms who are public are also more likely to take out a high proportion of financing from the government and are also more likely to seek out foreign joint ventures or domestic equity participation. These three categories are largely birds of the same feather, with the same underlying understanding or relationship with the government.
The strategies of automotive component manufacturers in terms of acquiring capital are diverse. In the absence of strong institutional mechanisms, industrialists’ means of finding the money to buy raw materials and capital goods, pay suppliers and their workers, build, maintain and develop their premises and invest in the growth of their business is indelibly tied up with how they understand the norms and activities of finance. These understandings relate back to central perspectives industrialists have of economic production being constituted by a web of individual relationships or by universalistic norms of business.

**Relations with the State**

Auto components manufacturers’ relations with the state are more quotidian than Original Equipment Manufacturers, either internally or domestically. Vehicle manufacturers often negotiate directly with state governments the terms for establishing plants, and the establishment of multinational auto corporations in India, particularly with US corporations around Madras, is often seen as significant successes in attracting foreign investment to the country. By contrast, all but the largest component manufacturers invest without peak-level negotiations with the government, and their interactions with the state reflect facets of the state not dressed up in its Sunday best. Yet, how these manufacturers perceive their relations with the state fundamentally reflects their own perspectives, and thus have different expectations of state involvement in the economy.

Technocratic manufacturers tend to see the state as the potential agent for the establishment of universal norms and a supportive environment for investment, and much of their discussion is how governments are failing in this task and why. In the context of Musharraf’s self-identified technocratic regime, some in Pakistan were optimistic but cautious: “there has been a sincere effort in the last few years: consistent policies, foreign investment, etc. But again, our government is very centralized. Institutions are not being matured… If something happens to Musharraf tomorrow, what will happen?” (2007-lhr23) Others made a point of comparing the government’s efforts to other countries: “The government is better than past, but not comparable to other countries -- they don’t provide services, they should do so especially for exporters and the people who will bring investment from abroad” (2007-grw2). A large manufacturer in Karachi described the problem not with reference to policy intention but implementation: “implementation is a huge problem in Pakistan, in all areas. They are honestly well-meaning but delivery / follow through is a problem” (2007-khi5). Another Karachi manufacturer with long experience with the government said that the real problem was the lack of long-term policies:

> Strategic thinking is greatly missing, we find people who want to do things in a mechanistic way. For example, if we want Japanese investment, [we should ask] what will it take for us to get them here, that should be the focus. But no, we want to play we want to play with everybody and sit on the fence, and then it doesn’t work – it’s too little too late. (2007-khi23).

Indian technocratic manufacturers, even though operating in a very different environment, find the same lack of strategic focus also frustrating. One manufacturer in Madras said, “We expected more but we grow in spite of the government…. The government used to focus on agriculture at the expense of industry, now it’s services. We’ve always felt pushed to the side” (2007-mad3). Another felt that the international market really provides the orientation for pushing the industry forward:
“Government policies have changed. Overall though, it’s the global market positioning of India is what is really helpful” (2007-del18). In general, technocratic manufacturers in both countries may be frustrated about the lack of certainty in investment or the government’s other priorities, but most agree on the idea that the state should promote standards in industry.

Embedded manufacturers, however, tend to merge a self-sufficiency narrative with frustrations at the government for regulatory harassment and their lack of provision of basic services like power. One manufacturer stated, “The government has provided roads, but it needs to provide gas and electricity -- prices are high. We get harassment from inspectors: they take money, give it to their cronies” (2007-del26). One Bombay industrialist emphasized the importance of connections in dealing with regulatory agencies: “We are well-connected politically, so getting permissions become easier” (2008-bom40). Others reflected that their work was driven by themselves rather than government policy: “It is an entrepreneur-driven environment, we get no free lunch from the govt” (2007-del26). Another echoed the sentiment: “Government has almost nil support for medium-scale. You have to run your own show” (2007-del15). In Pakistan, there were similar opinions on the government’s role. When asked about his opinion on state promotion, one Gujranwala manufacturer simply said, “we have not approached the government in this regard” (2007-grw3). A Karachi industrialist was deeply frustrated at the government’s policies regarding the city’s central state-owned steel mill, on which he relies for raw materials: “policy [regarding] the steel mill is in the wrong direction because it is not supporting the local industry -- the auto industry is growing fast, demand is growing and the steel mill is not capable of handling these demands… government policies are not supporting the industry” (2007-khi9). A focus on the lack of support for tangible services – in this case, state provision of raw materials – and ignoring the needs of local industry when undertaking restructuring shows a similar frustration as technocrats, but from a different direction. In this instance, the state was not performing an old, minimal agreed-upon role rather than forming new policies to push the industry forward.

The opinions of any individual manufacturer in small foundries, medium-size casting operations or even large-scale firms making complex electrical components on the appropriate role of the government is not likely to make a tangible difference. Yet, there is a deep divergence on what the government should be doing among manufacturers and industry as a whole, which tends to complicate our own lenses about the state’s place in industrial development. The section above serves as an indication, particular to the components industry though it may be, of how manufacturers’ perspectives can translate into very different opinions of and relations with the state. Such differences have serious consequences on the nature and capacity of state intervention, especially combined with the very different strategies of managing workers and acquiring labor.

Conclusion

In this chapter, I have aimed to provide a broad background of the auto industry in South Asia and the perspectives and strategies of components manufacturers in India and Pakistan. In so doing, I have attempted to draw the lines of convergence and contrast in the rich and complicated story of the rise of indigenous auto manufacturers and the establishment of indigenous content in Indian and Pakistani vehicles. It is relatively rare for countries in the developing world to be this independent and self-assertive in an industry dominated by a handful of American, European and East Asian transnational corporations. Thus, the establishment of this domestic industry is a sign of success for

25 This is the sentiment even while the state does provide facilities to encourage small and medium-sized industry. See Chapter Seven.
national industrial development. Yet, the path towards this development has taken divergent directions. Here and elsewhere in this dissertation, I argue that the variety of industrial strategies within auto manufacturing – such as firms’ policies toward capital acquisition and labour retention, above – arise from different perspectives, or different understandings of what it means to do this work and to what end. I hope that the discussions above on the differences of perspective and practice within the universe of entrepreneurial engineers that make up the domestic auto industry in the two countries has provided some substance that fills out in this assertion.
Chapter Six
Pharmaceuticals

Much like the other industries studied in this dissertation, the pharmaceutical industry in South Asia is complex and diverse, more so than we would expect given the amount of domestic government regulation and strict international standards for production. The pharmaceutical industry is thus a least-likely case for diversity of industrial strategy, and yet such a diversity exists in both India and Pakistan. As with other industries, I argue that these diverse strategies in the recruitment and retention of workers, the acquisition of capital and relations with the state arise out of two markedly different perspectives – embedded and technocratic – of the nature of industrial production. According to this framework, the former tends to see the economy and production as a dense network of personal ties, whereas the latter tends to see a space in which there are explicit systems and formal rules. I contend that manufacturers with these different perspectives establish practices and strategies in line with these perspectives, even in the face of strict controls and regulations that should force some commonality to strategy.

This chapter proceeds as follows. I will present some background for the Indian and Pakistani pharmaceutical industries. Then I will explain my characterizations of manufacturers as having technocratic and embedded perspectives in relation to their educational backgrounds and professional experiences. Next, I will demonstrate what impact these perspectives have in the formation of practices and strategies by manufacturers, in three different areas: the recruitment and retention of workers, the acquisition of capital and most importantly here, relations with the state regulatory apparatus.

The Development of the National Pharmaceutical Sector in India

In India, the pharmaceutical industry was essentially a post-independence phenomenon. The Indian Planning Commission considered pharmaceuticals a ‘basic industry’ that was a social imperative and would thus involve both public and private investment. Industrial Policy Resolutions of 1948 and 1956 encouraged the participation of foreign capital in the industry because of the need for foreign technology, given the lack of an indigenous scientific base for drug manufacture in the 1950s.\(^1\) As a result of relatively hospitable policies encouraging foreign investment, multinational companies (MNCs) dominated the pharmaceutical industry through the 1960s, first importing medicines for direct sales, and then importing Active Pharmaceutical Ingredients (APIs, sometimes called bulk drugs) from the parent company for formulation in India, often at very high internal prices.\(^2\)

As the result of MNC domination and concerns about transfer pricing, the Indian government started plans for establishing domestic production of APIs, even though this would generate relatively low returns compared to formulations.\(^3\) MNCs had as a matter of principle avoided much API production in India, and when they did produce upstream products, they were aimed at high value, low social benefit drugs.\(^4\) To remedy this lack of domestic API production and

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\(^2\) Ibid., 59; see also Gary Gereffi, *The Pharmaceutical Industry and Dependency in the Third World* (Princeton: Princeton Univ. Press, 1982), Ch. 6-7 on transfer pricing.


\(^4\) Contemporary reports found that only 30 percent of the output of foreign drug companies was made up of ‘essential drugs’ like insulin, anti-leprosy and tuberculosis drugs and cholera vaccines. Cited in Bhagat, p. 59.
thus ingredients for essential drugs at affordable prices, the Indian government established two public sector enterprises dedicated to their manufacture. Hindustan Antibiotics Limited (HAL), in the Pimpri industrial district outside Pune in 1954, was established to produce penicillin in technical collaboration with Merck and UNICEF. (2008-bom4) The Indian Drugs and Pharmaceuticals Limited (IDPL) was then set up with Soviet technical collaboration in 1961. Public sector enterprises were established with the explicit intention of making India fully self-reliant in APIs.

In relation to the terms of reference, both enterprises were unequivocal failures. Reasons for this included the inability to absorb, indigenize and further develop imported technology, lack of understanding on the part of bureaucrats in charge of administering inputs and capital, poor productivity due to obsolete industrial processes, lack of financial incentives and repeated financial crises. Yet the public sector production of APIs did introduce the prospect of research-based upstream manufacturing for large private firms. It also spurred the growth of small formulation manufacturing units, which were able to have access to cheaper raw materials and consequently could market products at cheaper prices.

According to many of my interviewees in India, the signal event in the development of the pharmaceutical industry was the passage of the Patent Act of 1970 by Indira Gandhi’s government. This legislation, among other provisions, eliminated patent protection for pharmaceutical products while maintaining patent protection for manufacturing processes. The resulting law enabled commercial production of a drug molecule patented in the West if that molecule was manufactured through different processes. It also spurred process-based and drug delivery innovation in India, and prevented multinationals from maintaining market monopolies of APIs imported from the parent company.

The revision of the patent laws enabled private industry to do what the public sector had failed at; it established sustainable indigenous production of APIs, with profound consequences for the structure of the industry. One prominent Bombay industrialist active in manufacturing at the time explained:

In 1971, the multinational companies controlled close to 80 percent of the Indian business. By the year 2004, when the patent laws changed [back to protecting product patents], it was the Indian companies that controlled 80 percent of the market. But this was done primarily [because] after 1972, people like myself embarked on a program, in spite of the difficulties and in spite of the government, of producing bulk drugs and developing our own indigenous technology. Nobody will help you, you have to do it yourself. And I think, by and large, we succeeded. India succeeded (2008-bom4).

Many observers have argued that the modified Indian patent regime after 1970 was the principal cause of the surge in local control of Indian domestic market-share, and the dynamism of Indian companies in both APIs and downstream formulations, at much cheaper prices than the multinationals.

Deepening import-substitution policies normally lead to a standoff between multinationals and the government. In this instance, however, the new regime ended up helping the country at very

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6 N.N. Mehrotra, “Indian Patents Act, Paris Convention and Self-reliance,” *Economic & Political Weekly* 24 (Aug. 22, 1987), p. 1461. The change of the patent regime was largely the result of reports by the Iyenger and Tek Chand expert committees that found misuse of patent protection by multinational companies.
low political or economic cost. Even in the late 1980s, commentators argued that “…the disadvantages in joining the Paris Convention [the international product patent regime, to be supplanted by TRIPS under the WTO] far outweigh the notional advantages for any given activity, be it innovation, technological development or industrial self-reliance.” Thus, this explicitly nationalist, if not nationalizing, policy was actually seen as wholly beneficial for the beneficial for the development of the industry.

Along with the suspension of the product patent regime, the Indian government imposed policies not as friendly to the private sector. The National Drug Policy (NDP) of 1978 deployed licensing policy and sectoral reservation to encourage a self-reliant Indian drug industry. The policy also tied permissions for formulations to the manufacture of APIs, as an impetus for upstream investment. The Drug Pricing Control Order of 1979 established rules for the pricing of drugs, particularly in ‘essential’ categories, to guarantee the affordability of needed medicine.

Rajiv Gandhi’s government instituted the 1986 National Drug Policy that loosened many of the restrictions on investment, arguably because of the rise in the political influence of formulations manufacturers.9 This process of liberalization continued with P.V. Narasimha Rao’s New Economic Policy in 1991 and the subsequent Drug Policy of 1994, which dismantled most of the industrial licensing that had been set up to encourage upstream investment. De-licensing has given more freedom to industrialists. There are no longer huge explicit incentives from the government for producing certain types of products, selling them in certain types of markets, or using certain types of technologies. Yet, liberalization came with it changes to patent regulations that have had much more profound effects.

The dismantling of the process patent regime began with the trade policy conditionalities of the IMF and World Bank intervention.10 Then, as a precondition of India’s accession to the World Trade Organization on January 1, 1995, the government agreed to revise its patent laws in accord with WTO rules and the Marrakesh (Trade-Related Intellectual Property or TRIPS) Agreement by 2005. Transitional provisions included replacing the process patent regime with product patents, establishing a ‘black-box’ for patent applications from multinationals, guaranteeing exclusive marketing rights for patented goods, and increasing the duration of patent protection from seven to twenty years.11

Even though the political process by which the Indian government pushed these regulations through without parliamentary or public debate has been criticized,12 economists and policy makers have been arguing over the welfare consequences of this new regime. While multinationals established monopoly prices over patented drugs, most of the Indian population are too poor to have access to the latest technological innovations and thus would not be effected, while Indian firms’ participation in the market (mostly in the generic sub-sector) would probably not go down, while expenditures on research and development might increase.13

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8 Barnwal, Economic Reforms and Policy Change, p. 67-77.
9 Barwal argues that “the drug manufacturers primarily involved in formulations do not have an important role to play in the industry; they are essentially traders. It is they who have been demanding higher prices and [sic] decontrol”. Ibid., 90-91.
12 Ibid., 989-992. See also Rob Jenkins, Democratic Politics and Economic Reform in India (Cambridge, Eng.: Cambridge Univ. Press, 1999).
Agrawal and Saibaba, taking a longer-term view, were more pessimistic. They conducted an international price comparison of four best-selling on-patent drugs, and found that prices were on average 9.9 times costlier in Pakistan, which accepts product patents, 17.5 times costlier in the UK and 37.3 times costlier in the US. They argue that the inevitable price increases will have more effect as more and more of the drugs patented after 1995 become mainstays of medical therapies, due to drug resistance and incremental improvement in existing treatment. The one serious argument for product patents they acknowledge, namely that product patents might increase investment in research and development, runs counter to the fact that most multinational companies do not research diseases, such as tuberculosis or malaria, that are prevalent among poorer populations in the third world because of limited cost recovery.14

The abrogation of the process patent regime in India has called a halt to India’s pharmaceutical growth trajectory over the last four decades, yet the results of that growth will not be erased overnight. Yet, what is key for the purposes of this dissertation is that firms from across the industry have responded to these changes – along with the more standard activities of manufacturing – in a variety of different ways. This diversity, and the perspectives that I argue stand behind it, reveal to very different ways of understanding and acting in the industry.

**The Development of the Pharmaceutical Sector in Pakistan**

The size of Pakistan’s pharmaceutical market, at roughly $1 billion, is only slightly more than a quarter of India’s, and its growth is restricted in a key way. At present, the vast majority of Pakistani manufacturing firms only produces pharmaceutical formulations, and thus need to import active pharmaceutical ingredients from abroad. Nevertheless, the structure of the industry has been transformed in similar fashion to the Indian market. Over the last thirty years, the share of the market controlled by multinational corporations has declined from 95 percent to between 50 and 65 percent, while the market in aggregate has been growing 10-15 percent.15 Unlike India, however, the Pakistani state has never been particularly proactive in encouraging the manufacture of drugs by local companies. Customs duties on drug imports have been comparatively low16 and public sector development of upstream products is virtually nonexistent, paving the way for the domination of the pharmaceutical market by multinationals through direct imports, wholly-owned subsidiaries, and joint ventures.

In spite of this hostile environment, Pakistani indigenous producers have over the last twenty years been able to virtually take over the market for branded and generic formulations in the country, selling drugs at a fraction of the MNC price while expanding. The story of this national emergence, absent significant government intervention on behalf of indigenous industry in the sector, is remarkable and parallels some aspects of India’s development.

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15 Rakesh Basant, “Intellectual Property Rights Regimes: Comparison of Pharma Prices in India and Pakistan,” *Economic & Political Weekly* 42 (Sept. 29-Oct. 5, 2007), 3972t. Interview respondents have placed the domestic share of the market by unit volume at fully 50%, with a smaller proportion of sales by value due to the higher prices of MNC-produced drugs. See also 2007-khi22, 2007-khi13 for varying estimates of the size and growth of the industry.
16 Customs duties on imported formulations in India were greater than 100%, while those in Pakistan were 10%, there were more rigid barriers including qualitative restrictions on imported raw material in India, as well as more strict licensing of foreign manufacturing units (Basant 2007, 3972t).
At Partition in 1947, few pharmaceutical companies had formulating facilities in western Punjab, eastern Bengal and Sindh, let alone Balochistan and the NWFP. Medicines available at this time were either imported allopathic drugs from Britain and elsewhere, or unani and ayurvedic medicines available through traditional healers or hakims. After independence, the first manufacturers of allopathic formulations set up units in the country. They were mostly émigré businessmen from India who took over chemists’ shops left by Hindus and Sikhs leaving for India, and who diversified from retail to manufacture with the support of government policy. These pioneers and subsequent generations of investors from non-mercantile backgrounds were thus part of the narrow industrial elite of the Ayub era, mentioned in greater length in chapter three.

Massive political and economic disruptions in the 1970s caused changes in the constitution of the industry. Many among traditional business classes in all sectors had investments in East Pakistan, the loss of which after the 1971 war and Bangladesh’s independence translated into disinvestment and a lack of confidence. Following the war, Zulfiqar Ali Bhutto’s policies included a 130 percent nominal depreciation of the rupee in 1972, more than doubling the cost of foreign currency in an industry dependent on imports of raw materials and capital goods. In addition, the Bhutto government enacted the Generic Names Act of 1972 and the Drug Act of 1976, in an effort to decrease the prices of medicine while increasing quality assurance. The first act banned the use of trademark or proprietary names for drugs, thus eliminating the capacity for product differentiation and price discrimination. This legislation was meant to reduce the disparities between multinational prices and those of local manufacturers, but there were enduring concerns about substandard drugs sold in the market.

Only three years later, the Bhutto government introduced the WHO-inspired Drugs Act of 1976, a comprehensive revision of the pre-Independence legislation, which required registrations for manufacturing facilities and licenses for each product. The Act was implemented very quickly relative to the capacity of firms to adjust to the new regime in the 1970s. As a result, only large companies – predominantly multinational subsidiaries – were able to survive because they were able to get licenses more quickly. The combination of Drug Act regulations and contentious labor relations of the mid-1970s led many indigenous firms, to close down and indigenous investment in the industry to stagnate through the early 1980s.

By then, multinationals dominated pharmaceutical manufacture. Only a few of the original indigenous producers were able to stay viable largely through their technological links with companies abroad and their influence with the bureaucracy. In the next two decades, however, domestic manufacturers have re-emerged to dominate the Pakistani pharmaceutical industry. Yet the variegated nature of the industry in both India and Pakistan holds the possibility that different industrial strategies could be effective in production into different niches of the market. As I argue, these strategies arise out of manufacturers’ perspectives educational backgrounds and professional experiences, to which I will now turn.

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19 Weiss, p. 81n.
Technocratic and Embedded Manufacturers in the Pharmaceutical Industry

At first glance, it might be surprising to think that there might be such a variety of perspectives on the nature of industrial production in this sector, given that pharmaceuticals is a technical field, highly regulated, capital intensive and dependent on highly sensitive raw materials. Yet, as we shall see individuals invest in the industrial production of pharmaceuticals from a variety of different educational and professional backgrounds. A benefit of the pharmaceutical industry is that many of the industrialists I interviewed were first-generation entrepreneurs, so the link between training, work experience and patterns of investment are clear. Yet even with older firms the perspectives of those who founded the firm often endure and translate into industrial strategy.

Embedded Manufacturers

Among those manufacturers I characterize as having an embedded perspective, a fair number have educational backgrounds in commerce or pharmacy from domestic universities, and / or have professional experience in pharmaceutical training or sales. These backgrounds mean that the individuals in question have greater association with the commercial end of the industry. This facet of the pharmaceuticals business looks different from the gleaming white-coats and laboratories that come to mind, and include the forming of business relationships with hospitals and doctors, advertising branded drugs through tchotskies, and the subcontracting of production by third-party manufacturers.

One respondent of this kind, the owner / manager of the largest pharmaceutical company in Punjab, had zamindar (landowning) roots in a rural district along the border with Pakistan, but his father moved to the city of Ludhiana because of the availability of schools, and set up a small engineering ancillary unit there. The owner “graduat[ed] into industry” from college in the 1970s and moved to Chandigarh. He set up a pharmaceutical company there, along with two partners. The company has diversified into API production, exports, ventures outside of the industry and even research, but has roots in the marketing of formulations and the realization, in the course of this marketing, of the profits that can be realized by going up the value chain (2008-cdg1). Another route into the industry is through working as a retail chemist. One Delhi-based respondent, originally from Bahawalpur but whose family migrated to Meerut, ran a drugstore but was inspired by the possibilities in pharmaceutical manufacture. He set up a company with another partner, originally for third party manufacturing (outsourcing) but eventually set up his own factory in Ghaziabad, across the UP State border from Delhi proper (2007-del19).

Experience and capital generated from working as medical representatives or marketing managers to doctors, pharmacies and hospitals that provided a springboard for setting up a unit of your own was also a common theme. A pharmacy graduate from Madras University who then worked for a pharmaceutical company as a representative was so successful that he had the best sales in the country in 1991. He invested in his own firm along with four partners, producing formulations for the domestic market (2007-mad1). Another respondent, a graduate in pharmacy originally from Ludhiana who managed pharmaceutical distribution companies between 1982 and 1993, set up his own manufacturing unit in Delhi in 1995. He had originally wanted to produce formulations for the domestic market but as he could not afford to hire a team of medical representatives, he established an export presence in non-regulated markets like Ukraine and Vietnam, and has become very successful. However, he is obligated to travel two or three weeks a
month to keep the relationships with overseas clients going. We met and conducted this interview at night in the lobby of a five-star business hotel in New Delhi, in between appointments (2008-del51).

A number of the firms with which I interviewed had owners, directors or partners that directly identified themselves with the business of selling, often with reference to family and community orientations. One respondent in Bombay said that he followed his father, a pharmacist from Gujarat who started his own formulations, into business after an undergraduate degree in “science and law” and simply expanded to new plants (2008-bom37). Another, a commerce graduate from Gujarat University, operating out of Ahmedabad, described how his father was a medical trader in a rural district. He set up the manufacturing of formulations, along with two brothers, after getting a commerce degree at Pune and working for a marketing agency (2008-adb5).

The link between embedded perspectives and sales, trading and local education is applicable in Pakistan as well, relating first and foremost to market norms and peculiarities. The first of this category that I encountered in Lahore had actually worked for a number of years in southern Africa soon after obtaining his undergraduate degree in pharmacy in Lahore. After returning from his work in Zambia, until his family asked him to return in 1982. He attempted first wholesale and then retail trading, but was discouraged by what he termed the ‘unethical nature’ of the business, wherein people could start chemists’ shops without pharmacy degrees, or be both a doctor and a pharmacist with incentives to sell as many drugs as possible, and thus forced him to work 15-16 hour days and have no time with family. After a few years, he acquired a manufacturing license, built a factory and started production (2007-lhr15).

Another Lahori pharmaceutical manufacturer got a Masters’ degree in biochemistry from Punjab University, yet he worked first for another pharmaceutical company as an area sales manager before starting a wholesale business and branching into manufacturing in 1976. His father had a contracting business, and the family became well established in the middle class neighborhood of the city where his rather frenetic office was located. His brothers ‘diversified’ away from business, attaining high positions in politics and the bureaucracy (2007-lhr32). In Karachi, one family – a father and a son – ran two separate pharmaceutical companies with production facilities in the Hub Industrial Estate in Balochistan, just across the provincial border and 40 kilometers from the city. The father was a commerce graduate and worked for a bank, before he started a second job supplying ice-packs on a bicycle to a chemists’ shop in Karachi. The pharmacy started contracting him to order more items from the wholesale market, and in 1970, he started importing medicines directly from all over the world, particularly from the Soviet bloc, using new technology like the TELEX machine. He is still an importer / wholesaler, but entered production because the government approached a group of importers to put up factories to assist in job creation, or else they would start restricting imports; production started in 1989, with products under license from a pharmaceutical corporation in the former Yugoslavia. His son, born and educated in Karachi, also in commerce, serves as a director in his father’s company while also, since 2002, running an industrial concern that is focused on export to African countries such as Ghana and Nigeria, in partnership with an import-export agency (2007-khi13).

In general, these individuals’ experiences are defined by their experience navigating the complex geographies of the mass pharmaceutical market, domestically or in less regulated markets, where personal contact and long-term relationships are at a certain point more important than high technology products or research. These places are occupied by those who get a feel for this way of work, through local education and work experiences that emphasize commerce and trade.
The technocratic perspective is one that would be the most familiar and expected, as it entails seeing pharmaceutical manufacture as seeing a set of rules and norms that are shared by firms all over the world. In identifying these manufacturers, I emphasize the importance of education abroad or in elite scientific and technical institutions within India. This is not only because these tend to provide technical and commercial educations that are in sync with a technocratic perspectives, but also because those with these perspectives tend to choose to go down such educational paths.

One elderly industrialist, the chairman of one of the largest manufacturing firms in Gujarat, grew up in a Gujarati village but received an undergraduate degree from UDCT, a well-known institute of chemical technology that arose from Bombay University in 1949. After working as a chemist in another company, he set up a tiny pharmaceutical formulations business from a house in a residential area with one partner in 1951, based on Rs. 25,000 ($5,000) in initial capital. He expressed frustration that chemists in India did not trust the firm’s products even though they were innovative and economical because they were Indian-made, and describes having to bicycle 40 kilometers a day to personally advertise his products to individual chemists and doctors. This interview, taking place in the back of a luxury car, went over the ways in which this manufacturer tried to establish policy through government committees that supported innovation and the production of APIs. (2008-adb10) Another older firm was established by my respondent’s father, a PhD in organic chemistry who worked for a British multinational and subsequently founded an acillary unit to supply the firm with APIs. My respondent, the founder’s son who received postgraduate training in chemistry in the US, successfully deployed the state’s trade apparatus in using anti-dumping restrictions against China when Chinese exporters were dumping APIs in the Indian market. (2008-bom7) For both of these cases, technical educational backgrounds and involvement with the state apparatus to protect innovation that is the hallmark of technocratic perspectives in pharmaceuticals.

Technocratic manufacturers monopolize certain corners of the market, especially serums and vaccines, their high technology and its relatively impoverished customer base, requires a certain technocratic mindset. One such company was set up, in collaboration with a small US vaccine manufacturer, by a man from a village along the Konkan coast who received a doctorate in economics and was active in the freedom movement. The firm is now managed by his daughter and his son-in-law – my interviewee – and has continued manufacturing vaccines for hepatitis and typhoid, as well as diversified into diabetic products and biotechnology for domestic and export markets (2008-bom30).

Other technocratic manufacturers are engaged in formulations and APIs, though usually inspired by scientifically trained leadership or work in collaboration with multinationals. One of my first interviews in Bombay was to an API producer with plants in northern Maharashtra, set up in 1987 by a group of chemical engineers all graduating from UDCT (2008-bom1). Another Bombay-based firm produces both APIs and formulations, initially for sales to multinationals under technical collaboration but more recently for domestic and export markets. The founder of the firm was originally from Kerala, the son of a well-known barrister, who went to Germany for a PhD in chemistry and thus came back with ties and collaborations with German companies. Due to perceived one-sidedness on the part of multinationals, this company has more recently turned inwards and adopted a more conservative mentality to the process of manufacture, a product of experience in the last generation (2008-bom45).
In Pakistan, technocratic perspectives were most clearly evident in manufacturers trained as professionals with international experience before starting industrial manufacture. My first two interviews in Lahore were with companies whose founders had started their careers in the Gulf. The first was with a medical doctor who served as a general practitioner in Bahrain after graduating from medical school in Lahore, before deciding to return to Pakistan and start up entrepreneurship based on accumulated capital (2007-lhr5). The second interview was with a managing director of a firm whose father had started the business after working as a banker in the Middle East, wanting to choose a technology-intensive industry in which to invest (2007-lhr10). Another respondent had a more middle-class experience with migration and return. After getting a Masters’ degree in pharmaceutical chemistry from the University of Punjab and teaching in the department, he migrated to New York and worked as a staff pharmacist in a hospital while getting an additional post-graduate degree in pharmaceutical administration at CUNY Brooklyn College, before returning to set up a pharmaceutical concern (2007-lhr19).

My last pharmaceutical respondent in Pakistan went to the United States for an undergraduate engineering degree and worked to put himself through college over six years. He subsequently worked for multinational companies as an industrial engineer. He credits this experience with giving himself the discipline for his second career as an industrialist in the pharmaceuticals sector: “if I look back… [our company] is a model company in this country now, and one of the reasons is that my work habits [and] work ethics were laid in all those jobs I did in the US” (2007-khi22). This last interview would be familiar to anyone as a very American, Algerian ‘school-of-hard-knocks’ story. Yet the central point here is that it is an American story, complete with experiences that allowed the individual in question to succeed in a number of other American and international companies and imbibe what can be considered an universal best practices in the industry. Such perspectives are generally pointing to the same universal narrative of systems and institutions and scientific norms, whether in India or Pakistan.

Those who invest in pharmaceutical production do so from a variety of different places, and those trajectories can have a powerful effect on the practices and strategies they adopt through perspectives they bring to bear on the nature of their work. Manufacturers with commerce and pharmacy degrees at Indian and Pakistani universities and who cut their teeth professionally in the world of drug sales and marketing would tend to see the nature of economic production being bound up in individual relationships, thus embedded perspectives. Those who have been educated in elite technical institutes or universities abroad and who might have had professional experience internationally would tend to see the economy as a space of formal institutions and rules, thus technocratic perspectives. In the next sections, I will attempt to demonstrate how these perspectives relate to industrial strategy in three areas: labor recruitment and retention, the acquisition of capital and relating to the state, particularly in terms of regulation.

Labor

The pharmaceutical industry is relatively capital-intensive; thus the recruitment and retention of workers is not the first among the concerns of my respondents in India or Pakistan. Workers fall, generally, into three categories: a small number of production workers, a smaller number of scientists and technicians who supervise production and conduct quality control, and the much larger number of medical sales representatives.
Since most drugs in the subcontinent are sold in small corner pharmacies and the demand for branded medicine in these retail outlets is generated by specific prescriptions from doctors in private practice, pharmaceutical firms employ large field forces of medical representatives, who approach practitioners in hospitals and clinics and have to effectively generate this demand through marketing. Most of the majority of pharmaceutical corporations in India or Pakistan that sell branded (generally off-patent) drugs in the local market must go through one iteration or another of this system. The work of being a medical representative was the experience that led not a few industrialists into the industry, though this is more the case in India than in Pakistan.

How industrialists create and reproduce this labor force – either in production or sales – I argue depends on their outlook on the meaning of production more generally. Those inspired by technocratic perspectives in India and Pakistan tend to generally keep an arm’s-length, institutionalized relationship with their workers, preferring to maintain their workforces through a combination of training and incentives. One Indian technocratic manufacturer talked of creating the right environment and the right mix of workers: “we’ve been lucky because we have good management practices... we have good meritorious systems for promotions – a third of our scientists are women. Right from language we use to make it a fun place to work” (2008-bom6). Another Bombay-based technocratic producer mentioned a system for self-bidding on wages that is designed to decrease resentment and increase participation:

we have a system whereby everyone fixes their own salaries. You apply for a higher salary if you think you deserve it and eight times out of ten, we accept. Other cases, we’ve said sorry, you're very good but we can't afford you, look for a job elsewhere (2008-bom4).

Technocratic capitalists recognize that acquiring a precious commodity like labor requires market incentives: “there is a shortage of skilled workers, [so] getting workers depends on your reputation in the market” (2007-mad7). A technocratic manufacturer in Pakistan emphasized the importance of equity and fairness, and creating institutions that could guarantee these values:

In my experience, [Pakistani workers] are very good -- if you train them, pay them above market wage, give them good conditions, hold them accountable, they're outstanding workers, very loyal. In our cafeteria, we serve the same food, same tables, same water for everyone (2007-khi22).

Manufacturers with technocratic perspectives see labor as an interlocutor to be wooed by incentives and systems that create favorable environments; while there is paternalism, it is often in the abstract. For industrialists with embedded perspectives, relationships with workers are a great deal more personalistic; they are less systematic yet more involved. This often comes in the form of the provision of more tangible goods:

For workers, we give them a uniform, bonus, we try to help them if they have medical or financial problems. For managers, we say [you should] buy your conveyance and we will contribute. They just pay some of the price (2007-lhr15).

21 Parenthetically, my father, a well-known medical practitioner in Pakistan, would bring home all manner of kitsch from his office, from clocks to pens to calendars, and on each was emblazoned the logo of a drug and a company. In my short period of research, I received a similar assortment of gifts after interviews.
More than the provision of tangible goods, though, embedded manufacturers stress affective relationships between the *sahib*, or owner, and his workers. Several of my respondents used idioms of family to underline the closeness between management and workers: “They are like family members, they love me and I love them. Some workers have been with me since 1955, 1960 – now, their children are with me” (2007-del48). Others talk of how their experiences as sales representatives helped them handle relationships with workers: “my advantage is that I worked as a medical rep, so you have the feel, you can handle all the situations. It’s not that that difficult” (2007-del32).

Manufacturers inspired by both embedded and technocratic perspectives face certain difficulties in the labor markets in India and Pakistan. Skilled labor is hard to find, expensive and often hard to anchor given the “churning” of labor mobility among the lower middle classes. Yet, the two groups of industrialists respond to the challenge in fundamentally different ways. As demonstrated above, the former emphasizes ‘fellow feeling’ and the distribution of tangible goods as personalistic paternalism, while the latter emphasizes more the value of formal systems and mechanisms of human resource management to recruit and retain labor. Such a difference is evident even in the least labor-intensive industry in this study.

**Capital**

The difference in strategy toward financing between entrepreneurs tending toward embedded and toward technocratic perspectives is a simple, relatively stark one. Embedded industrialists tend to favor more conservative ownership structures, organic growth and, wherever possible, the avoidance of loans, developing instead through the reinvestment of capital. Several locally inspired firms I interviewed in Pakistan (e.g. 2007-lhr20, 2007-lhr22, 2007-khi25) avoid loans altogether, others (2007-lhr15) borrow only for short term running costs. Some Pakistani industrialists oriented towards localism refer to taking out loans once, as an experience not to be repeated: “In the 1980s, I took out a bank loan, that was not very good. I finished off, never again. Islamic banking has prohibitions on interest, Islamic banking should be there” (2007-khi16). Indian industrialists inspired by embedded perspectives also keep institutional loans at arms length. Most of these firms conservatively avoid borrowing, fearing the consequences of higher interest rates or forced default (2007-del14, 2007-del48, 2007-bom2). Some embedded manufacturers use the very trading networks that constitute their practices as sources of funding: “I made my distributors our financial partners – [I am] depending on them rather than from banks” (2007-del17).

For those in India and Pakistan who perceive production through technocratic perspectives, the manifold forms of modern financing are available and indeed even necessary if these firms are to compete in the international environment. Most of these firms are majority funded by banks or the public, with only a quarter to a third of these funds being personal equity (2007-del10, 2007-del11, 2007-bom7, 2007-bom24, 2007-bom37, 2007-adlb6). Larger companies raise money for mergers and acquisitions from banks and other sources, working on the assumption that acquired companies will be a source of new capital (2007-del43, 2008-bom6). Another firm arbitrages loans between a number of different banks, as well as issuing IPOs for capital generation (2008-bom39). In Pakistan, discussions with technocratic firms about financing predictably turn towards a discussion of the politics of government support for banking – Pakistan’s prime minister under General Musharraf between 2004 and 2007 was a Citibank Vice President, as discussed in previous chapters -- and this was certainly the case with one of the pharmaceutical formulations manufacturer in Lahore:
The government has the justification of taking the interest rate from 5 percent to 14 percent, to promote industrialization? You bring down the interest rate to increase productivity. That is what our economic managers need to understand. But they are obsessed with the syndrome of [Central Board of Revenue]… the government wants money, so that the exchequer is full. I keep arguing with the government functionaries, saying look at the balance sheet of the banks. … if you look at the balance-sheets of the banks, they are fabulous, they’re bulging with profits. From are where those profits are coming? From those guinea pigs, those who have invested money in the industry. Industry is starving… I think there needs to be a balanced sort of situation, where the industry makes good profits, and the banks must be curtailed (2007-lhr5).

This tirade, justifiable or not, represents a fundamentally different vision of the economy and industrial investment than those with embedded perspectives who reinvest their profits. This respondent above has a sense of capital being institutionally directed rather than socially constituted through work, and thus what for him is a political conflict is for others a situation to be avoided altogether by means of organic investment.

I argue that producers with technocratic and embedded perspectives understand capital in fundamentally different ways, and they act upon their financing in reference to those understandings. For those animated by technocratic perspectives, capital is captured in public and private financial institutions and therefore must be attracted and kept content through a combination of openness and market demands of interest rates, however much that might cause hardship. For those animated by embedded perspectives, by contrast, capital is something to be created and shaped through toil and is not separable from the firm’s weal, leading to a conservative, suspicious pose to the new developments of economies quickly undergoing financial liberalization.

**Regulation and Relations with the State**

*Pakistan*

The pharmaceutical industry in Pakistan, as in most other countries, is highly regulated by the state. All new companies need to get registered and comply with rules about the layout of the factory, the capacities of different sections, and the capability of the unit to manufacture products that meet minimum guidelines of safety and quality. Beyond that, every company is required to be licensed to produce and market every single drug, and the price of any one medicine on offer is determined as much by a Drug Pricing Board as by demand and supply.

There are two rationales for this level of control, which none of the industrialists I interviewed disputed even while they objected to the particular policies: 1) that regulation by the government is necessary to prevent dangerous or substandard (“spurious”) drugs from reaching the market, and 2) that in Pakistan, a country with a large and poor population, prices need to be kept at a level at which the majority of Pakistani citizens have access to modern medicine. The first rationale is common to all countries with domestic pharmaceutical production, and it follows from strong international norms instantiated by the guidelines of the World Health Organization, and the international market guidelines of organizations like the US Food and Drug Administration and

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22 This was a main motivation behind Z.A. Bhutto’s policy interventions in the 1970s (Weiss 1991, 83-91), and is still a major concern today.
European counterparts. The second rationale, particular to developing countries, related to the “basic needs” approach to human development.\footnote{On the basic needs approach to development, see Frances Stewart, \textit{Basic Needs in Developing Countries} (Baltimore: Johns Hopkins University Press, 1985).}

This idea, that medicine is a qualitatively different type of good implicated in development and underdevelopment, is echoed in several of my interviews. An embedded industrialist, who started out his career as a pharmaceutical importer in Zambia, mentioned this exceptionalism in an extended monologue about the dangers of inequality: “… with medicine, it is not a luxury, it is a basic need… if I buy a car, OK, I don’t have a Mercedes, I have a Suzuki… it serves my purpose. But like medicines, food – I don’t understand. People are dying, people are starving” (2007-lhr15).

If there is agreement on the rationale behind governmental regulation of the industry, there is, however, intense disagreement among pharmaceutical manufacturers about the actual policies. In particular, many industrialists with technocratic perspectives tend to look to international standards to provide the substance of good practice in drug manufacture, while others tend to have faith in more homegrown institutions. Some believe that the market is the best means of keeping prices down, others are concerned that internationally oriented regulation will lead to drastic price increases.

Since the passage of the Drug Act in 1976, the Federal Ministry of Health in Islamabad has executed the process of registration, licensing and pricing, such that all the industrialists in the pharmaceutical industry are thoroughly familiar with the process of handling the bureaucracy through its individual manifestation: federal drug inspectors. In the spring of 2007, however, there was discussion of government plans to establish a new extra-ministerial Drug Regulatory Agency (DRA), modeled after the United States’ FDA, with broad discretionary power to execute and ostensibly streamline the process of registration and licensing. The debate over the creation of the DRA came in the context of Pakistan’s transition into final implementation of the TRIPS Agreement in 2005, a condition of WTO accession for both India and Pakistan. There was, however, a general fear that as the DRA was implemented in the context of the new patent regime, it would be predisposed to take the side of patent-owning multinational corporations over the domestic industry.

Industrialists with technocratic perspectives were by and large in favor of the creation of the DRA, as a means to forcing the national pharmaceutical industry to adopt higher, international standards for manufacturing and compete at that level. One such respondent mentioned this view and its opposition on the part of smaller local manufacturers:

> twenty big pharmas are all for [the DRA], but 600 smaller companies were against it; it was all very rhetoric-oriented. It’s a one-window operation for us, and if it’s structured in a modern manner, then modern people will come in. If there is an independent expert hired from wherever – Canada, Japan, Pakistan, India – he heads the DRA; of course, he is talking the same language. The 600 companies, they don’t have those issues. They’re not thinking globally. It’s not in their business model to be a globally complaint company (2007-lhr10).

Another mentioned the importance of the DRA in the enforcement of rules laid down by the Drug Act; his major concern was substandard manufacturing practices. He argued that the establishment of a higher standard of regulation would lead to the transformation of the industry, with companies unwilling to invest closing down and with others changing their ‘mindsets’ (2007-lhr13). A senior
manager in one of the big indigenous Karachi firms mentioned the Ministry of Health’s enduring concerns with companies complying with Current Good Manufacturing Practice (CGMP) as a positive challenge for the industry, and that the DRA would just continue that tradition, which is a better relationship than in some other countries (2007-khi4).

Opposition to the DRA came mostly from those with embedded perspectives. One mentioned two major concerns: 1) that costs will go up because autonomous bodies have to raise their own operating costs through fees, which will be reflected in the increased cost of medicine and 2) companies will have to close down because of compliance with new regulations, thus shrinking the component of national industry in the drugs market (2007-lhr15). A number of respondents, again mostly with embedded perspectives, argued that since peer countries in the region – Bangladesh, Sri Lanka, India – have not created an autonomous agency like the FDA, Pakistan should not be moving so fast in building up this new regulatory architecture (2007-lhr20).

Even some industrialists with technocratic perspectives questioned the speed at which this new agency is being made responsible for the regulatory regime. Yet with embedded manufacturers, the emphasis was on the faith they placed in existing institutions and relationships. One said, “the laws in the Drug Act are more stringent than the US FDA” (2007-khi13). The argument over the establishment of the agency was also situated in a larger political context of the substantive relationships between manufacturers and different elements of the state apparatus. A respondent was of the opinion that the Prime Minister’s Office, under which the DRA would operate, was more removed from the industry and thus more amenable to the interests of multinational companies than the Ministry of Health, with which the manufacturers had long-standing, working relationships (2007-lhr19).

The intense debate within the indigenous pharmaceutical industry over the establishment of the Drug Regulatory Authority signaled a deeper conflict among the members of the PPMA about how the state should facilitate the transformation of the industry, and towards which set of standards. Broadly, the technocratic perspectives group viewed the establishment of the DRA as a means to forcing indigenous industry towards global compliance, in the service of creating internationally competitive sector. The embedded perspectives crowd, by contrast, were concerned about the effect this would have on indigenously created networks, institutions and relationships and replacing these with external norms, at some expense to consumers both in terms of higher costs and less competition for domestic industry.

India

India’s drug regulatory regime is decentralized; it is handled state by state, though with some involvement by the Union Health Ministry. Yet how firms view and respond to government regulation, I contend, is conditioned by their tendencies toward technocratic or embedded perspectives. Many of these differences in outlook and action were apparent in my research including differing perspectives on whether the state should be upholding global standards or uphold indigenized protection and localized registration regimes. One difference is the focus on the variation among state governments in their effectiveness or support for the industry. I have found that these comparisons -- which I solicited in part based on Aseema Sinha’s conceptualization of ‘sub-national developmental states’ -- tend to say more about the criteria with which any one industrialist characterizes and responds to a particular government, and thus about both his

perspectives and strategies, than any definitive argument about the capacities or effectiveness of the state governments themselves.

Older technocratic industrialists have the unique perspective of being present and involved when the government set up much of its own regulatory apparatus. One older industrialist remembers when he saw these bodies as being helpful: “back then they were collaborative, not like now. Now they are all about enforcing CGMP standards” (2008-adb10). Older firms, particularly those producing APIs, received initial land and infrastructure from state governments, usually through parastatal industrial development corporations, in dual policies of industrial location in peri-urban areas and support for developing manufacturing capacity. I visited several older firms who had factories on land owned by the Gujarat Industrial Development Corporation (GIDC) or MIDC in Maharashtra, which they leased or bought at low rates. One respondent, an API manufacturer, started production in a joint-sector project with the Maharashtra state credit institution (SICOM), which provided 50 percent of the initial equity. He now feels like the state government has “become complacent, too interested in making a quick buck”. He prefers the professionalism and support for entrepreneurs of the Gujarat government, a fairly consistent refrain during my fieldwork (2008-bom7). In general, the story of the interaction between older technocratic industrialists of my sample and government regulatory apparatus is one of mutual constitution at an early period giving way to frustration as state agencies become more extractive and less interested in small- and medium-scale industrial development.

For post-liberalization technocratic manufacturers, formal and clear interactions with governments is a necessary ingredient of success in new global and national markets that are constituted by the institutions of international best practice. This would involve both doing away with what they deem unnecessary intervention, particularly at the level of licensing and pricing, and also requires the government to enforce higher standards and facilitate growth through infrastructure investment. These ‘requirements’ lead certain firms to an orientation on the national government’s standards and incentives, and a mistrust of state-level institutions. A respondent manufacturing ayurvedic formulations mentioned that all his incentives came from the central government for assistance in achieving CGMP standards; state-wise regulators are supposed to follow the same standards, but in reality it depends on individual inspectors (2008-bom2). A serum manufacturer in Bombay made an even starker contrast between national and state-level institutions: the former provided generous entitlements for technology and export-orientation, whereas the latter lacked the technological capacities to regulate effectively. He mentioned that liberalization had only been successful at the macro level while at the micro level, inspectors maintained too much power and discretion. He said he spent entirely too much time trying to please factory inspectors, who had just been arguing with him about such minutiae as the Boiler Act (2008-bom30).

Others focus on the lack of government capacity to build up educational institutions and thus provide the industry with a sustainable supply of human capital. A respondent from Madras mentioned that only 20 percent of institutions, such as Indian Institutes of Technology (IITs) and of Management (IIMs), produce quality graduates. He also said that the curse of Tamil Nadu was too much politics and too much cinema, and thus not enough investment in institution-building – another common refrain among modern technocratic manufacturers (2007-mad7). Some technocratic manufacturers have internalized the rhetoric of India as an emerging economic superpower with positive directions for investment and functioning markets, but with some of the old shackles of regulatory intervention, such as drug pricing controls, holding them back. A director in a major Indian multinational described the situation in these terms:
India in general is poised, IT has been given huge incentives, it’s futuristic and forward-looking. The government itself has been forward-looking, and the vibrancy of local industry is the enabling factor. However, the drug pricing controls lose any incentive for domestic industry. The essential drug list is unnecessary as costs are already low (2007-del45).

What I find interesting about this particular articulation is that it echoes, in aspirational terms, the essence of the developmental state concept and cordial business-state relations, wherein the government is meant to play a facilitating role in the service of international competitiveness, usually in exports. This points to a certain way in which these industrialists want the state to behave, with less indication that the state is heading in that direction or even interested in doing so to begin with. Those entrepreneurs that exhibit tendencies toward embedded perspectives have a very different set of characterizations of government regulation. Here, a different narrative – of self-sufficiency and the ideal role for the state as defender of the status quo – is more prevalent, and points to strategies that are more rooted in society and thus have less of a place for state intervention. For one respondent manufacturing outside Delhi, this meant economically inspired political conservatism: the government is seen as dangerously interventionist, responding to the pressures of minority parties, a restive media and courts. He argued that a one-party state or dictatorship of administration was needed to put an end to this goonda raj, or rule by criminals (2007-del19).

Several respondents decoupled the benefits of production in a given region from the activities of the state government, preferring instead to emphasize the positive cultural characteristics of the region. One respondent mentioned that the benefits of investment in Tamil Nadu are in a productive, educated, compliant workforce with little industrial action, and that there was no need to approach the government for anything (2007-mad6). Here, the state may have underwritten industrial harmony by suppressing unions at an earlier period (2008-coi6), but this has been naturalized as part of reified ‘work culture’.

Gujarat, too, is an investment-friendly state because of its stable, ‘entrepreneurial’ culture, supposedly absorbed by the government; a number of respondents mentioned that the state has a good law-and-order situation, the labor is cheap and pliant, and that the government is efficient and investor-friendly, but essentially non-interventionist (2008-adb6; 2008-adb9). This is again an instance of naturalizing ‘Gujarati culture’ as the ideational basis for an industrial environment that is unwritten by a certain power relationship between state and society. Others, notably producing in the less industrially developed states in the North, have expressed frustration that the dominant culture and thus political orientation is towards the needs of farmers. One major manufacturer based in the Punjab said: “in the northern states, the vote-banks are agriculturists … so there is no industrialization culture and no support or infrastructure” (2007-cdg1). Here, clashes within society, in this case over the resources of the state, drive the industrial framework of a given state, rather than the government as an autonomous agent.

The relationship between industrialists and the government apparatus is prefigured by the ways in which the former perceives the latter. Thus, the state is not a fixed concept in the minds of

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25 See chapter one for a fuller discussion.
26 See Chapter three for a fuller discussion of labor in Tamil Nadu.
27 The understanding of Gujarat’s ‘law-and-order’ situation being stellar is in cognitive conflict with the violent and fairly regular instances of communal conflict that have plagued the state particularly over the last decade, when the phenomenon has decreased elsewhere.
manufacturers. Rather, it has radically different signification, different goals and different capacities depending on the industrialists’ perspectives. Not only is this highly frustrating for those who see state policies as usefully impacting the nature and direction of industrial growth, it seriously limits the scope of analysis for state-centered accounts, either nationally or sub-nationally, in analytically explaining variations in economic strategy.

**Conclusion**

Indigenous pharmaceutical manufacturing is very much tied up with India’s and Pakistan’s own trajectories of indigenous industrial development, both because they are, even now, countries with poor populations without adequate access to health care and because the production of drugs, particularly APIs, represents one of several significant frontiers in industrialization for developing countries. The different meanings of the pharmaceutical industry in relation to embedded and technocratic perspectives parallel different motivations for and means of investment in this field. I have argued that the diversity of industrial strategy for pharmaceutical firms rises out of entrepreneurs looking at the economy and the processes of industrial production through these perspectives.

Much more than the other industries I have studied in Pakistan and India – textiles, garments and automotive components, treated in chapters three through five – the pharmaceutical sector is both more heavily regulated by state institutions and more integrated into international markets and global regulatory norms. Yet, the persistence of variations in strategy in this industry -- variation that does not accord to institutional jurisdiction, but rather the ideological orientations of manufacturers – implicitly questions extant theories regarding the interaction between the state and economic actors such as firms. In the next chapter, I aim to take such questions head on by empirically assessing state regulatory policies and practices, and thus hoping to glean from that analysis a sense of not just the state’s actions but also its goals and interests, unitary or diverse, with regard to regulating the economy.
Chapter Seven
Varieties of Industrial Strategy, Regulation and the Indian State

The last few chapters of this dissertation have demonstrated a pattern of industrial strategy among firms could not easily be explained by the policies of state agencies by state / province, by industry or by national governments. Rather, this pattern appears more legible by sorting the ways manufacturers perceive the economy and the nature of economic production. The explanatory power of these perspectives and the resulting diversity of industrial strategy represents a challenge for traditional frameworks for studying late development that focus on the state’s capacity to discipline economic actors. That India and Pakistan are developing rapidly in the absence of coherence of firm strategy around state policies questions the idea that state power is the key variable in industrial success. But what of the state’s intentions and perspectives in this context? Is the diversity in firm-level industrial strategies the result of state weakness, the inability of the government to enforce discipline and thus create coherence of strategy? Or are the state’s intentions and actions themselves lacking coherence?

In this chapter, I aim to take these questions head-on by examining the policies of the Indian state with regard to industry. I am interested in the regulatory actions by state institutions, and the responses by capitalists, at a level below grand pronouncements of economic policy as articulated by various ministers or the Planning Commission but above the myriad particularistic interactions between specific bureaucrats and corporate petitioners in dusty offices in New Delhi and state capitals. Such an examination might provide a glimpse of the content of the Indian state’s place in industrial production, from which we might glean a sense of the character and interests of departments, bureaus, boards and agencies tasked with both the promotion and regulation of industrialization. As I will argue, a study at this level provides us with a nuanced and thus much less coherent picture of state intention that nevertheless did not evince state weakness or capture by business. Rather, the various and at times conflicting interests of state actors, mixed in with the usual inertia of bureaucratic contexts, leads to spaces in which both categories of industrial strategy find acceptance, perhaps even support. It is this perspective – of the state as a complex set of institutions that interact with different parts of society, at times imperiously and at others solicitously – that is often missed when seeking to see the state purely as an engine for industrial growth.

This chapter will proceed as follows. First, I will review some of the characterizations of the Indian state as an actor in the economy. Second, I will introduce the methodology of a text-search review of circulars and notifications applicable to manufacturing and industrial policy from Indian government agencies published in the Gazette of India Extraordinary. Third, I will review the most significant areas in which the Indian government regulates and interacts with manufacturing industry: excise and customs duty, industrial licensing, banking and labor regulation. Fourth, I offer some speculative claims about the origins of the current pattern of state regulation and interventions in the economy, hearkening back to the foundational debates of post-independence development discourse. Finally, I conclude with reference to the interaction between state policy and modes of capitalism.

1 In later versions of this project, I aim to extend this regulatory analysis to Pakistan as well.
Perspectives of the Indian State in the Economy

Even though the developmental state concept originated in the study of industrialization in East Asia, the Indian state has been at the very heart of debates of economic development since before independence. The British had first established modern state institutions in the Indian subcontinent primarily to maintain imperial control and to facilitate the movement of resources from the colony back to the metropolis. As a result, the ‘iron cage’ of the Indian state was overdeveloped when it came to revenue collection and internal security. Yet it was significantly underdeveloped with regard to the provision of public welfare, the creation of independent fiscal and monetary policy or government support for industrial development. The control and reorientation of state institutions for the purposes of economic development through industrialization was a central aim of many in the Congress Party’s High Command including Subhas Chandra Bose and Jawaharlal Nehru. After Independence, the Planning Commission was established as the peak organization for the promotion of economic and industrial policy. The Indian government saw industrial growth as a principal goal, and set up systems – from public undertakings to industrial licensing – to promote and regulate that goal. Throughout the 1980s and finally in 1991, the system of industrial regulation involving import quotas and licensing was dismantled in favor of a liberalized industrial regime that nonetheless maintained a great deal of state regulation and intervention. Yet the lineages of state-in-the-economy theorization in India have fallen into a framework that mimics those of developmental state’s preoccupations: state strength and weakness, the MITI-like insulation of state agencies and capture by societal actors.

Thus, the study of South Asian economies came to increasingly be placed under the developmental state framework, either descriptively in terms of how close or distant India’s state was from achieving the preconditions for fostering industrial growth and why, or prescriptively, in terms of how these preconditions could be achieved. The developmental state model was echoed in popular fashion in statements by leaders within the region: the P.V. Narasimha Rao government formulated a Look East economic policy for India, in an effort to replicate ‘the Asian model’ through increased economic ties with the Asia-Pacific region. In the academic study of South Asian economy in the US, this shift toward positioning the state as the preeminent developmental actor succeeded modernization theorists’ early functionalist analyses of Indian societal development, and later neoliberal criticisms of the state’s role in the economy, viewing any intervention as inevitably leading to rent-seeking, corruption and stagnation. The inescapable presence and importance of the state in the economy of India was thus an important reaffirmation. Yet, applying the developmental state framework to South Asia was usually done in context of broader cross-national if also historically informed work that situated India in a comparison with other, quite dissimilar developing countries.

2 And only in certain strategic locations, as much of India was under indirect rule by princely states or feudal landowners in the rural areas of crown provinces. For the classical theoretical formulation of overdevelopment, see Hamza Alavi, “The State in Post-Colonial Societies: Pakistan and India,” in Gough and Sharma, eds., Imperialism and Revolution in South Asia (New York: Monthly Review Press, 1973).
Embedded Autonomy, by Peter Evans, was the first such work to come out of the traditions of ‘bringing the state back in’ and the comparative application of the developmental state framework. Evans argued, based on a three-country sectoral comparison of government support for the information technology industry, that South Korea’s successes in new globalized economic production came out of a developmental state that was able to effectively balance policy autonomy with close, “embedded” relationships with society, particularly industrial capital. Brazil and India represented intermediate cases between Korean developmentalist “embedded autonomy” and predatory states such as Zaire under Mobutu. For Evans, India’s main constraint was a set of governmental institutions that was too autonomous:

the kind of embeddedness that might allow state managers to provide information dissemination, consensus building, tutelage, and cajoling to potential entrepreneurs seems almost entirely absent from the scene … Unlike the developmental states, the Indian state cannot rely on the private sector either as source of information about what industrial policy will ‘fly’ or as an effective instrument for the implementation of industrial policy.

Evans situates this lack of ties between manufacturers and state agents in the elite foundations of the bureaucracy of the Indian state, which rose out of the central institutions of social regulation and control in the British Raj. In his telling, the bureaucratic elite of the Indian state shared a caste, class and ideological background that was fundamentally different from, usually disdainful of and potentially opposed to those who made up the private sector. Thus, the state is too insulated and out of touch to be much use in the encouragement, support and orientation of private-sector investment.

Atul Kohli studied a similar set of countries as Evans – Korea, Brazil, India and Nigeria – to make a slightly different argument about the reasons for effective ‘state-directed development’ in some countries and not others. Kohli argues that the creation of effective developmental state institutions is a product of initial state building because “state intervention in support of investor profits proved to be a precondition for industry to emerge and flourish in late-late developers.” These salutary institutional conditions, in turn, are dependent on patterns of state authority, which are formed out of different colonial experiences. Kohli argues that India can be characterized not as a ‘cohesive-capitalist’ state like Korea or as a neo-patrimonial state like Nigeria but at an intermediate point between the two: a ‘fragmented, multi-class’ state like Brazil. In such states, “public authority… tends to be more fragmented and to rest on a broader class alliance – meaning that these states are not in a position to define their goals narrowly or to pursue them as effectively as are cohesive-capitalist states.” Thus, India is too embedded, or at least the state is too beholden

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7 Evans, p. 69.


9 Ibid., p. 2.

10 Ibid., pp. 7-8.

11 Ibid., p. 11.
to various societal interests to wholeheartedly commit to the support of entrepreneurs and rapid industrialization.

*State-Directed Development* applies a nuanced comparative-historical analysis in grounding India’s developmental limitations in the formation of the state structures during the colonial period. Kohli argues that the basis for India’s fragmented, multi-class state and the constrained industrial development that attends it are due to three historical factors: 1) the self-limited authority of the colonial state that allowed local and regional traditional elites to consolidate power, 2) the non-coherence of organizational structures, class bases or strategies within the nationalist movement opposed to British rule, and 3) a low productivity, predominantly agrarian society. Thus, according to the analysis, India’s particular colonial experience constrained the ability of the independent state to single-mindedly pursue growth as Korea seemed to have done. The Indian state was unable to avoid the demands on resources, policy and patronage by powerful interest groups such as farmers, organized labor and government functionaries, and thus had to expand its goals far beyond the focus needed for rapid industrialization, as with ‘cohesive-capitalist states.’

Thus, according to the analysis, India’s particular colonial experience constrained the ability of the independent state to single-mindedly pursue growth as Korea seemed to have done. The Indian state was unable to avoid the demands on resources, policy and patronage by powerful interest groups such as farmers, organized labor and government functionaries, and thus had to expand its goals far beyond the focus needed for rapid industrialization, as with ‘cohesive-capitalist states.’

Both Evans’ and Kohli’s analyses, by placing India in the same context as South Korea, starkly highlight comparative legacies of state formation and thus capacities for intervention in the economy. Yet, in so doing, throw out of focus more nuanced dynamics among firms, workers and financiers and between these economic actors and the state in any one national context.

Other studies in the last decade have applied developmental state frameworks to new trends in subnational, rather than cross-national, research. Vibha Pingle studied the ministry-level variation of developmentalist support across the steel, automobile and software industries in India. Aseema Sinha, in her award-winning book *The Regional Roots of Development Politics in India*, disaggregates industrial growth not by sector, but by state. She argues that economic performance is highest where there exists a ‘sub-national developmental state’, or state-level bureaucratic framework that compensates for the flagging credibility of the central state by providing information, establishing clear rules of the game, and committing to help regional entrepreneurs negotiate regulatory restrictions. Both Pingle and Sinha disaggregate the economic performance of India by sector or by state, and as such, performing a valued service to the study of South Asian political economy. India is a country of more than a billion people and exhibits immense variation in economic activities in terms of both industry and region. However, both of their frameworks solidly center on the ability or inability of state institutions, either in terms of specific industry-specific ministries or sub-federal units, to create the conditions for “embedded autonomy” and support for the private sector in their purview. In this context, the developmental state is thus simply shorthand for the unbridled power of state institutions to influence – positively or negatively -- the nature of economic growth.

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12 Ibid., pp. 221-223.
13 Similar arguments about the capture of the state’s developmental agenda by dominant proprietary classes and by demand groups are articulated in Pranab Bardhan, *Political Economy of Development in India* (Delhi: Oxford Univ. Press, 1984) and in Rudolph and Rudolph, *In Pursuit of Laxmi* (Chicago: The University of Chicago Press, 1987), respectively.
14 Vibha Pingle, *Rethinking the Developmental State: India’s Industry in Comparative Perspective* (Delhi: Oxford Univ. Press, 1999).
Rethinking and Researching the Indian Regulatory State

Previous studies of statist development, by focus on comparative success or failure of economic policy among a group of countries, necessarily abstracts away from these complications and thus arrives at a model of the making of state policy that is cohesive and strong, as in characterizations of Korea, or fragmented and weak, as in the characterizations of countries like Brazil or India. These comparisons may not be entirely wrong, but they tend to offer up a one-dimensional picture of the intentions, capacities, strategies and tactics of bureaucrats responsible for economic policy. Further, cross-national comparisons of developmentalism might select on the outcome and impute the process by which this outcome is achieved. Thus, Korea is chosen as the most successful case and Brazil a less successful one; the process of successful industrial development is understood by comparing Korea’s bureaucratic operation with Brazil’s. This is certainly a reasonable exercise if one is interested in explaining the outcomes – differential economic growth rates – but if one were to be interested more directly in the process by which industrial policy is formulated and implemented by bureaucracies, it would be important to take into account multiple other intentions aside from what would create the most effective growth: distribution of policies across regions, helping small-scale industries, increasing the prestige of one’s office / department / ministry relative to others, and the power of tradition, just to name a few. Rather than focusing on explaining outcomes, I am more concerned with getting a nuanced picture of bureaucratic decision-making and implementation that can take into account a wider range of goals, interests, strategies and traditions.

I argue that to understand the nature and impact of state involvement in the economy, we need to examine two separate things. First, we must recognize and try to parse the many different, crosscutting interests and intentions of the state. As a bureaucratic apparatus, it is not usefully perceived as a rational actor but rather as a collection of different politicians, bureaucrats, agencies and institutions that nevertheless might have relatively consistent patterns of behavior over time, from having tea at 11 am to common modes of address to supplicants and correspondents to lineages of policy that go back decades. Thus contradictions between different policy goals and the normalization of these contradictions in bureaucratic modes of interaction are par for the course rather than an aberration.

Second, I argue that we must study the relationship between bureaucrats and business, which is after all at the very heart of state involvement in a private-sector economy. As we need to examine the interests and perspectives of bureaucrats, as mentioned above, so too must we understand industrialists as a diverse group with different perspectives and strategies. Elsewhere in this dissertation I argue that manufacturers in India (and Pakistan) by and large perceive the social structures and relationships around industrial production through one of two lenses. Technocratic manufacturers, would seek out and establish formal institutional means for the recruitment of labor, the acquisition of necessary capital and relations with upstream and downstream firms, whereas embedded manufacturers would seek to achieve the same ends through a web of personalistic ties with workers and with sources of credit, components and supplier networks.

The two different kinds of manufacturers, who have fundamentally different ways of looking at the means and ends of industry, relate to the same state structures in predictably different ways. My field research shows that technocratic manufacturers tend to seek the state out as a problem-solving entity responsible for deficiencies in the industrial environment. They also have more natural affinity to state agencies with a similar technocratic outlook, such as the storied Prime Minister’s
Office under Rajiv Gandhi. Embedded manufacturers, by contrast, tend to avoid the state unless faced with direct threats to their work, or otherwise maintain personalistic ties with particular politicians and bureaucrats. Their perspective is of the state as a preserver of values and norms that have been developed in society and the economy over time, and are thus uninterested in the state’s activities in pushing industry forward toward particular, universalized norms.

How do bureaucrats relate to industrialists, both as objects of regulation and chief interlocutors or collaborators in the project of economic development? Most studies of business and politics discuss the strategies business actors use to get around government regulation through formal, informal and illicit channels. Similarly, the business-government interactions in the developmental state literature has also focused on instances of ‘state capture’ and the derailing of effective ‘disciplinary’ policy. Yet, the complexity in interests and intentions of both state and corporate actors leaves space for the possibility that there might be substantive interactions that do not collapse into either the state’s ability to discipline business along a clear industrial policy or capitalists’ abilities to short-circuit government policy through lobbying, implicit threats, bargains or corruption. This project is thus concerned with the complex relationships that constitute industrial policy and process in a growing but multifaceted economy like India. In brief, I argue that the myriad crosscutting interests, intentions and strategies of bureaucratic actors allows space for, facilitates engagement with and ultimately promotes both technocratic and embedded manufacturers. This divergence of modes embodied in industrial policy reflects not an inability of the state to discipline away one or the other, but a commitment to both technocratic and embedded ends of production simultaneously.

How does one get access to the making and implementation of state industrial policy in relation to these two different perspectives on industrial strategies? In-depth interviews and non-participant observation in the bureaucratic offices responsible for policy may over time provide a picture, yet much of the policy back-and-forth is not situated and articulated in one particular place in a particular time. The Indian government, unlike Japan’s storied Ministry of International Trade and Industry (MITI), has not concentrated all industrial policy decision-making in one elite institution, but rather has decision-making and interactions between bureaucrats disaggregated across a varieties of agencies, departments and ministries. Moreover, policy is constituted and developed over time, not necessarily under the direction of different governments but in reaction to changes in circumstances, personnel and responses from industry. As a result, perceiving the industrial policy process requires a perspective on the range and transitions over time of this process. In my view, the many policy and implementation documents of Indian government departments, published year-on-year in the Gazette of India Extraordinary, can be used to provide such a perspective.

The Indian state at the Union level has several different levels of rules and regulations between the formation of legislation and the implementation of policy. At the top, parliamentary acts and government ordinances serve as the legal foundation for the regulatory framework in

17 See for example, Schneider and Maxfield, eds. Business and the State in Developing Countries (Ithaca: Cornell Univ. Press, 1997).
18 Vivek Chibber, Locked in Place (Princeton: Princeton Univ. Press, 2004). Chibber argues that India’s mediocre industrial performance is related to the inability of the state to discipline capital in the planning process, in contrast to ‘disciplinary planning’ in Korea.
19 The present project does not look at state-wise industrial policy or regulation, because of the size and complexity of that undertaking. Even though the control of many state resources have been decentralized towards the states, industrial policy is still largely formulated and implemented from New Delhi-based bureaucrats.
question. However, acts are not often amended or rewritten, and yet serve as the basis of law. Indian labor regulation, for example, is still based in large part on the Industrial Disputes Act of 1947 and the Factories Act of 1948.

Under the level of formal legislation, individual ministries are responsible for establishing multiyear policy frameworks such as the Foreign Trade Policy 2004-2009, of the Ministry of Commerce and Industry, or the Pharmaceuticals Policy 2002, of the Ministry of Chemicals and Fertilizers. Policies signal the broad intentions of the government, ministry by ministry, in coordination with the cabinet. Execution and implementation is then carried through by procedural orders, from the Drugs and Cosmetics Rules to the Ministry of Commerce and Industry Handbooks of Procedure.

Circulars and notifications (C&N) document the administrative process of change, adjustment and reaction to policies and procedures. They might announce a new policy or rule, clarify or amend a rule in response to “representation from industry” or highlight points of regulatory action, such as the initiation of an anti-dumping investigation or instances of fraud. Constituent departments or agencies of ministries, such as the Commerce Department, the Office of Textile Commissioner in the Ministry of Textiles, the Central Board of Excise and Customs of the Ministry of Finance or the Urban Banking Division of the Reserve Bank of India, formulate policies, circulars and notifications.

They are generally issued by senior Indian Administrative Service (IAS) officers at Director, Joint Secretary or Additional Secretary level, which represents at least 12, 20 or 30 years’ service as an elite member of the bureaucracy. While these documents are issued by the high bureaucracy, it is often at the behest of representations from representatives from industry, either individually or collectively through industry associations. As a result, regulatory documents are often the product of the interaction between the Indian state and manufacturers through relatively formal, transparent channels. They are thus a rich data source from which we might glean indications of the manifold interests of the state at a relatively low level of abstraction from the everyday workings of the government, as well as the style and content of interaction with private sector actors.

To search for and review these imprints of state policy, I used keyword searches relating to ‘industry’, ‘manufacturing’, ‘policy’ and the four industries of interest in my research: textiles, garments, automotive components and pharmaceuticals. The Gazette of India Extraordinary is not a searchable publication, but the Manupatra Database, an online resource for Indian law, policy and regulation, contains most of the constituent documents of the Gazette in keyword searchable format. These searches in the ‘circulars and notifications’ section yielded 1765 documents, though many are repetitions within the same search and across searches. In addition, searches on ‘committee reports’ and ‘bills and ordinances’ yielded several hundred more documents, although these are more heterogeneous categories with index information often missing, and so less reliable and authoritative than circulars and notifications. Because of Manupatra’s mediation of the Gazette, it is virtually impossible to tell whether the collected documents are a representative or random sample of the total, and as such, the frequency of certain issues or areas among C&N documents does not necessarily represent the interests of the Indian state. Rather, by examining the content of different regulatory documents and relate these to other regulatory documents, such as

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20 Accessed at http://www.manupatra.co.in (fee-based service). In addition, particular policies, regulations, circulars and notifications are available on the many websites of government ministries and departments.

21 The bulk of Manupatra’s databases relate to case law, either through the courts or tribunals. These were not used because legal recourse often involves specific rather than general challenges to bureaucratic regulation. On a more general note, it is difficult to read administrative procedure from case law.
policies and regulations, we get a flavor of the different strands of the Indian system of industrial promotion and regulation. In the next sections, I will focus on several important issue areas for state industrial policy: a) foreign trade, b) banking and finance, and c) labor.

Foreign Trade

The vast majority of government documents gleaned through my keyword searches relate to policies on foreign trade: import tariffs, duty drawback and export promotion through excise exemptions or customs rebates of imported components. While this cannot be understood to represent a sense of the government’s interest relative to other areas, foreign trade is immensely important in India, for several reasons.

First, production for export constitutes a particularly dynamic portion of overall production, for some obvious reasons. The Indian population is over a billion people and thus, a huge internal market, but this market is poor, with the average income per capita at Rs. 44,345 or less than $1,000 in 2009-2010. Even though there is a large and growing middle class in the country, value-added manufacturing can be more easily achieved by exporting high technology products or components of products to wealthier markets, such as the US, EU and Japan. Interaction with multinationals, foreign imports and global value chains, moreover, has spillover effects in terms of greater technology transfer, exposure to international norms and human capital.

Second, customs duties still accounts for a considerable about of Indian state revenue. Customs alone represents 15 percent of all government revenues of the Indian state in 2010-2011. The share of customs in tax receipts was closer to 20 percent during 2007-8, before the Great Recession. Additionally, export promotion is important for increasing foreign exchange revenue and maintaining healthy trade balances and thus balances of payments. India is no longer operating fixed and overvalued exchange rates, but the maintaining ample foreign currency reserves is increasingly seen by Asian countries as the key defense against financial crises.

Last, manufacturing for export is seen by the state as a source for employment generation. Referring to the fact that trade activity between 2004 and 2008 was responsible for the creation of 136 lakh (13.6 million) new jobs, Kamal Nath, until recently the Minister of Commerce and Industry, said, “I have always maintained that exports are not about earning foreign exchange but about boosting our manufacturing sector, creating large-scale economic activity and generating fresh employment opportunities.” Thus, while export promotion, in the spirit of the East Asian developmental state, is a key part of foreign trade policy, there are other goals that could possibly contradict or at least muddy a single-minded orientation to export-led developmentism, including job creation through encouraging labor-intensive production and enhancing government revenue.

In the high dirigisme of the post-Independence era, foreign trade policy was aimed at providing low cost technological inputs to efforts of import-substitution – through overvalued exchange rates, the rationing of foreign exchange for industrial rather than consumption-based imports – and then erecting insurmountably high tariff barriers against the consumption of imported goods. Foreign direct investment during this period was also highly regulated in such a way as to discourage foreign firms producing for the domestic market without significant localization. After liberalization in the 1980s and 1990s, many of the instruments of import-substitution, such as fixed and overvalued exchange rates, import quotas and tariff barriers, have either gone or severely

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decreased. Yet, the industrializing element of those policies remains in the ways in which elements of the Indian state seek to promote value-added by exempting them from taxation and excise and by making their inputs cheaper.

Both the spirit of this promotion and the forwarding of other goals was evident in the Ministry of Commerce and Industry’s Foreign Trade Policy (FTP) 2004-2009\(^{24}\) and changes in it and the associated Handbooks of Procedure are the subject of the many circulars and notifications in which the government amends and clarifies schemes and policies after representations from trade bodies and individual firms. As such, I believe it is a good portal through which we can see how these policies and formulated and implemented. The FTP is divided into different areas of significance. I will be focusing on the goods allowed in import-export policy, duty exemption / remission schemes (particularly for inputs and capital goods), and more general promotional measures. I shall address each in turn.

Paragraph 2.1 states that “Exports and Imports shall be free, except where regulated by FTP or any other law in force.”\(^{25}\) This relates not to the cost of imports and exports, but what is prohibited, which is enumerated in the Indian Trade Classification (Harmonized System) Classification for Import and Export Items, 2004-2009 (ITC([HS]), an FTP-allied listing published in 94 product category chapters by the Directorate-General of Foreign Trade. This includes a product-by-product classification of items to import and export, with information about whether these are restricted or not. It is a sign of India’s overall trade liberalization that the majority of items, outside sensitive areas such as potentially hazardous organic or nuclear material, can be imported or exported without restriction or import quota; every item in more than 400 listings in Chapter 52 on cotton and cotton textiles was unrestricted. The lack of restriction might mean greater potential competition from imports, mediated of course by tariff rates, and the government using less ham-fisted techniques such as quotas and restrictions to guide foreign trade. The FTP signals a move over the decades since liberalization to the use of more subtle techniques for promotion and guidance, as elaborated below.

One of the main ways in which the Indian government is promoting and directing exports is through remitting duty that exporters would have to pay for inputs and capital goods. The FTP has in place several related measures for this: advance authorization (paragraph 4.1.3), the Duty Entitlement Passbook Scheme (DEPB, paragraph 4.3), Duty Free Import Authorization (DFIA, paragraph 4.4.1) and the Export Promotion Capital Goods Scheme (EPCG, paragraph 5.1).\(^{26}\) These different schemes and programs were seen as a key way to offset difficulties faced by Indian manufacturers from the high cost of freight and competition from other countries, and were extended year by year throughout the length of this policy and afterward.

The duty credits, which exporters can use to purchase more goods from abroad or get a refund on central excise duty (CENVAT), are calculated in a formula that takes into account the value-addition between these inputs and the final products, the amount customs duty takes up in the cost of the inputs, and the cost of freight; for example, the DEPB Committee of the DGFT, when calculating the DEPB rate for assembled inputs for tractors, calculated the customs as a proportion of the Cost, Insurance and Freight (CIF) value of the inputs and the Free On Board (FOB) value of the exported products, and dividing the customs proportion from the value added between inputs

\(^{24}\) The Indian government has recently unveiled a 2009-2014 version of the policy, but I will concentrate on the earlier period because it is much easier to see the effects of government-business interactions through amendments and because Foreign Trade Policy 2009-2014 just continues many of the policies and schemes of the earlier document.


\(^{26}\) Ibid., pp. 45-50, 55-58.
and outputs, thus arriving at a figure of four percent in this instance.\(^{27}\) A key shift in policy is from calculating duty drawback based on the weight / amount inputs towards a focus on value addition:

A significant feature of the new Drawback Schedule is that barring a few exceptions the rates on all export products have been expressed in *ad valorem* terms in lieu of earlier specific rates, i.e. Metric Ton /kg etc. Though the weight based drawback is reported to be less vulnerable to abuse, the *ad valorem* rates have the dual virtue of first being fair to the exporters and secondly, serve the policy objective of encouraging the export of value added items. Therefore, as a conscious policy decision, it has been decided to express drawback rates in *ad valorem* terms. The associated drawback caps have, however, been fixed in specific items, i.e. weight or piece, as the case may be.\(^{28}\)

The focus on value addition is certainly more beneficial to technocratic manufacturers, yet the number of amendments to these rates and to the Standard Input-Output Norms (SION) that form the basis of these values suggest an on-going process of negotiation between firms, industry associations and the government.

Firms and industries lobby the government through specific agencies, and when the relevant official makes a decision that calls for the policy to be modified, he issues a public circular to that effect. The form of this exchange starts with “Representations have been received from [industry association or simply industry] that consequent to above mentioned circular…” and continues with “it has been decided that…”, and ends “this issues with the approval of the Director-General of Foreign Trade.”\(^{29}\) While the tone of these circulars are certainly officious, it does suggest a certain openness and flexibility to the needs of particular groups.

Moreover, the government is at pains to include smaller exporters, such as powerloom operators and garment manufacturers, who may not have particular knowledge of these rates, through registration, clearance and drawback specification from industry associations or export promotion councils and thus allowing for minimal involvement with the authorities.\(^{30}\) Such allowances enable smaller exporters to participate in schemes, thus not only privileging those with developed corporate capacities in this regard. Thus even in the most complicated context of interaction between the government and manufacturers, the state is solicitous of portions of the exporter community with less knowledge and capacity.

In terms of the general promotional measures of the FTP, these include several measures that are helpful to both technocratic and embedded manufacturers. The Assistance to States for Infrastructure Development of Exports (paragraph 3.1) is self-explanatory. The Market Access Initiative (paragraph 3.2) provides funds through export promotion councils and trade associations to do market studies, set up showrooms and participate in international trade fairs.\(^{31}\)

The fact that these resources runs through associations and councils means that firms too small to have international linkages themselves can nevertheless participate in export promotion, such as smaller embedded manufacturers, through the cluster organization of industries. Towns of

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\(^{28}\) CBEC Customs Circ. No. 22/2005, Central Board Excise and Customs, Ministry of Finance, 2\(^{nd}\) May, 2005.


\(^{30}\) CBEC Excise Circ. No. 24/708/2003, 23\(^{rd}\) April, 2004.

\(^{31}\) FTP, p. 33.
Export Excellence provides access to finance for technology and infrastructure to industrial clusters which collectively export Rs. 1000 crores. Clusters mentioned in this policy, particularly Ludhiana and Tiruppur, are generally organized in an embedded fashion, with comparatively small knitwear and powerloom manufacturers hiring familial labor and growing through reinvested profits.

Registration as a Status Holder (paragraph 3.5) allows companies with certain minimum export performance (20 crores FOB for classification as an Export House, 100 crores POB as a Star Export House) to register as exporters in order to avail themselves on a priority basis of the different facilities available in this policy. ‘Status-Holding’ as an individual firm clearly benefits technocratic manufacturers more, as they tend on the whole to be larger exporters with more developed individual relationships to the international economy. Yet, the FTP allows for certain agencies, such as export promotion councils, to grant Status Holding to firms in Small Scale Industry, firms in certain underdeveloped regions in the country, firms manufacturing handicrafts, firms exporting to the developing world and smaller firms who nonetheless have ISO series certifications.

The same is true with the Focus Market (paragraph 3.9) and Focus Product (paragraph 3.10) Schemes, which provides Duty Credit scrips of 2.5 and 1.25 percent of the FOB value respectively. The Focus Market Scheme incentivizes exports to developing countries, predominantly in Latin America, Africa and the former Soviet Union, as a way to diversify exports to new markets and decrease reliance on competitive western markets, yet these markets require exports precisely unlike those produced by most technocratic export manufacturers who gear higher value added products to western markets. The Focus Product Scheme includes a list of 74 items covering five broad categories: leather products and footwear: sports goods, stationary and fireworks; handloom products; handicraft and value-added fish items. This rather haphazard list nevertheless tends to include products by relatively embedded manufacturers. Contrariwise, the FTP’s High-Tech Products Export Promotion Scheme (HTPEPS) gives 1.25 percent FOB value, or 5 percent incremental growth, to incentivize the export of high-tech products.

A last key aspect of Indian foreign trade and export promotion, mentioned in the FTP but fully elaborated in a separate Act and Rules in 2006, involves policies toward Special Economic Zones (SEZs). These institutions have been the hallmark of export-oriented developmentalism, especially in China and countries in Southeast Asia, because they are institutional spaces wherein firms are afforded special exemptions, ease in getting various permissions and registrations, and common infrastructure. In East Asia, these are most often set up by the central government and serve as a location for green-field foreign direct investment. In India, SEZs are established by state governments and private developers, with central government approval, and domestic exporters rather than multinational corporations dominate the existing ones. India has had policies involving special zones for export promotion since the 1980s, when EPZs were set up in Bombay and Bangalore, and the NDA government established a SEZ Policy in 2000. Yet, the UPA has argued that the passage of a special SEZ Act and attendant Rules in 2006 really brought the policy process along; Kamal Nath, the Commerce Minister, said that

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32 FTP, p. 34; Handbook of Procedures, Vol. 1 Appx 41, Ministry of Commerce and Industry.
33 See chapters three and four for more on industrial clusters. See also Schmidt and Nadvi, “Clustering and Industrialization: an Introduction,” World Development 27 (September 1999).
35 FTP, pp. 40-42; Handbook of Procedures Vol. 1, Appxs 37C and 37D.
36 FTP, pp. 42-43; Handbook of Procedures Vol. 1, Appxs 37E.
with the Act and Rules in place, it is expected that many large format, multi-product SEZs that have so far been unable to achieve financial closure will now quickly move towards such closure. It is anticipated that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.\(^{38}\)

One might think that institutions like SEZs are the paragon of technocratic institution-making, and that government commitments to multiply investments in SEZs is a vote, by the Minister of Commerce and Industry no less, against the embedded mode of manufacturing. Yet, a closer look at the Act and the Rules, as well as SEZs in the context of the larger world of industry, provides a slightly different picture.

The SEZ Act outlines the provisions for establishing and approving the SEZ (Chapters II-V), exemptions from customs duty for goods imported into and exported out of the zone, excise duty, service tax, sales tax and the provision of duty drawback (Chapter VI), and that absolute authority for unit registration and implementation of procedure within an SEZ will be held by a Development Commissioner, a Deputy Secretary of the central government (Chapter VII).\(^{39}\) The SEZ Rules of 2006,\(^{40}\) as the administrative implementation of the Act, spells out the ways in which SEZs operate. What is striking about the procedures of the SEZs vis a vis core issues like tax, customs and excise exemptions is that they operate in almost identical fashion to the exemptions for “Export-Oriented Units, Electronics Hardware Technology Parks, Software Technology Parks and Bio-Technology Parks,” mentioned in Chapter 6 of the FTP.\(^{41}\) Moreover the requirements for initial investment in capital for export-oriented units is not overly high, but not inconsiderable – Rs. 1 crore or roughly $2 million, whereas there is no initial investment requirements for constituent units of SEZs, just commitments between the developer and the central government regarding aggregate export performance, and between the development commissioner and individual units regarding positive foreign exchange earning and performance reporting.\(^{42}\)

The major differences for the SEZs involve certain state-level benefits in terms of guaranteed infrastructure and tax exemptions,\(^{43}\) and the figure of Development Commissioner as a single authority with power to provide “one-window clearance”.\(^{44}\) Given this, it is not at all clear that embedded as well as technocratic industrialists would not be attracted to establishing units in an SEZ, depending on the relationship and terms given by the (usually private-sector) developer. Embedded manufacturers in particular would benefit from the relatively limited requirements in reporting and the cluster-like format of some SEZs.

In addition, manufacturers making components for export goods benefit from certain provisions in both the FTP and the SEZ rules that producing or job-working for either export-oriented units, export parks and SEZs are considered to be “exporting” to these industrial units. These units are able to avail themselves of drawback, exemptions and special facilities afforded to


\(^{40}\) Special Economic Zones Rules, Notification GSR54E, Commerce Department, notified 10th February, 2006.

\(^{41}\) FTP, pp. 61-74.


\(^{43}\) Rule 5.5 (a-h), SEZ Rules of 2006.

\(^{44}\) SEZ Act, Chapter IV; Various Rules, SEZ Rules of 2006.
exporters. The notion of deemed exports and job-work to export units is consonant with the ‘affirmative action’ of the Indian government to include smaller firms with higher aggregate potential for employment to participate in export-promotion. It is also a positive recognition of the long chains of production for industrial manufacture, wherein value is added at earlier stages that might not be completely encapsulated by those firms with the ability and inclination to be involved with registration and drawback themselves.

Foreign trade and export promotion is commonly thought of as the leading edge of the Indian economy, the location of the most advanced and institutionalized firms that are integrated into international systems and thus are heavily influenced by international best practices through deep interaction with foreign firms. There are certainly firms – ones I label technocratic – that conform to this stereotype, from leading Indian multinationals to boutique operations. Yet, there are other export-oriented firms that thrive from deeply personalistic relationships to importers or foreign markets, from a manufacturer of dhootis and lungis in Bhivandi exporting to the UAE to pharmaceutical producers who sell generic drugs in Eastern Europe or Southeast Asia, or even one of the many knitwear exporters in Tiruppur filling orders for Liz Claiborne or the Gap. The latter embedded manufacturers may be smaller and less well-known than Indian brand names abroad like Tata, but they provide the Indian economy with valuable benefits such as employment generation and more consistent sources of foreign exchange than those who are higher-up the value chain and more exposed to competition.

How the Indian state fashions policies that promote and regulate these different types of manufacturers is thus an indicator of how the government sees the nature of its involvement with industry. With foreign trade policy, at least, the government seems to be pursuing several goals, and thus promoting the efforts of different types of export-oriented manufacturers, simultaneously. Looking deeper into the documents produced by agencies like the Directorate-General of Foreign Trade or the Central Board of Excise and Customs, we get a nuanced picture of state actors who think of their quotidian roles in the regulation of trade and promotion of exports not in disciplinary or even particularly developmentalist terms. Rather, it is about maintaining a network of sometimes contradictory policies that can simultaneously maximize foreign exchange, revenue, employment generation and technological learning.

The state certainly uses its power, coercion and influence to narrow the range of possible behavior by exporters, but nevertheless leaves adequate space – defended by state policy – for both technocratic and embedded manufacturers. Moreover, this bifurcated policy space is created relatively autonomously by the state with representations from industry through associations; it is not a particular instance of capture. In short, even the most ‘developmental state’ arena of policy – export promotion – state interests and actions cannot be collapsed to a developmental model, because of the plethora of other goals and the complicated nature of the policy-making process in India.

Banking and Financial Regulation

A second major area of government regulation is that of the banking and overall financial sectors. The developmental state concept, as well as Alexander Gerschenkron’s characterizations of France and Germany,” were predicated on the idea of banks, under the direction of the state, channeling

46 Alexander Gerschenkron, “Economic Backwardness in Historical Perspective,”
invested capital to destinations with the most stable, long-term returns. In the developmental state, banks serve a crucial role because industrial catch-up in late-late developers requires the collection of capital for large investments in infrastructure and heavy industry. It was thought that capitalists, if left to their own devices, would use funds for low value, incremental investments. The capacity of a developmental state to intervene and direct funds towards value-added manufacturing and long-run dynamic comparative advantage is thus a crucial precondition for state-led industrialization. Banking is also the area in which the interests of the state is most likely to clash with the interests of the bourgeoisie, as capital is relatively scarce and there is a marked difference in developing countries between maximizing aggregate private returns on investment and maximizing social returns.

In the Indian case, the banking sector has been an area of contestation. Congress activists saw commercial and merchant banks of the colonial period as aiding and abetting British economic policies that emphasized trade over industrial investment. The dirigiste state therefore sought to establish its own institutions for the aggregation and disbursement of capital for industrial investment. The Industrial Credit and Investment Corporation of India (ICICI), for instance, established in 1955 jointly between the Indian government and the World Bank to provide project financing to industrial concerns. In the late 1960s and early 1970s, Indira Gandhi rode a wave of politically motivated populism that included the nationalization of private-sector banks, thus placing the banking sector under the control and interests of the Indian state. Since liberalization in the 1980s and 1990s, however, state restrictions on banks have been lifted and the banking sector now comprises state-owned, private sector and foreign multinational financial institutions competing together for capital and investment. Yet, perhaps due to earlier periods of nationalization, institutions of the Indian state have developed fairly advanced mechanisms for the regulation of the financial sector.

The central institution for financial regulation in India, as in other countries, is the central bank, the Reserve Bank of India. It is a state agency that predates Independence; the RBI was established in April 1935 as part of a series of governance reforms that included the establishment of an independent monetary policy for the British Indian government. The main functions of the Reserve Bank are issuing currency, the disbursement of foreign exchange and thus the operation of monetary and exchange policies for the government. By virtue of monetary and exchange rate mechanisms, the RBI has paramount influence on banking policy, including reserve requirements and reporting policy. The fact that the Indian government nationalized twenty banks meant that the Reserve Bank developed even more powerful policy goals and mechanisms, including targets for lending to specific sectors.

Yet, it has also established itself since liberalization as an autonomous and technocratic institution, and – along with other institutions such as the Supreme Court in India, and central banks across the world – established a significant amount of policy independence from the elected leaders of the government. The bureaucracy appoints Governors of the Reserve Bank from elite positions within the institution, the Ministry of Finance or the Planning Commission. Since liberalization, most are members of the Indian Administrative Service, hold PhDs in economics, and have professional experience with international financial institutions like the IMF. In short, the Reserve Bank of India is the epitome of an autonomous and technocratic institution within the Indian government, and it is primarily responsible for the regulation and establishment of policy for

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banks and financial institutions operating within the country. This points to the orientation of banking and financial regulation to the perspectives and practices of technocratic manufacturers, those who see finance as either market-mediated or involving quasi-market institutions such as commercial banks.

Further, my research on manufacturers in four sectors demonstrates that those with a more embedded perspective on the relationships that constitute industrial production have a certain disregard for taking out loans from the formal financial sector. Such manufacturers tend to grow their enterprises organically, through reinvesting profits. They generally operate with a debt-equity ratio of less than one. While technocratic manufacturers take out significant amounts of capital on loan from either foreign or domestic commercial banks, embedded manufacturers are more risk-averse to fluctuations in exchange rates and market downturns that might negatively affect a firm’s ability to pay back capital. As a result, embedded manufacturers tend to use the banking sector for only short-term financing for buying raw materials and paying workers, rather than larger capital loans for growth.

So, does the Indian state, through the arch-technocratic RBI, promote a more technocratic perspective in its approach to promoting and regulating the banking sector? Based on the analysis of documents, the evidence is not at all clear. Here, the burden of proof is to uncover forms of banking and financial regulation that supports embedded manufacturers. Below, I will focus on regulations—evidenced by master circulars and schemes issued by departments of the RBI in charge of banking regulation—on portfolio diversification and advances policy, and on ‘priority sector lending’.

The RBI’s Division on Banking Operations and Development (DBOD) issues guidelines to all the banks it regulates on characteristics of the securities investments in each bank’s portfolio, and how these investments are shared across the portfolio. This complicated circular governs the ability of banks to use deposits to invest in capital markets rather than loans to individual corporations, and to fix the distribution of these investments across different types of securities. DBOD has fixed any regulated bank’s total exposure to capital markets at 40 percent of its net worth, and within this 40 percent ceiling, direct investment in stocks, convertible bonds, equity-oriented mutual funds and venture capital must not exceed 20 percent of the bank’s net worth.

This Master Circular reins in the impulse among commercial banks to invest more and more assets into booming securities markets, even though securities are themselves regulated by the Securities and Exchange Board of India, rather than core functions of direct lending to companies. This keeps the majority of bank-mediated capital within the reach of companies who are not financially oriented towards issuing stocks and bonds, which might include certain technocratic manufacturers but mostly includes corporations that are uninvolved with the manufacturing sector. Thus, the RBI’s rather paternalistic restrictions move banks away from investing in the securities sector and towards lending working capital to firms.

The RBI further specifies the nature of lending. The Urban Banking Division sets policy for the loans given to companies for working capital. Banks, after undertaking an assessment based on turnover, are to project the working capital requirements of firms with less than Rs. 1 crore in capital requirements (curiously, this limit increases to Rs. 5 crore for firms designated as small-scale

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51 Ibid., para. 1.2.22 A and B.
industries) as 25 percent of annual turnover, with banks providing at the most 20 percent of that amount in loans. For companies with more than Rs. 1 crore requirements in working capital, banks are to minimum and maximum limits have been withdrawn in favor of a system where “banks are free to decide on the minimum current ratio and determine the working capital requirements according to their perception of the borrowers and their credit needs.” Interest rates are determined by the Bank’s Board they need to remain transparent and are subject to investigation for usury, and there are specific measures for specific channels of working capital, including advances to builders and contractors and leasing / hire-purchase. An important mechanism for the disbursement of working capital is proof of the end-use of funds in procuring inputs. The point of this relatively mundane tour around the processes and procedures of lending working capital to manufacturers is to emphasize that despite the modernization and liberalization of the financial sector in India, banking procedures in relation to corporate lending exist at a fairly small remove from the processes of production that they are enabling.

Regulations regarding the direction of lending are even more paternalistic. Many regulatory documents issued by the different divisions of the RBI relate to lending to medium, small and micro-scale industry or lending to the ‘priority sector,’ which includes industries with a concentration of small-scale units such as handlooms, handicrafts, hosiers, stationery items, sports goods and drugs and pharmaceuticals. This directed lending takes several forms. First, banks are encouraged to invest in bonds issued by government financial institutions such as the Small Industries Development Bank of India (SIDBI) and state-based industrial development corporations, from which these organizations can give out low-cost, long-term loans to small-scale industries. Second, the RBI sets targets for banks of a certain percentage of Adjusted Net Bank Credit (ANBC) towards the small-scale sector: 40 percent for domestic banks, and rather incredibly, 32 percent for foreign banks. Shortfalls in these targets are supposed to be made up by investment in SIDBI bonds.

The categorization of small-scale and particularly medium-scale industry is also worth noting. The circular notes that small-scale industry is defined by firms with Rs. 1 crore or roughly $250,000 in plant and machinery, though this limit has been raised to Rs. 5 crore for firms in the priority sector, including hosiers and pharmaceuticals. Medium scale includes those enterprises with fixed investment between Rs. 1 and Rs. 10 crore, or $2.5 million, and who are also eligible for prioritized financing. While these limits on fixed investment are not large, they are not small either; a powerloom newly manufactured in China can cost as little as $2000 FOB, and thus several successful respondents, with an excess of a hundred powerlooms and a workforce of more than a hundred, would qualify for small-scale sector lending. I would characterize these manufacturers as understanding production through an embedded perspective, but also as successful and prominent

53 Ibid., para. 2.1-7, 3.1.1-2.
54 Ibid., para. 4.1.1-3, 8.2, 8.3.2.
55 Ibid., para. 6.5.
57 “Lending to SSI Sector”, Section I, para. 1.4.
58 Ibid., Section III, paras. 1-3.
59 Ibid., Section I, para. 1.1.
60 “Credit Flow to Micro, Small and Medium Enterprise Sector,” RPCD.PLNFS Circ. No. 63 / 06.02.31 / 2006-07, Rural Planning and Credit Department, RBI, issued 4th April, 2007.
industrialists that, while certainly not multinational in scope, were nevertheless significant producers. The locations of financial institutions are also designed to maximize access to credit.

The RBI established a scheme that placed branches of SIDBI, designated ‘Small Enterprise Financial Centers,’ within 388 industrial clusters in regional cities and focused on such sectors as the ones in this study: pharmaceuticals, auto components, ready garments. The scheme aims to establish greater coordination between SIDBI and commercial bank branches by using the former’s expertise in small enterprise risk assessment to allow for greater loans. What is significant about this plan, mentioned in the RBI Governor’s Annual Policy Statement of 2005-6, is that it focuses on industrial clusters that were discussed in much greater length in chapters three and four—such as Surat, Bhiwandi and Tiruppur—that are characterized by firms with paternalistic relationships with workers, often through jobbers, and conservative orientations towards finance. The fact that the state is reaching out to these individuals and assuring them proximity to credit institutions as a matter of policy surely means that the RBI is not simply oriented to technocratic rules and procedures.

The extent to which the Indian government, and even institutions as technocratic as the Reserve Bank of India, cares about a significant portion of investible resources going to small-scale industry reflects the fact that the state has multiple interests: economic growth certainly, but also employment generation and regional or rural development. The policies of the government are less about ‘picking winners,’ as with the caricature of the developmental state, or allowing for the complete market-oriented liberalization of the banking system where only the highest and/or safest returns on investment matter but rather providing opportunities to as wide a base of industry as possible, even while certain sections of industry might not avail themselves of this lending.

There might be different reasons for this broadbANDING. Indian industry is not vertically integrated or interlinked between banks, conglomerates and ministries like Japanese keiretsu or Korean chaebols, and it also the case that supplier networks and domestic value chains are dense but not well enough organized to serve as a transmission mechanism for finance. Regardless, the RBI, in its financial regulation, acts to prevent the banking system from discriminating against any particular type of business even while it maintains its status as one of the most technocratic and autonomous institutions in the Indian state.

Labor Regulation

Policies on workers’ representation, rights and benefits were a major element of Indian nationalist politics, one that did not vanish with independence. Partly to politically include workers in the freedom struggle and partly as a defensive action against the growing influence of the Communist Party of India, the Congress—and its affiliate Indian National Trades Union Congress (INTUC)—established a set of relatively progressive laws aimed at limiting coercion and abuse, arbitrary dismissal, dangerous working conditions, and providing welfare benefits. Congress political leadership were somewhat divided on issues of labor politics. Certain Congress socialists openly advocated labor militancy aimed at both English and Indian employers, while planners like Nehru saw industrial dispute as a distraction to state-led industrialization. Conservatives like Gandhi and Patel believed in the notion of ‘stewardship’ of the rich over the poor that precluded any opposition

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61 “Scheme for Small Enterprise Financial Centres (SEFCs),” RPCD.PLNFS Circ. No. 101/06.02.31/2004-5, Rural Planning and Credit Department, BBI, issued 20th May 2005.

62 This regime includes the Workmen’s Compensation Act of 1923, the Payment of Wages Act of 1936, the Industrial Disputes Act of 1947 and the Factories Act of 1948.
between workers and industrialists; Gandhi’s mediation of the 1916 textile workers’ strike in Ahmedabad led to the formation of the paternalistic Textile Labor Association (Mazdoor Mahajan Sangh). As a result, state interests in protecting and regulating labor in the early years after independence pulled in several different directions: towards an active union politics, towards industrial harmony in service of economic growth, and towards the mandated provision of material social services to anchor the workforce.

Sixty years later, the labor regulation regime put in place at independence is both singularly ineffective and an important complaint against the government from entrepreneurs and industry associations. Extant legislation officially prevents organized sector employers from dismissing any employee without government approval and compensation. It also outlaws the practice of contract or temporary workers in the organized sector. Industry often complains that this inflexibility in hiring and firing workers acts as a major drag on economic activity. At the same time, the use of contract labor in manufacturing is widespread and condoned in practice, while other formal aspects of labor rights and representation have been undermined over time; trade union members constitute a small fraction of the workforce, and are concentrated in the public sector and thus have relatively small presence in manufacturing outside large, venerable conglomerates.

As a result, labor regulation for manufacturing in India is a particularly weak and incoherent instance of the state’s role in the economy. Many of the firms I interviewed, and the vast majority of the firms in industries like garments, are classified as ‘unorganized sector,’ and thus not under the umbrella of state regulation. The factories Act originally classifies a unit of less than ten people as ‘unorganized,’ thus allowing for craft producers to fly under the radar of the labor laws. Now, however, it seems like the ‘organized sector’ is defined both by the decline of formal representation and the government’s interest and capacity to implement regulations. One respondent with 40 years experience in the textile industry said that garment units in Delhi have generally more than 250 workers and yet self-identify and operate in the unorganized sector (2007-del23). Many, including Prime Minister Manmohan Singh, feel the labor regulation regime must be rationalized in order both to protect workers under current conditions and to attract investment. Other amendments to extant legislation have been considered, especially measures pertaining to occupational health and safety.

Yet what should the direction of this rationalization be? While industrialists are fairly united in their opposition to the current regime, they are by no means clear what should take its place. Technocratic manufacturers, for example, might be more comfortable with a system in which the provision of training and services occurs through the state so that workers could be treated less as long-term investments and more subject to the formal institutions of human resources departments. Embedded manufacturers, meanwhile, might regard both the provision of material services, training and more personalistic ties as a vital mechanism for anchoring and monitoring labor; personal involvement with one’s workers might prevent shirking and incentivized greater productivity than a distant human resources institution. Further, labor provision for embedded manufacturers happens most often through jobbers and co-ethnic recruitment networks; it would not suit these industrialists

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64 For more on the service provision argument over time, see Caroline E. Arnold, “Claims on the Common,” Doctoral Dissertation, University of California, Berkeley, 2006.
65 Organized sector here refers to companies registered with the Companies Act.
to face a more effective yet formal institutional framework. Such hypothetical musings in the absence of proposed reform legislation are not that useful, and market-based reform itself is not that likely given the electoral popularity of even spectacularly ineffective labor legislation. Yet, it may serve our purposes here to examine some of the ways in which the Indian state operates to establish policies and practices in the absence of changes in legislation and thus wholesale changes in regulatory regimes. Through this partial analysis, we might see the ways in which extant state action supports different modes of capitalism.

First, while both technocratic and embedded capitalists balk at the state’s restrictions of temporary or short-term contract labor, the latter – generally operating more labor-intensive production processes and utilizing more informal mechanisms of labor recruitment – benefits the most from practical relaxation of these restrictions. Policies serve to allow for contract labor in practice when the Contract Labor Act of 1970 bans it in statute. In particular, the Apprentices Act of 1961 allows for workers to treated with rights and privileges that can be more partial than fully-fledged workers in the organized sector, on the assumption that this job is as much a learning experience as a job. This is not a completely cynical measure; most skilled and semi-skilled workers learn not through formal education but a combination of vocational training, the transmission of traditional family skills and learning on the job. In a 1999 (post-liberalization) Notification, the Ministry of Labor established a long list of industries in which the provisions of the Apprentices Act would apply, including several categories of textile and garmenting work and engineering.\textsuperscript{68} Other versions of the Apprentices Act provision, such as young female ‘scheme’ workers in western Tamil Nadu,\textsuperscript{69} are simultaneously providing skills and enabling companies to avoid hiring permanent staff. Perhaps the most significant provision for contract workers is in the non-implementation of certain aspects of the 1970 law, where the labor inspectorate might concentrate on the provisions of welfare for workers – sanitation, canteen facilities, etc – rather than formal registration of workers. Moreover, many respondents indicated that workers – particularly in the textiles and garments sector – leave on their own account, either seasonally according to planting and harvesting seasons in their ‘native places’ or due to better wages elsewhere. As a result, the stable workforce that is envisioned in the legislation does not exist in practice. The government’s focus on the elimination of contract labor extends mostly to public sector and foreign enterprises; Ministry of Labor notifications report the constitution of committees, made up of trade unionists and state labor commissions, to investigate contract labor conditions in these somewhat more transparent contexts, but are not focusing investigations on the widespread use of contract labor in private sector manufacturing.\textsuperscript{70} Such non-implementation or selective enforcement is a boon to the embedded mode of capitalism because it has the affect of the state not challenging informal societal institutions of worker recruitment and management.

The other major recognition of the ineffectiveness of labor legislation is that, recently, the Finance Ministry has been unveiling a package of welfare schemes for industrial workers in the organized sector. This package, unveiled as the Unorganized Workers Social Security Act, 67 of 2008.\textsuperscript{71} The follow-up administrative implementation of this law, mentioned in Finance Minister

\textsuperscript{68} “Industries on which Provisions of the Apprentices Act-1961 are Applicable,” Notification No. GSR479(E), Ministry of Labour, notified 30th June, 1999.

\textsuperscript{69} See chapter 4.


\textsuperscript{71}“Operationalization Of RSBY and Passing of Unorganised Workers’ Social Security Bill are the Highlights of 2008,”
Pranab Mukherjee’s 2010-11 Budget speech, include the establishment of a National Social Security Scheme, to which Rs. 1,000 crores have been allocated, as well as a New Pension Scheme with an allocation of Rs. 100 crores. These social security provisions are mildly populist and were passed in an election year; they also apply more directly to informal sector service producers or petty producers of consumer goods such as beedis (hand-rolled cigarettes). Yet, they are perhaps a small signal of a trend towards the establishment of welfare by the state rather than specific corporations, which may allow for a more technocratic provision of contract employment without long-term investments in welfare or the current inflexibility of hiring and firing. This trend, if the government further invests resources and policy direction to it, may make up for the decline of large-scale employment in areas such as the integrated mill sector, where mills provided workers with housing and other forms of welfare in an attempt to generate industrial commitment. Such welfare provision goes hand-in-hand with a cause celebre in the private sector in South Asia, particularly among technocratic manufacturers: the government’s responsibilities for the provision of vocational training and skill development. That more technocratic vision of welfare and skills provision sees the state, rather than traditional societal practices, as the key institution for transforming individuals into skilled workers with sufficient social security to sustain high productivity without corporations making substantial investments in training and welfare themselves.

State labor policy is in general hobbled by an outmoded set of legislation that does not acknowledge realities closer to the ground. It is no wonder that manufacturers, operating from either technocratic or embedded perspectives, both protest against these laws and largely avoid their implementation. Yet, in considering how the state situates itself between unwieldy statutory commitments and the need for implementation of some sort of regulatory regime, we see that state policy and interests allow space for the articulation of two very different modes of labor recruitment, retention, training and welfare provision that are coincident with different perspectives of industrial strategy.

Conclusion

The intention of this chapter was not to provide a systematic evaluation of Indian state policy and practice with regard to the regulation or promotion of industry; such a project would require much deeper research into the formation and operation of regulatory regimes in South Asia. What this chapter sought to investigate, however, is whether our dominant conceptions of the role of the state in industrializing societies can be consistent with the main finding in this dissertation. This is that industrialists in the private sector – as the actors that actually execute industrial production – have substantially different understandings of the relationships that constitute production and thus their strategies for the recruitment and retention of labor, the acquisition of capital and relations with the state. Popular theories of business-government interaction tend to privilege the binary of state strength and state weakness in the implementation of developmentalist industrial policy or the capture of that policy by business interests.

Is the bifurcation of industrial strategy by the manufacturers in South Asia the product of the state’s weakness in disciplining corporations to follow a unitary set of norms? Preliminary research presented in this chapter paints a picture that is at once less coherent and more mundane than the autonomous and rational model of the developmental state. Individual ministries,
departments, independent agencies and institutions constantly mediate between different goals and interests, from maximizing government revenue to increasing economic growth to generating employment. From the regulation of foreign trade to finance to labor, we see regimes that support industry and regulate its operations while creating and protecting spaces for different flavors of industrial production and different perspectives of manufacturers.

For all the criticism leveled at the Indian bureaucracy for suppressing economic growth, the different agencies of the Indian state look both remarkably accommodating and relatively balanced at low levels of aggregation. Perhaps more importantly, they are following less rational maximization of their interests or the power of administrative diktat and more the practices inherited and coalesced from decades of interaction between different elements of the state, and between the state and industry associations, individual capitalists and other interest groups. Such multiplicity of goals is certainly not unique or unexpected; the United States government certainly supports small business through a variety of incentives, and even a country as technocratic as Japan has a parallel conservative banking system through the postal savings. Yet outside the developed world, state support for industrialization has generally be assessed on one dimension, strength or weakness. I believe that both the empirical diversity of strategy and the analysis of state regulation above shows the capacity for multiple modes of capitalism to be established and supported by institutional constellations within one country.

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Conclusion
Understanding Varieties of Capitalism
in the Developing World

In this dissertation, I have attempted to explain a phenomenon that I uncovered through eighteen months of fieldwork with industrial firms in India and Pakistan. As I interviewed more than two hundred manufacturers in the textiles, pharmaceutical and automotive components sectors in fifteen cities across the two countries, I uncovered a pattern of industrial strategies – the ways that firms recruited and retained workers, acquired capital and managed relations with state institutions – that did not sort easily by industry, by state or province, or by country. As I interviewed the owners, directors and managers of these firms, I found a remarkably consistent correlation between the ways industrialists tend to see the economy and industrial production, arising out of educational backgrounds, work experiences and firm legacies.

In general, in every industry in both countries, I found the following pattern to hold. Manufacturers who perceived the economy through a technocratic lens – wherein industrial production is organized through formal rules and universal norms – tend to recruit and retain workers through formal, institutional means, take advantage of the full buffet of options for financing that included maintaining more debt than equity, and press the state to set norms and standards and push industry to live up to them. Meanwhile, industrialists that perceived the economy through an embedded lens – wherein industrial production and economic relations are constituted by a dense network of personalistic relationships – tend to recruit and retain workers through paternalistic means, employ conservative financing that included more equity than debt, and expect the state to reinforce status quo arrangements.

The power of these perspectives in industrial strategy derives from a central feature of South Asian industry. Most firms, whether large and small, are under the de facto control of an individual, set of partners or a family. As a result, the perceptions that derive from personal and family experiences can have a much more powerful impact on firm strategy than in a context like the US where the founders might only retain 5 or 10 percent of the stock of a corporation, and thus where maximizing shareholder value replaces more substantive goals and visions of industrialists. South Asian industry is dominated by individuals and families with visions of what it is and what it means to do industrial production; even sixty years after independence this has not been replaced by the bureaucratized commonality of modern corporate culture.

As a result, manufacturers who have experiences in the farms, factories and trading markets and who might be educated in local universities and polytechnics if they are educated at all, are likely to see the world in relational terms, and pass on these perspectives to following generations. However, those who made money as professionals or in business abroad, and who were educated at universities overseas or in elite technical institutions in India, would tend to see the world in more formal institutional terms, and this perspective is often broadcast down through the generations. Such perspectives are subtle, and not easily correlated with the external characteristics of firms in terms of turnover, ownership structure or size of the workforce. Yet, they have a powerful effect in the ways they create diversity in industrial strategies and, as they aggregate, different ways in which capitalism is organized in South Asia.

The empirical analysis of these strategies and the perspectives that inform them comprise the bulk of this dissertation and are encapsulated in four sector-specific chapters, on textiles, garments, automotive components and pharmaceuticals. The textiles and garments sectors, covered in chapters three and four, involved the transformation of traditional artisanal skills to mass mechanized
production. The production of cotton yarn and fabric is intertwined with the industrial history of the subcontinent, and thus follows the rise and fall of the Fordist composite mill from pre-Independence, the ascendance of decentralized production in both high-road and low-road variants, and the establishment of new firms that link the value-added chain back together under high technology processes. Garment manufacture is a much newer enterprise and, because of demand from the West, deeply linked to trends in the global economy and fashion tastes thousands of miles away while being deeply integrated into the constraints of manufacturing in South Asia.

The automotive and pharmaceutical industries in India and Pakistan, covered in chapters five and six, are anomalies in that impressive national industries have developed in sectors traditionally dominated by multinational corporations. The auto industry has successfully indigenized the production of components in foreign direct investment by auto multinationals and domestic vehicle manufacturing companies. Domestic firms became dominant in the Indian pharmaceutical sector over three decades after government intervention on patent policy, while in Pakistan domestic producers dominate in volume terms. In all these industries, however, we see a bifurcation of industrial strategies that relates not to size or location but to the perspectives of the industrialists as they make investments and arrange relationships with other firms, with workers, with sources of financing and with the regulatory and promotional agencies of the state.

I also have argued that the social sources of these perspectives go along way back, to middle class Indian society’s response to colonial economic domination, and therefore the politics of determining what a postcolonial economic order would look like. Vociferous debates between important leaders in the nationalist movement, representing different sections of middle class Indian society, distilled and legitimated two rival visions of the meaning and ends of economic development. Conservatives with the Congress Party, including Mohandas Gandhi and Vallabhbhai Patel, forwarded a vision of an ‘organic society,’ in which economic activity would be placed under the norms and obligations of traditional social hierarchies, wherein the rich were responsible for the welfare of the poor. The state would serve as an enabler of these socially mediated relationships. Socialists including Jawaharlal Nehru and Subhas Chandra Bose, by contrast, looked to the ideal of economic planning, wherein the state would serve as an institution to modernize society, lead investment, mobilize an industrial workforce and run economic growth on scientific principles. I demonstrate this bifurcation through an analysis, using primary and secondary sources, of nationalist leaders’ writings with regard to economic development, in chapter two.

The debate between economic planning and organic society visions of development was not settled in any meaningful sense either in India or in Pakistan after independence, and I argue has not been settled even today. While the content and contexts of these perspectives have shifted as socialist planning has given way to neoliberal policies in the 1980s and 1990s, the difference in the meaning of industrial development has remained, as is evident from perspectives and strategies of industrialists. The competing visions of investment – either through culturally mediated webs of individual relationships or through universalized norms of business – have continued to reproduce the Indian and Pakistani economies as terrains contested between two very different modes of capitalism.

Yet, modes of capitalism are normally thought of as the product of state actions. The maintenance of such divergent ways of organizing industrial production calls into question a portrayal of the ‘developmental state,’ popular among political economists of the developing world, that focuses on state strength or weakness as the defining variable in economic development. According to this view, successful industrialization entails the disciplinary activities of regulation and promotion by the government, which would imply a certain cohesion of industrial strategy around
the state’s regulatory regime. The fact that both India and Pakistan have been growing quite rapidly yet maintaining this bifurcation thus presents a dilemma for our understanding of the state’s place in the industrialization process. To resolve this dilemma, I conducted a review of Indian government documents from the post-liberalization era associated with the regulation and promotion of industry.

I tentatively found that the diversities in industrial strategies were paralleled by different sets of developmental priorities by the government. Far from a unitary model of state intent, I found that different government agencies have acted to maximize several goals simultaneously; these include the drive to expand industrial capacity and increase value-added exports, as per the developmental state model, while also seeking to expand and deepen domestic markets for consumer welfare, protecting small-scale industry, diluting industrial concentration away from major cities and increasing mass employment. As a result, state action and regulation has not disciplined away one mode of industrial production through rules on banking, labor or foreign trade, but rather have created and maintained bifurcated spaces in regulatory regimes for very different modes of capitalism. Such bifurcated regimes are the subject of chapter seven.

**Dual Economies and Varieties of Capitalism**

Moving beyond the empirical aspects of the dissertation, I believe that this work makes some theoretical innovations that might open up comparative capitalism research to the developing world. It also suggests possible alternative mechanisms that explain the establishment of institutional constellations or modes of capitalism. To begin, I believe that theoretical mileage may be achieved by putting the varieties of capitalism approach, discussed in chapter one, in juxtaposition with research traditions that study ‘dual’ economies within the same national space.

Students of advanced industrial economies have long argued that the complex and changing nature of production regimes lead to divergent modes of industrial organization. Michael Piore and Charles Sabel, for example, argue that the unitary institutional structures of postwar economies – based on a system of Fordist or mass production and in tacit or explicit national-level agreements on wages and social security – broke down in the 1970s due to the development of consumer tastes. This resulted in novel forms of production and industrial organization – “flexible specialization” or modernized craft manufacture – that existed alongside declining Fordist firms. Crucially, these shifts in production arrangements are supported by different sets of institutions, often regional rather than national. They rely on the self-governance of industrial clusters and the support of local governments, as with Baden-Württemberg in Germany and the industrial districts of Emilia-Romagna (the so-called “Third Italy”), even while traditional mass production supported by national level agreements continue. Thus, economies even at the leading edge of international markets are characterized by divergent sets of production arrangements, with attendant sets of supportive institutions, within the same country.

Sabel and Jonathan Zeitlin provide a more historical perspective on this diversity. They argue that the variant forms of production (“economic dualism”), and not just mass Fordist manufacture, persist or change according to social conflict at local level, rather than technological change or the structuring of economic activity by institutions of the state. In their view, even the classical trope of

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19th century industrialization in Britain and the United States contained within it different models that were not disciplined away by technological imperatives or state institutions: “even within the western European capitalist property regime surveyed here, technology appears to be more malleable and its connection to politics far more complex than the pervasively influential writings of classical political economy allow”.3 Gary Herrigel, in his book on German industrialization, posits that dualism is responsible for the rise of German industrial strength from the 1870s.4 For Herrigel, the standard account of industrial transformation by large steel and chemical conglomerates, aided by national banks, is woefully incomplete without the complementary development of “decentralized” consumer goods and engineering industries.

Economic dualism shows up in a variety of different contexts. Melani Cammett argues that integration in the world economy created an ideological cleavage within the manufacturing community in Morocco between two groups: “fat cats” and “self-made men.”5 Even scholars of China, a prototypically centralized state-directed industrializer, have noted variation in manufacturing organization across the country and the endurance of parallel informal institutional structures even after market reform.6 In other countries, researchers have shown that particular groups of manufacturers form the basis for specific political coalitions, such as the Anatolian Tigers’ – industrial clusters of small manufacturers in cities like Denizili – support for the Islamist AKP7 and the coalition of conservative business behind the Liberal Democratic Party in Japan.8 Dualism and the particular character of multiple business groups within national economies forms a counterpoint to national models of capitalism, wherein interactions between state and society over time form a single set of institutions within which manufacturers must operate. Yet, with some exceptions, many of these arguments implicitly posit that conditions external to firms – whether changing consumer tastes, structures in the international economy, or state-led economic reform – are the driving forces behind economic dualism or the emergence of specific groups of manufacturers.

I believe that such causal claims are the product of a certain way of thinking about politics, of interest aggregation and contention in a quasi-pluralist space, wherein individual actors form common interests and thus common practices in response to systemic conditions. I argue that this is in essence a rationalistic worldview that does not easily explain economic actions embedded in social relations among certain firms. Further, there are many politics, especially in the developing world, in which pluralist interest aggregation and its instantiation in political coalitions do not characterize economic regimes and policies, regardless of regime type. In South Asia, for example, we see governments create high-level policies relatively autonomously9 while they relate to firms with less coherence in terms of policy execution, as I have argued in chapter seven. Because of the presence of ‘embeddedness’ as shaping the perspectives of some economic actors and because of the absence

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3 Ibid., 174.
6 William Hurst, The Chinese Worker After Socialism (Cambridge: Cambridge Univ. Press, 2009), Ch. 4. See also David Wank, Commodifying Communism (Cambridge: Cambridge Univ. Press, 1999); Kellee Tsai, Back-Alley Banking (Ithaca: Cornell Univ. Press, 2002).
9 Rob Jenkins, Democratic Politics and Economic Reform in India (Cambridge: Cambridge Univ. Press, 1999).
of these pluralistic arrangements, capitalism in developing countries is less likely to produce the kind of unitary institutional structures posited in the Varieties of Capitalism framework.

I argue instead that we might adopt a different sense of the term ‘politics’ – as ideological, cognitive and moral perspectives that characterize individuals as social actors – to understand the political foundations of multiple modes of capitalism in the same country. In the dissertation, I argued that manufacturers see the world through technocratic or embedded lenses, each arising out of different backgrounds in and experiences of elite and middle class society. Yet, while I do not argue for this dual conceptualization as an ideal type, I would suggest that many post-colonial societies responded to the challenge of imperial or foreign capitalist domination in two characteristic ways, often simultaneously. Some take the route of Gerschenkronian adoption of the challenger’s norms through imitation, while others reject those norms while looking inward for ideational material from which to fashion a true alternative based on re-inventions of tradition. The existence of this dichotomy in many developing societies signals the possibility for dual modes of capitalism, as manufacturers, rising from different places in society with different values and traditions, take up one perspective or the other.

I certainly do not claim to propose a universal narrative of dual modes of capitalism in the developing world. I also do not discount the power of the state as an autonomous actor able to discipline industrial relations or the possibility of other sources – social, economic, moral – from which institutional configurations are grounded. However, I will argue for the interrogation of manufacturers’ strategies and their perspectives as a good starting point for the investigation of modes of capitalism in the developing world.

Such questions have deep consequence, especially since the 2008-2009 financial crisis and the subsequent global recession has increasingly questioned the efficacy of the developmental state paradigm. Raghuram Rajan, the former chief economist of the International Monetary Fund, has written that countries that have grown through state-led export-orientation require other nations, notably the United States and other rich countries, to provide demand for their products and services; this is unlikely to be a reliable source for growth in the future. Rajan also thinks that export-led industrializers, notably Japan and China, have been over time neglecting domestic sector development, leading to declining productivity outside the export sector. While I have explicitly argued that exports are not an indication of manufacturers’ perspectives in the South Asian context, the political analogue to export-led growth, the developmental state, seems a more questionable normative goal given recent changes in the global economy. Pranab Bardhan, in a comparative analysis of Indian and Chinese growth trajectories, has faulted the post-liberalization Indian state for not laying the institutional foundations for more inclusive, labor-intensive manufacturing growth, preferring instead to concentrate promotional energies on the high value-added service sector and thus increasing inequality. The India of Bangalore and Hyderabad, of software and business-process outsourcing, is also the India of export-led growth, of state technocratic ideology, and ultimately the developmental state. While I have no doubt that many, both in India and abroad, see this as the normative goal of development, this dissertation argues that industrial development in the subcontinent is actually animated by two very different understandings of what development means, and that should at least give us some pause in our ascribing intentions to actors in the political economy of development.

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Directions for Future Research

In formulating this project and executing it over the last three years, I have recognized some important lacunae that deserve to be addressed, if not investigated on their own terms. While this is inevitable and expected result of research, I believe that spelling out extant gaps and future lines of enquiry would be not only responsible but somewhat useful for myself and any other researchers seeking to explore these concepts further.

First, additional interview-based research is necessary, even within the lines of social enquiry of this dissertation. I believe that conducting additional interviews with manufacturers in India and Pakistan would be beneficial. My research, conducted between January 2007 and May 2008, occurred in the context of a bullish, even overheated ‘bubble’ economy; the SENSEX, the Bombay Stock Exchange, rose 60 percent between 2006 and 2008. Though frustrated by the high inflation in factor costs, high interest rates and the appreciation of Indian and Pakistani currency, my respondents were operating in the context of national and international economic booms, with high international and domestic consumer demand, and high levels of investment.

In 2009, the outlook could not be more different. A global recession has been in progress since the financial crisis that started with the bankruptcy of Lehman Brothers on Sept. 15, 2008. A year after the beginning of the crisis, there are preliminary signs of recovery, but employment and consumer demand in the United States and Europe remains sluggish, with obvious and persistent negative effects on the Pakistani and Indian economies. I believe it would be fascinating to conduct additional interviews with a sample of my previous respondents now, to see whether their firm strategies have changed fundamentally over the past two years, and if so, in which direction.

Second, I would also like to extend my research to other industries in India and Pakistan that have narrower social bases. If firms within these industries exhibit variation within institutional jurisdiction that arises out of perspectives on the nature of economic production, this would serve as further support for the veracity of my argument. I think that expanding my project to information technology, including software and hardware production, and agricultural processing, including sugar, edible oils and alcoholic beverages, would serve this purpose. Both industries are relatively successful in India and Pakistan, yet they are more socially and geographically concentrated than the textile, automotive and pharmaceutical industries and stand in contrast to one another in terms of technology and work culture. Thus, an empirical finding of diverse strategies and animating perspectives in these industries would serve as further vindication of my argument, but general research of the motivations and strategies of manufacturers in these industries would in general be useful as I extend the empirical scope of the project.

I would also like to further examine the foundations and development of business-government relationships in South Asia through archival documents. A survey of the collected papers of established Indian (and Pakistani) industrialists and ‘self-made men’ in the four decades spanning independence would be necessary in order to investigate the perspectives, explicitly nationalist sentiments and industrial strategies of that generation. This archival work might also contain useful snapshots of business relationships with the state in the pre- and post-independence periods, and thus might reveal the origin of the divergent goals of the state mentioned in the last chapter.

Last, I believe that this project would be substantially improved through engagement with the secondary literature and current research on comparative cases. Narratives of the industrial development of other countries and the various ideologies supporting development might highlight aspects of my study. The dynamic state-society relationships embodied in the industrial experiences
of countries such as Korea, Taiwan, Brazil, Turkey, Mexico and the People’s Republic of China would serve as useful points of comparative reference as I continue to develop my research on the industrialization in South Asia. Also, historical suddy of another industrialization often overlooked by scholars of comparative politics – that of the United States in the nineteenth century – would also highlight the various ideological foundations of industrial growth and their interactions with a very different state structure.
Works Cited


Appendix 1: Interview List

The following is a list of interviews, grouped mostly by industry, with non-confidential information about the respondents. For each firm-based interview, I include information on the location of the interview (most often the head office of the firm), the firm’s product categories and its rough size, measured in annual sales turnover, converted to US dollars.\(^1\) For interviews, with other industry officials or experts, I report their occupation or the organization they represent.

**Pre-dissertation interviews**

2006-pre1  Principal advisor to the Confed. of Indian Industry, Bombay, July 13.
2006-pre4  Entrepreneurial Cell (student organization), IIT Bombay, July 17.
2006-pre5  Independent journalist, Bombay, July 18.
2006-pre8  Powerloom Manufacturer, Bombay, July 19.
2006-pre12  Rep., Center for Industrial Trade Unions, Bombay, July 22.
2006-pre13  Academic, Bombay University, July 23.

**Textiles**

2007-lhr1  Yarn manufacturer, Lahore, Feb. 2 (medium).
2007-lhr4  Yarn manufacturer, Lahore, Feb. 9 (large).
2007-lhr7  Knitwear manufacturer, Lahore, Feb. 12 ($22 million).
2007-fsb1  Yarn, fabric manufacturer and processor, Faisalabad, Feb., 22 (large).
2007-fsb3  Fabric manufacturer, Faisalabad, Feb. 22 (small).
2007-fsb5  Fabric and apparel manufacturer, Faisalabad, Feb. 23 ($65 million).
2007-lhr21  Yarn manufacturer, Lahore, March 2 ($35 million).
2007-lhr22  Synthetic yarn and knitwear manufacturer, March 2 (medium).

\(^1\) For firms not willing to divulge their turnover figures, I have categorized them as small, medium or large based on other information, such as number of employees.
2007-lhr25 Yarn manufacturer, Lahore, March 6 (medium).
2007-lhr26 Yarn manufacturer, Lahore, March 6 (large).
2007-lhr30 Yarn manufacturer, Lahore, March 10 (medium).
2007-lhr31 Yarn manufacturer, Lahore, March 10 (medium).
2007-khi6 Yarn manufacturer, Karachi, April 10 (large).
2007-khi7 Apparel manufacturer, Karachi, April 10 (medium).
2007-khi10 Fabric manufacturer and processor, Karachi, April 13 (medium).
2007-khi14 Yarn manufacturer, Karachi, April 18 (medium).
2007-khi18 Yarn manufacturer, Karachi, April 23 (medium).
2007-khi19 Denim garment manufacturer, April 23 (medium).
2007-del2 Yarn manufacturer, Delhi, Sept 29 ($1 billion).
2007-del4 Knitwear manufacturer, Delhi, Sept. 28 ($148.5 million).
2007-del6 Garment manufacturer and exporter, Delhi, Oct. 3 (medium).
2007-del8 Fashion designer / garment manufacturer, Delhi, Oct. 5 ($500,000).
2007-del12 Composite textile manufacturer, Delhi, Oct. 10 ($250 million).
2007-del20 Composite textile manufacturer, Delhi, Oct. 19 ($500 million).
2007-del22 Garment manufacturer, Delhi, Oct. 20 ($375,000).
2007-del24 Yarn, knitwear manufacturer and processor, Delhi NCR, Oct. 23 (large).
2007-del27 Garment manufacturer and exporter, Delhi, Oct. 26 ($6 million +).
2007-del28 Yarn manufacturer, Delhi, Oct. 30 ($38 million).
2007-del29 Knitwear manufacturer and exporter, Delhi, Oct. 30 (medium).
2007-del31 Garment manufacturer and exporter, Delhi NCR, Oct. 31 (large).
2007-del33 Garment manufacturer and exporter, Delhi NCR, Nov. 3 ($5 million).
2007-del36 Yarn and denim fabric manufacturer, Delhi, Nov. 8 ($6 million).
2007-del38 Garment manufacturer and exporter, Delhi NCR, Nov. 13 ($5 million).
2007-del39 Garment manufacturer, Delhi, Delhi, Nov. 13 ($3 million).
2007-del42 Another Rep., Apparel Export Promotion Council, Delhi NCR, Nov. 16.
2007-del46 Fabric manufacturer, Delhi, Dec. 12 (medium).
2008-lud1 Yarn manufacturer, Ludhiana, Jan. 10 ($50 million).
2008-lud2 Yarn manufacturer, Ludhiana, Jan. 10 ($75 million).
2008-lud3 Yarn and fabric manufacturer, Ludhiana, Jan 10 (large).
2008-cdg3 Yarn and knitted fabric manufacturer, Chandigarh, Jan. 11 (large).
2008-cdg4 Yarn manufacturer, Chandigarh, Jan. 11 ($20 million).
2008-bom3 Garment manufacturer and exporter, Bombay, Feb 1 (medium).
2008-bom8 Garment manufacturer and exporter, Bombay, Feb 8 ($3 million).
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<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-bom10</td>
<td>Bombay, Feb 12</td>
<td>Yarn manufacturer and exporter</td>
</tr>
<tr>
<td>2008-bom12</td>
<td>Bombay, Feb 14</td>
<td>Rep., Bombay Millowners Association</td>
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<td>2008-bom13</td>
<td>Bombay, Feb 21</td>
<td>Composite textile manufacturer</td>
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<td>2008-bom14</td>
<td>Bombay, Feb 22</td>
<td>Furnishings manufacturer</td>
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<tr>
<td>2008-bom16</td>
<td>Bombay, Feb 25</td>
<td>Consultant and observer, synthetic textiles industry</td>
</tr>
<tr>
<td>2008-bom17</td>
<td>Bombay, Feb 26</td>
<td>Rep., Synthetic and Rayon Textiles Export Promotion Council</td>
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<td>2008-bom18</td>
<td>Bombay, Feb 26</td>
<td>Fabric manufacturer</td>
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<td>Bombay, Feb 27</td>
<td>Viscose / Cellulose fiber manufacturer</td>
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<tr>
<td>2008-bom20</td>
<td>Bombay, Feb 28</td>
<td>Synthetic yarn producer</td>
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<tr>
<td>2008-bom21</td>
<td>Bombay, Feb 29</td>
<td>Composite textile manufacturer</td>
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<td>2008-bom22</td>
<td>Bombay, March 1</td>
<td>Fabric manufacturer</td>
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<tr>
<td>2008-bom26</td>
<td>Bombay, March 4</td>
<td>Polyester fiber manufacturer</td>
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<td>2008-bom27</td>
<td>Bhiwandi, March 5</td>
<td>Fabric manufacturer</td>
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<td>2008-bom28</td>
<td>Bhiwandi, March 5</td>
<td>Fabric manufacturer</td>
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<tr>
<td>2008-bom29</td>
<td>Bombay, March 6</td>
<td>Rep., Cotton Textiles Export Promotion Council (TEXPROCIL)</td>
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<td>2008-bom31</td>
<td>Bombay, March 11</td>
<td>Yarn and garment manufacturer</td>
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<tr>
<td>2008-bom32</td>
<td>Bombay, March 11</td>
<td>Fabric and garment manufacturer</td>
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<tr>
<td>2008-bom33</td>
<td>Bombay, March 12</td>
<td>Composite textile manufacturer</td>
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<td>2008-bom34</td>
<td>Bombay, March 20</td>
<td>Textiles trader and printer</td>
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<td>2008-coi1</td>
<td>Coimbatore, March 24</td>
<td>Rep., Southern Indian Mills Association</td>
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<td>2008-coi2</td>
<td>Coimbatore, March 24</td>
<td>Yarn manufacturer, Coimbatore</td>
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<td>2008-coi3</td>
<td>Coimbatore, March 25</td>
<td>Yarn and hosiery manufacturer, Coimbatore</td>
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<td>2008-coi4</td>
<td>Coimbatore, March 25</td>
<td>Composite textile manufacturer, Coimbatore</td>
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<td>2008-trp1</td>
<td>Tiruppur, March 26</td>
<td>Rep., Tiruppur Exporters Association</td>
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<td>Tiruppur, March 26</td>
<td>Garment manufacturer and exporter, Tiruppur</td>
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<td>Tiruppur, March 26</td>
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<td>Tiruppur, March 26</td>
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<td>Coimbatore, March 27</td>
<td>Yarn and denim fabric manufacturer, Coimbatore</td>
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<td>Tiruppur, March 27</td>
<td>Fabric and linens manufacturer, Tiruppur</td>
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<td>2008-coi7</td>
<td>Coimbatore, March 28</td>
<td>Yarn manufacturers, Coimbatore</td>
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<td>2008-coi8</td>
<td>Coimbatore, March 28</td>
<td>Yarn manufacturers, Coimbatore</td>
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<td>2008-bom35</td>
<td>Coimbatore, April 1</td>
<td>Fabric and apparel manufacturers, Bombay</td>
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<td>2008-bom36</td>
<td>Bombay, April 1</td>
<td>Denim fabric manufacturer</td>
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<td>Ahmedabad, April 8</td>
<td>Rep., Ahmedabad Textile Mills Association</td>
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<td>Garment manufacturer and exporter, Ahmedabad</td>
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<td>Ahmedabad</td>
<td>Composite textile manufacturer</td>
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<tr>
<td>2008-adb8</td>
<td>Ahmedabad</td>
<td>Textile printing designer, Ahmedabad</td>
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<td>2008-sur1</td>
<td>Surat, April 14</td>
<td>Synthetic yarn manufacturer</td>
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<td>Surat, April 14</td>
<td>Synthetic yarn manufacturer</td>
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<td>Surat, April 16</td>
<td>Yarn manufacturer</td>
</tr>
<tr>
<td>2008-sur5</td>
<td>Surat, April 17</td>
<td>Yarn and fabric manufacturers and processors</td>
</tr>
<tr>
<td>2008-sur7</td>
<td>Surat, April 18</td>
<td>Synthetic composite textile manufacturer</td>
</tr>
</tbody>
</table>
2008-bom41 Embroidery designer and fabric processor, Bombay, April 23 ($5.5 million).
2008-bom57 Composite woolen manufacturer, Bombay, May 8 (large).
2008-del50 Handloom and apparel manufacturer, Delhi, May 17 ($50 million+).

Automotive

2007-lhr12 Rubber molding components manufacturer, Lahore, Feb. 16 (medium).
2007-lhr14 Electrical components manufacturer, Lahore, Feb 20 (medium).
2007-lhr23 Composite system component manufacturer, March 3 (large).
2007-lhr24 Sheet metal components manufacturer, Lahore, March 3 (small).
2007-grw1 Sheet metal components manufacturer, Gujranwala, March 5 ($2.5 million).
2007-grw2 Rubber molding and sheet metal components, Gujranwala, March 5 (small).
2007-grw3 Sheet metal components manufacturer, Lahore, March 5 (micro).
2007-lhr27 Machining-based manufacturers, Lahore, March 7 (13.3 million).
2007-skt2 Surgical instruments manufacturer, Sialkot, March 8 (large).
2007-skt3 Surgical instruments manufacturer, Sialkot, March 8 (medium).
2007-khi5 OEM car and components manufacturer, Karachi, April 9 (large).
2007-khi9 Casting components manufacturer, Karachi, April 12 (medium).
2007-khi12 Sheet metal components manufacturer, Karachi, April 17 (small).
2007-khi23 Complex system components manufacturer, Karachi, April 26 (large).
2007-khi24 OEM/ MNC joint venture motorcycle manufacturer, Karachi, April 27 (large).
2007-del16 Electrical components manufacturer, Delhi NCR, Oct. 17 (medium).
2007-del17 & 18 Rubber molding components manufacturer, Delhi NCR, Oct. 17 ($750,000).
2007-del21 Pistons and auto systems manufacturer, Delhi, Oct. 19 (medium).
2007-del26 Suspension systems manufacturer, Delhi NCR, Oct. 25 (medium).
2007-del30 Complex systems manufacturer, Delhi, Oct. 31 (large).
2007-del34 Fuel solutions and auto components manufacturer, Delhi, Nov. 5 ($123 million).
2007-del35 Rep., Automotive Component Manufacturers Association of India, Delhi, Nov. 7.
2007-del37 Clutch systems manufacturer, Delhi, Nov. 12 (medium).
2007-del40 Complex system component manufacturer, Delhi NCR, Nov. 15 (large).
2007-del43 Injection moulding components manufacturer, Delhi, Nov. 16 (medium).
2007-mad3 Foundry components manufacturer, Madras, Nov. 21 (medium).
2007-mad4 Forging components manufacturer, Madras, Nov. 22 (large).
2007-mad5 Casting components manufacturer, Madras, Nov. 23 ($5 million).
2007-mad8 Brakes and die-casting components, Madras, Nov. 28 (large - part of OEM group).
2007-mad9 Sheet metal components manufacturer, Madras, Nov. 29 (medium).
2007-mad10 Complex systems conglomerate, Madras, Nov. 30 ($2.3 billion).
2007-mad15 Complex systems conglomerate, Madras, Dec. 5 (large).
2007-mad16 Ring system component manufacturer, Madras, Dec. 5 ($12 million).
2007-del44 Rep., Society for Indian Automotive Manufacturers, Delhi, Nov. 10.

'*exp’ refers to interviews conducted at the Indian Auto Expo 2008. For these interviews, I report where the firm is based, as all the interviews were conducted at the Pragati Maidan Exhibition Groups, in New Delhi.
2007-del47  Gear manufacturer, Delhi, Dec. 13 ($10 million).
2008-exp1  Trailer manufacturer from Delhi, Jan. 14 ($12.5 million).
2008-exp2  Harvester and trailer manufacturer from Ludhiana, Jan. 14 (large).
2008-exp3  Auto rickshaw assembler from Delhi, Jan. 14 (medium).
2008-exp4  Plastic gear and components manufacturer from Jallandar, Jan. 14 (small).
2008-exp5  Tractor components manufacturer from Ludhiana, Jan. 14 (medium).
2008-exp7  Plastic gears manufacturer from Delhi, Jan. 14 (medium).
2008-exp8  Water pumps manufacturer from Jallandar, Jan. 14 ($1.5 million).
2008-exp9  Wiring manufacturer and assembler from Delhi, Jan. 14 (small).
2008-exp10  Lighting systems manufacturer from Delhi, Jan. 14 (large).
2008-exp12  Axle and other component manufacturer from Delhi, Jan. 14 (small).
2008-exp13  Starter motor manufacturer from Delhi, Jan. 15 (medium).
2008-exp14  Rep. from multinational subsidiary, Jan. 15.
2008-exp15  Complex systems manufacturer from Ludhiana, Jan. 15 ($50 million).
2008-exp16  Diesel engine and complex systems manufacturer from Pune, Jan. 15 ($300 million).
2008-exp17  Mirrors and car seats manufacturer from Delhi, Jan. 15 (large).
2008-exp18  Engine bearings manufacturer from Agra, Jan. 15 ($12.5 million).
2008-exp19  Shock absorber and springs manufacturer from Delhi, Jan. 15 (small).
2008-exp20  Vacuum manufacturer from Coimbatore, Jan. 15 ($50 million).
2008-exp21  Spring and sheet metal components manufacturer from Delhi, Jan. 15 ($50 million).
2008-exp22  Sheet metal components manufacturer from Delhi, Jan. 15 (large).
2008-coi7  Components manufacturer, Coimbatore, March 28 (medium).
2008-adb4  Lubricants manufacturer, Ahmedabad, April 8 ($750,000).
2008-sur6  Textile engineering and machine manufacturer, Surat, April 17 (medium).
2008-bom40  Gear manufacturer and trader, Bombay, April 23 ($1 million).
2008-bom42  Components manufacturer, Bombay, April 24 ($1.75 million).
2008-bom43  OEM Car and truck manufacturer, Bombay, April 25 ($8.2 billion).
2008-pun1  Foundry components manufacturer, Pune, April 29 (medium).
2008-pun2  Carburettor manufacturer, Pune, April 29 ($13.75 million).
2008-pun3  Sheet metal press components manufacturer, Pune, April 29 ($52.5 million).
2008-pun4  Sheet metal components manufacturer, Pune, April 30 ($100 million - out of business).
2008-pun5  OEM Motorcycle and scooter manufacturer, Pune, April 30 ($2.1 billion).
2008-pun6  Small assemblies manufacturer, Pune, April 30 ($14 million).
2008-pun7  Components manufacturer, Pune, April 30 ($25 million).
2008-bom46  OEM tractor and SUV manufacturer, Bombay, May 6 ($2 billion).

**Pharmaceuticals**

2007-lhr5  Medical solutions (drip) manufacturer, Lahore, Feb. 9 (medium).
2007-lhr17 & 18  Licensed drugs manufacturer, Lahore, Feb. 28 (large).
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<tr>
<th>Code</th>
<th>Description</th>
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<tbody>
<tr>
<td>2007-lhr19</td>
<td>Off-patent drugs manufacturer, Lahore, Feb 28 ($1.6 million +).</td>
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<tr>
<td>2007-khi4</td>
<td>Licensed and off-patent drugs manufacturer, April 6 ($40 million).</td>
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<td>2007-khi15</td>
<td>Off-patent drugs manufacturer, Karachi, April 18 (small).</td>
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<td>2007-khi20</td>
<td>Pharmaceutical engineer and manufacturer, Karachi, April 24 ($300,000).</td>
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<tr>
<td>2007-khi22</td>
<td>Licensed drugs manufacturer and exporter, Karachi, April 26 ($67 million).</td>
</tr>
<tr>
<td>2007-del7</td>
<td>Off-patent drugs manufacturer, Delhi, Oct. 4 (small).</td>
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<td>2007-del10</td>
<td>Off-patent drugs manufacturer, Delhi, Oct. 8 ($3 million).</td>
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<td>2007-del11</td>
<td>Off-patent drugs manufacturer, Delhi, Oct. 9 ($250,000).</td>
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<td>2007-del13</td>
<td>Off-patent and third-party drugs manufacturer, Delhi, Oct. 12 ($2.5 million).</td>
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<td>2007-del14</td>
<td>Skin-care products manufacturer, Delhi, Oct. 12 ($6 million).</td>
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<td>2007-del32</td>
<td>Off-patent drugs manufacturer and trader, Delhi, Nov. 1 (medium).</td>
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<td>2007-mad1</td>
<td>Off-patent drugs manufacturer, Madras, Nov. 19 ($11.75 million).</td>
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<td>2007-mad2</td>
<td>Off-patent drugs manufacturer, Madras, Nov. 20 ($44.5 million).</td>
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<td>2007-mad6</td>
<td>Off-patent drugs manufacturer, Madras, Nov. 26 ($5.5 million).</td>
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<td>2007-mad7</td>
<td>Off-patent drugs contract manufacturer, Madras, Nov. 27 ($4.5 million).</td>
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<tr>
<td>2007-mad11</td>
<td>Off-patent drugs and medical equipment manufacturer, Madras, Nov. 30 ($50 million).</td>
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<td>2007-del45</td>
<td>Research molecules, API and drugs manufacturer, Delhi, Dec. 1 ($1.35 billion).</td>
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<tr>
<td>2007-del48</td>
<td>Off-patent drugs manufacturer and trader, Delhi, Dec. 14 ($250,000).</td>
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<td>2007-del49</td>
<td>Vaccine and drug manufacturer, Delhi, Dec. 15 (large).</td>
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<td>2008-cdg1</td>
<td>API and drugs manufacturer, Chandigarh, Jan. 9 ($200 million).</td>
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<td>2008-bom1</td>
<td>API manufacturer, Bombay, Jan. 30 ($80 million).</td>
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<td>2008-bom2</td>
<td>Ayurvedic drugs manufacturer, Bombay, Jan. 31 (medium).</td>
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<td>2008-bom4</td>
<td>Research molecules, API and drugs manufacturer, Bombay, Feb. 4 ($1 billion).</td>
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<td>2008-bom6</td>
<td>Research molecules, API and drugs manufacturer, Bombay, Feb. 6 ($1 billion).</td>
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<td>2008-bom7</td>
<td>Active pharmaceutical ingredients manufacturer, Bombay, Feb. 7 (medium).</td>
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<td>Off-patent and bio-tech manufacturer, Bombay, March 7 ($175 million).</td>
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<td>Off-patent drugs manufacturer, Ahmedabad, April 9 ($3 million).</td>
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<td>2008-adb6</td>
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<td>2008-adb9</td>
<td>API and off-patent drugs manufacturer, Ahmedabad, April 10 ($175 million).</td>
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<td>Research molecules, API and drugs manufacturer, Ahmedabad, Feb. 11 ($175 million).</td>
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<td>2008-bom39</td>
<td>API, drug and medical equipment manufacturer, Bombay, April 22 ($650 million).</td>
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<td>2008-bom44</td>
<td>Former mg. director, state-owned API enterprise, Bombay, May 3 ($12.5 million).</td>
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<tr>
<td>Year</td>
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<tr>
<td>2008-bom45</td>
<td>Licensed drugs and API manufacturer, Bombay, May 5 ($21 million).</td>
</tr>
<tr>
<td>2008-del51</td>
<td>Off-patent drugs manufacturer and exporter, Delhi, May 20 ($9 million +).</td>
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</table>

**Respondents not affiliated to an industry**

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<tr>
<th>Year</th>
<th>Code</th>
<th>Description</th>
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<tbody>
<tr>
<td>2008-coi6</td>
<td>Independent trade unionist, Coimbatore, March 27.</td>
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</table>

*Inqilab Zindabad*