



2-DAY NATIONAL CONFERENCE

CORPORATE SECTOR, INDUSTRIALISATION AND ECONOMIC DEVELOPMENT IN INDIA

March 27-28, 2009

A two-day national conference on the theme, Corporate Sector, Industrialisation, and Economic Development in India, was held at the ISID on March 27-28, 2009. The ISID, which has been a pioneering institution in the field of industrial and corporate studies in India, decided to take the initiative of organising this conference keeping in mind the urgent need to promote greater research and study of the corporate sector. This is because while under liberalisation the corporate sector has been assigned a much larger role in the growth and development process of the Indian economy, in particular the industrialisation effort; it remains a relatively neglected area of study.

The Conference was inaugurated by Prof. Deepak Nayyar, Professor, Centre for Economic Studies and Planning, Jawaharlal Nehru University, Member of the National Knowledge Commission and former Vice-Chancellor, Delhi University. The Inaugural Session was chaired by Prof. S.K. Goyal, Vice-Chairman and founder-Director of the ISID. Prof. S.R. Hashim, Director, welcomed all the participants and in his brief introductory remarks noted the milieu in which the conference was being held. He pointed out that the dominant thinking regarding the corporate sector had moved over time, from initial concerns about the need to curb its negative dimensions to a phase where granting it freedom and deregulation was considered the most important thing, and now again to a situation where the importance of regulating the corporate sector is being appreciated.

In his inaugural address, Prof. Deepak Nayyar covered three broad areas touching upon the theme of the Conference. He discussed the issue of the relative roles of the State and the Market in countries that are latecomers to industrialisation. Emphasizing that the State versus Market debate was a false one, Prof. Nayyar explained how both had necessary and complementary roles. He pointed out that while at different stages of industrialisation the nature of the role played by the state does change, it remains nevertheless important. Unfortunately, however, the shortcomings associated



Prof. Deepak Nayyar, delivering the inaugural address. Also seen are Prof. S.K. Goyal and Prof. S.R. Hashim

with the experience of state intervention had contributed to an excessively prejudiced view of the state's economic role in the period when the Washington Consensus was the dominant orthodoxy, and Prof. Nayyar hoped that the current context would lead to some serious rethinking on this count. He, however, felt that such rethinking so far was greater in the developed world than in the developing world where market fundamentalism still held sway.

Prof. Nayyar then went on to discuss more broadly what more can be learnt from the industrialisation experience of India and other countries, both in periods where there was a pro-active role of the State and also when greater emphasis was on the market. The key lessons he identified were: that competition is important for promoting efficiency; that marketisation is not desirable in all circumstances, citing privatization of public sector enterprises and financial deregulation as examples; that the speed and sequence of change matter, highlighting particularly in this context the adverse effects trade liberalisation and capital account liberalisation can have if done too quickly; and that the initial conditions from which any industrialisation process or some particular stage of it begins do matter.

Speaking on the relatively recent trend of internationalization of firms from India, Prof. Nayyar argued that it would be a mistake to analyze this in terms of conjuncture alone. A proper appreciation of the causal factors behind such internationalization requires a longer-term perspective. He argued that the foundations for this internationalization were laid long ago in the 1950s when industrialisation was initiated. The accumulation since then of capabilities, both managerial and technological, by firms; the

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ROUND TABLE DISCUSSION

IS SATYAM A 'ONE-OFF PHENOMENON' OF MIS-GOVERNANCE IN THE INDIAN CORPORATE SECTOR?

March 27–28, 2009

The startling revelations of financial manipulations of a massive magnitude by the promoters of Satyam Computer Services on January 07, 2009 came as rude shock. The initial reactions of those in authority, leading private corporate personalities and the media, however, projected the case as a "one-off phenomenon" and as an "aberration" and their primary concern was the possible fallout on international investors and IT clients. Instead of seriously inquiring into the functioning of the regulatory system, a quick conclusion was made that the rest of the Indian corporate sector was free from major governance problems.

Keeping these developments in view, the ISID in association with the Institute for Developing New Generation Managers (IDNM) organised a Round Table discussion on Wednesday January 21, 2009 at its premises. Besides the Institute's faculty, a number of academics, analysts, public men and representatives of NGOs participated in the deliberations and expressed their views.

The Session was chaired by Prof. S.K. Goyal, Vice-Chairman ISID and the main speakers included: Shri E.A.S. Sarma, I.A.S. (Retd.); Shri Shameem Faizee, National Secretary of Communist Party of India; Shri M. Krishna Prasad, Director IDNM; Dr Prasenjit Bose, Convenor Research Cell, Communist Party of India (Marxist); Dr N.K. Bhattacharya, Convenor, Janhastakshep; Prof. Surajit Mazumdar, ISID and Prof. K.S. Chalapati Rao, ISID.

In his introductory remarks Prof. Mazumdar noted that some of the problems identified with the Satyam case—including misuse of the instrument of inter-corporate investments, family managements benefiting at the cost of other stakeholders through related party transactions, shoring up of the share prices by doctoring accounts and finally outright siphoning off funds—have been quite common. The case thus pointed towards the need for substantial overhaul in the regulatory framework applicable to companies in India, not only to prevent a repetition of Satyam but also because of implications going beyond that. Shri Krishna Prasad suggested that the lust for land exhibited even by a promoter educated in advanced countries could be suggesting that the Indian entrepreneurs may not have shed their feudal mentality and India could be a long way from capitalist development.

Prof. Goyal, in his Chairman's remarks, explained that the ISID, by its charter, has the responsibility to promote research and discussion on the regulatory aspects of the Indian corporate sector and emphasised the need to further develop and strengthen an information system on the corporate sector. He underlined the expectations from the independent directors and urged that the institution of independent directors should be studied in depth covering their qualifications, relationship with the managements and the compensation packages.

Speaking at length Shri E.A.S. Sarma described how his involvement in an NGO called Forum for Better Visakha made him better aware of the practice of land allotments/acquisitions to a chosen few including Satyam, at highly favourable terms in gross violation of the laws and regulations, at times even ignoring the prior failures to meet the commitments. He questioned the practice of displacement of people in the name of SEZs and generation of employment. Shri Sarma narrated how his efforts to bring out the truth about the goings on, including those involving land allotments to Satyam, were often stonewalled by the authorities. There were unmistakable signs of political patronage being at play. His research also brought to the fore the role played by the foreign investments through tax havens, which could have many serious implications. He summed up the case of Satyam as a 'cocktail of land and shares' and noted that a scrutiny of the annual reports of companies including those audited by Pricewaterhouse, the auditors of Satyam, threw enough indications for the existence of many more Satyams.



Shri E.A.S. Sarma, expressing his views. Also seen (from L to R) Shri M. Krishna Prasad, Shri Shameem Faizee and Prof. S.K. Goyal

Illustrating profusely from the past experiences of India and the US, Prof. Chalapati Rao explained how Satyam was definitely not a 'one-off' case. He traced the root cause of the problems in the new regime to the emphasis on self-regulation even without first putting in place the mechanisms to meet various exigencies. On top of this, an ownership structure that protects the interests of the controlling interests better than that of individual investors and other stakeholders and which renders the provisions ineffective, was allowed to emerge. Indeed, greater amount of disclosures were insisted upon but the machinery to check the veracity of disclosures and arms-length nature of the transactions was missing. In the new regime, one problem was replaced by another.

The discussions threw up a number of suggestions regarding corporate regulations, implementation of which could help reduce the incentive for corporate malpractice and make it more difficult. These suggestions covered a wide set of areas like regulation of auditing, independent directors and their selection, the sale and pledging of promoters stakes, reporting by banks, appointments to regulatory bodies, enforcement procedures, the role of registrars of companies, etc.

Conference ... Contd from Page 1

creation of a physical and social infrastructure; the development of institutions and the legal framework, all contributed to creating the conditions for the internalization of Indian firms. Thus, this is a process that has much to do with what is embedded in history.

At the conclusion of the inaugural session, Prof. S.K. Goyal highlighted how the ISID had appreciated quite early the importance of studying the corporate sector from a policy perspective. He emphasized the urgency of research to assess the effectiveness and shortcomings of the regulatory system in India. Prof. Goyal also thanked Prof. Deepak Nayyar and all the participants and wished the conference all success.

Seven technical sessions spread over the two days followed the inaugural session in succession, in which 26 papers were presented and discussed. The sub-themes of these seven sessions were: Corporate Sector and Indian Economic Development (Chaired by Prof. Nasir Tyabji); Issues in Industrialisation (Chaired by Prof. T.S. Papola); Sectoral Issues (Chaired by Prof. Prem S. Vashishtha); Technological Issues (Chaired by Prof. Sunanda Sen); FDI and the Corporate Sector (Chaired by Prof. N.S. Siddharthan); Mergers and Acquisitions (Chaired by Prof. Sudip Chaudhuri); and Corporate Finance and Governance (Chaired by Prof. C.P. Chandrasekhar). The papers represented a mix of those by specially invited senior scholars and others selected through an open call and a double blind peer review process (The list of these papers is presented at the end of this report). The discussion was extremely rich and lively and covered a wide set of areas, which helped all participants understand the current state of research on the theme of the conference and to identify the important areas needing further study.

The final valedictory session was chaired by the Director, ISID, Prof. S.R. Hashim. He congratulated all the participants for their contribution to the very high level of the discussion during the conference. He also announced that the ISID would work towards bringing out a conference volume at the earliest and will try to make this conference a regular event on the Institute's calendar. Prof. Hashim also thanked the organisations that had financially supported the conference, particularly the ICSSR and the CSO. Speaking at the valedictory session, Prof. N.S. Siddharthan also highly appreciated the quality of the conference, the range of issues discussed, and also the methodological diversity of the papers. He particularly noted that not only were there participants from different parts of the country, the conference also had an optimum mix of senior experienced scholars and those just embarking on their research careers.

Prof. S.K. Goyal in his closing remarks expressed his great pleasure that the ISID had hosted such an excellent conference. He recounted how the ISID had evolved out of the Corporate Studies Group at the IIPA and its long journey to its present position. Prof. Goyal particularly emphasized that the purpose behind creating the excellent infrastructure at the ISID campus was to develop it as a place of research and debate and discussion. He was, therefore, very happy that through Conferences like this one, all the sweat and toil that had gone

into creating the new ISID campus was finding its true justification. He assured the participants that the ISID will do its utmost to ensure that resources are no constraint to make this conference a regular annual event. The programme concluded with Prof. K.S. Chalapati Rao proposing a vote of thanks.

Papers/Presentations at the Conference

1. *The Changing Face of Corporate Capital: Some Thoughts—Raman Mahadevan*

This presentation examined the development of entrepreneurship and the corporate sector in a historical perspective. Tracing the development of Indian capital and industry during the colonial period, the relatively limited study of the development of corporate capital beyond 1947 was identified as an important lacuna in historical research. The case was made for the need to go beyond the merchant capital paradigm and the obsession with only large capital. This was necessary to capture the alternative spheres of accumulation from which corporate capital has emerged, to allow for the fact that small capital has also grown into big, and to connect the past and the present. The development of capital in Southern India was identified as exemplifying the importance of these processes. It was, also, contended that unlike what may be assumed, 1991 was not the important cut-off for post-independence changes in India's entrepreneurial landscape. Rather the picture began changing in the 1970s and 1980s when many old groups declined and new kinds of capital including from an agrarian background started emerging as a result of impetuses generated by public investment, nationalization of banks, ancillarization, etc.

2. *Contribution of Private Corporate Sector in GDP, Saving and Capital Formation—Ramesh Kolli*

This paper attempted to present the contribution of private corporate sector in GDP, Saving and Capital Formation estimates over the years, using data from the National Accounts Statistics being released by the CSO. It showed that the private corporate sector has emerged as the main contributor to the GDP growth rates, saving and investment in the country in the last two decades and especially in the last decade. The private corporate sector's share in all three has risen significantly over the period. The high growth rates that were witnessed in the country during the last few years have also had significant contributions from the private corporate sector.

3. *Vicissitudes in the Role of Private Corporate Sector in India—J. Dennis Rajakumar*

UPCOMING EVENT

Foundation Day Lecture

May 01, 2009

Prof. C.P. Chandrashekhar, Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi, will deliver the Foundation Day Lecture "Learning from the Crisis: Is there a Model for Global Banking?" on May 01, 2009.

This paper examined the role of private corporate sector in the economy, with particular reference to industries. An attempt was made to discern the role accorded to this sector in the overall development strategies as embodied in the plan documents. For a long time, growth of corporate sector was sought to be controlled with increased emphasis on public sector. However, since the beginning of Eighth Plan (1992 onwards), there has been more thrust on the growth of this sector. True to the changes in the policy thrust, it was found that the relative share of private corporate sector in the economy-wide investment has gone up, replacing public sector. Within the industries, its share in selected principal characteristics was observed to have gone up. In particular, its contribution to GDP originating from manufacturing sector had gone up since 1999–2000, with a concomitant decline in the contribution from public sector and household sector. During this period, growth rate in gross value added of private corporate sector was higher than that of total manufacturing, registered manufacturing and its counterparts. Thus, the paper found that in the 1990s, private corporate sector had gained importance with the dwindling emphasis on public sector, but since 1999–2000, its relative significance has increased as compared to both public and household sector.

4. Economic Downturn and the Indian Corporate Sector: Some Policy Issues—Partha Pratim Pal

This presentation took a closer and disaggregated look at the impact of the global economic crisis on the corporate sector in order to derive important policy conclusions. After identifying the channels through which the impact of the downturn was being felt, the study identified the export-dependence of different industries by looking at the ratio of exports to sales of companies in these industries. It found that industries where export-dependence was high were relatively few and moreover the degree of correlation between the ranks of industries in export-dependence and ranks in absolute gross value of exports was not very high. In other words, the industries with higher levels of exports also had a high proportion of their sales in the domestic market. It was suggested that the best antidote to their difficulties related to the global economic downturn lay in the expansion of domestic demand. Industries with a high level of export-dependence, however, needed more targeted schemes. It was, also, argued that incentive-based policy measures may not be an adequate response to the downturn and direct demand expansion may be necessary.

5. Nature of Manufacturing Growth in Post-Reforms India—Sudip Chaudhuri

This paper focused on the manufacturing sector, which has been at the centre of much of the reforms in industry and trade. It examined manufacturing growth at aggregated and disaggregated levels and some other aspects of the performance of the organised corporate manufacturing sector in India, in order to throw some light on the quality of the growth process. The paper found that the increased outward-orientation of the Indian economy had not enabled an acceleration of manufacturing growth. Moreover, the

expectation of employment-intensive industrialisation had also been completely belied. The paper argued that the post-reform export performance has not been better than in the past. It contended that while import liberalisation has helped expansion of exports in industries that had been consciously developed through industrial policy in the pre-reform era, it had proved to be ineffective in developing new industries. In the corporate sector, the rise in import intensity has not been accompanied by an adequate rise in export intensity, which has contributed to the problem of the rising trade deficit and raises questions about sustainability of import liberalisation. Evidence was also presented to show that foreign companies had also failed to provide the expected impetus in this regard, indicating the need for greater regulation of FDI.

6. Thirty Years of Industrial Policy in China and the Role of State in China's Industrial Take off: Some Lessons for India—Jean Francois Huchet

This presentation outlined the Chinese experience with industrialisation since the initiation of market-oriented reforms in the late 1970s in order to highlight the lessons that could be drawn for India. It, however, cautioned that despite the similarities on the surface between the Chinese and Indian situations and development objectives, there were important differences in the political, economic and industrial trajectories of the two countries which need to be kept in mind. These raise many question marks on the adaptability in India of experiences with policies implemented in China. Furthermore, it argued that not all policies in China have been successful. Keeping in mind these limitations, however, the presentation identified the benefits of deregulation of public sector and monopolies; the adaptability of the state and its capacity and flexibility to review policies; the management of land use rights in SEZs; the mix of centralisation and decentralisation in policy making and implementation; primary and secondary education and its impact on labour; and the managing of FDI, as areas where lessons could be drawn from the Chinese experience.

7. Locational Choice of Firm: Policy or Infrastructure?—Vinish Kathuria

This paper investigated whether industrial dispersal policy is more potent than the natural and agglomeration cost advantages in influencing the locational choice of a firm. To carry out the analysis, an agglomeration measure given by Ellison and Glaeser (EG) was computed for 66 manufacturing industries in 21 major States of India for the year 1997–98. Agglomeration comparison with US indicated that at the 2-digit level, most Indian industries are excessively diffused, whereas US industry is moderately agglomerated. The instrumental variable analysis showed that the industrial dispersal policy has no impact on the location decision of firms in most specifications, and locational choice seems to be guided by other factors. For industries which are relatively more agglomerated, it is the infrastructure, closeness to the coast and labour market pooling that has resulted in agglomeration. For industries which are dispersed, it is the nature of the product produced, electricity tariff and per

capita energy gap in the State which have induced them to disperse, apart from a weak influence of dispersal policy. Analysis at a higher level of aggregation also brings forth the role of infrastructure, electricity tariff and nature of product in influencing location choice.

8. Indian Corporate Agribusiness Sector and Small Primary Producers and Workers: Evidence of Exclusion and Potential Mechanisms for Inclusion—Sukhpal Singh

This paper examined the role of private corporate agribusiness in agricultural and local development through their impact on structures of production and trade and the livelihoods of primary producers and workers in India. For this purpose the paper undertook an analysis of the nature and pattern of corporate involvement in agricultural production, value addition, trade, co-ordination, and supermarketization of farm products retail from the perspective of small producers and workers in a rural poverty reduction framework. The paper suggested that it is not contract farming *per se* which is harmful, but how it is practiced in a given context and therefore if properly monitored and used, it can contribute to the betterment of even small and marginal farmers. The paper suggested that the major conditions for successful inter-locking between agribusiness firms and small producers include increased competition for procurement, guaranteed market for farm produce, effective repayment mechanism, market information for farmers, large volumes of transactions through groups of farmers, low transactions costs, co-operation among genuine agribusiness firms, and no alternative source of raw material for firms.

9. Examining the Relationship between Large Corporates, SMEs and the Informal Sector in view of the Financial Downturn: A Banker's Perspective—Ratnesh Jha

This presentation took as its focus the issue of financial inclusion and micro-credit. It argued that banks and other financial institutions are being increasingly pressurized to take initiatives for financial inclusion and expand credit to micro, small, and medium enterprises. It was argued that this effort could only succeed if these enterprises were integrated into value chains and mainstream economic activity and hence the importance of studying the actual and potential linkages between these enterprises and the large corporate sector. The current background of the crisis and its associated problems of repayment only serve to emphasize the importance of these. With a brief outline of the initiatives that the SIDBI has taken in this area, the academic community was urged to study the impact of such initiatives so that more effective interventions could be designed.

10. Corporate Structure of Media Industry with Special Reference to Print and Television Media—Pradosh Nath & Atulan Guha

This paper endeavoured to capture the characteristics of corporate structure of the Indian media industry. It was a preliminary investigation with no claim to being comprehensive. It highlighted that apart from the features of the media business being highly capital intensive sector showing high growth and high profitability, the control of

the industry has important implications for social, economic and political events of the country. Therefore, the corporate sector has a long-term general business interest in the industry. But, the study of the Indian media industry or media economics is at a nascent stage and therefore this paper could not benefit from available insights. The paper showed that the media industry has an interesting dynamics that governs the nature of control in the industry. Much of the revenue of the industry comes from the advertising by the corporate sector, and this dependence that creates indirect control of the corporate sector on the industry, besides the direct control through the ownership of the media firm by corporate sector. Highlighting that the corporate structure of the industry has a complex configuration that offers an interesting subject for further research, the paper outlined a broad picture of corporate structure of the two largest segments of the media industry, namely print and TV, and suggested a few hypotheses for future investigation.

11. Structure, Growth and Performance of India's ICT Sectors since the Economic Reforms: Lacunae and Imperatives—Vikram Chadha & Seema Kapoor

Arguing that the phenomenal growth of the ICT industry has given India formidable brand equity in the global market, this paper focused on examining the role of the ICT industry in India's growth since the introduction of economic reforms. It, also, attempts to decipher the structure, growth and performance of India's ICT sectors since liberalisation of the economy. The study covered both the components of the ICT *viz.* the IT and telecommunications over the period 1991–2007. Its major findings were that the ICT sectors have recorded high and statistically significant growth rates in terms of sales and revenue generation; gross value added; fixed and current assets; investments and profits, and export earnings etc. The mainstream IT sector has taken precedence over the telecommunications sector in this regard—reflected in better net-margins and higher asset-turnover ratio, implying better assets utilization. IT sector also was found to have used long term funds more efficiently; have higher potential for attracting future investments, and greater effective capacity to generate higher earnings; than the telecommunication sector. Finally, the analysis found the market structure of the ICT sectors in India to be competitive, with a well dispersed ownership pattern of firms, mainly because of the existence of a large number of small and medium firms. This structure is quite conducive for a robust growth of this sunrise sector of the Indian economy.

12. The Technological Dynamism of India's Private Corporate Sector: Is it on the Increase since 1991?—Sunil Mani

This paper examined the degree to which liberalisation and deregulation since 1991 have succeeded in achieving the objective of enhancing the technological dynamism of India's private corporate sector. The study examined for this purpose four different indicators of technological dynamism of the sector *viz.* investments in R&D; patenting; technology content of exports; and acquisition of technology based enterprises abroad. The analysis showed that on all these four counts the evidence pointed towards the conclusion

that the private corporate sector is becoming technologically speaking more dynamic. However, the study also highlighted a number of disquieting features of the rapid growth of the corporate sector—namely that the observed technological dynamism is restricted to a few industries like pharmaceuticals, and the sector as a whole has become more dependent on tax concessions, more vulnerable to external shocks, and finally less employment intensive.

13. Does Technology Differ in Domestic and Foreign Firms? Evidence from Indian Machinery Industry—Chandan Sharma

This paper examined the productivity performance of foreign and domestic firms in the Indian machinery industry, one of the fastest growing industries which is also instrumental in the growth of various other industries' in India. Using information on more than 200 firms of three sub-industries namely electrical, electronics and non electrical, the paper compared total factor productivity (TFP) of both types of firms' for the period of 1994 to 2006. In the next stage, the paper estimated the determinants productivity growth of firms. The results of the exercise suggested that there is no significant difference in the productivities of foreign and domestic firms in the machinery industry. The results further revealed that firms which import and have in-house R&D facilities are more productive than others. Finally, the role of public infrastructure was found to be vital in the firms' productivity growth.

14. Engineering Industry, Corporate Ownership and Development: Are Indian Firms Catching up to the World Standard?—Rajdeep Singha

This paper examined the efficiency of 62 (45 domestically owned and 17 foreign owned) companies at the firm level in Indian engineering industries in the period 1990–91 to 2006–07, with particular emphasis on comparing foreign and domestically owned firms. In addition, the factors affecting inter company variations in efficiency were considered. The results presented showed that there is a significant difference between domestic and foreign firms in terms of production. Foreign firms are more technically efficient than the domestic firms. The difference between the mean efficiency of foreign firms and domestic firms has, however, declined over time, but this convergence has surprisingly been also accompanied by a decline in the efficiency levels for both groups of firms. Clearly therefore the efforts of the government to boost up the efficiency of industry have not proved effective. The paper also observed that the variable vertical integrations positively influenced both domestic firms and foreign firms, but in case of foreign firms the impact on efficiency is greater. The results also indicated that a positive relationship exists between import intensity of the firm and its level of technical efficiency, which provides support to the case for the process of import liberalisation.

15. Technology Strategies Under Globalisation: An Exploration of Indian Manufacturing Firms—Srvanthi Choragudi

This study made an attempt to identify the factors that determine the technology strategy of the manufacturing firms in the era of globalisation, a context making for both widened choice of technology and also mounting competitive pressures at the domestic and global front. Given the nature of the issue at hand, the study chose to employ a multinomial logit model to examine the different factors that determine the technology strategy of firms. It found that foreign firms have higher probability to invest in technology development than their local counterparts. Further, technology spillovers accrued due to the presence of foreign firms can be enjoyed by high and medium-high technology industries suggesting that in order to accrue the benefits of technology spillovers firms need to indulge in enhancing their own technological capabilities. Imports of goods embodying technology have a significantly positive impact on the firm's decision to be technologically active. Increasing export intensity positively effects the decision of the firms to be technologically active, indicating that in order to compete in the global market, firms need to invest on technology development. Firms investing abroad are better technologically oriented than the firms that do not.

16. Transnational Corporations, Globalized Production and the Indian Economy—Surajit Mazumdar & Atulan Guha

This paper highlighted, on the basis of some available evidence, the importance of studying the role being accorded to their activities in India in the global strategies of TNCs, who are leading the process of reorganisation of international production and influencing the international allocation of economic activity. It suggested that broadly the pattern of allocation of activities to India influenced by TNCs is consistent with what is reflected by India's aggregate international transactions, with much greater importance being accorded to India as a location for producing or sourcing services, particularly IT services, rather than manufactured products. The paper, however, emphasized the fact that there are variations across time, across sectors, and across firms in this regard. It argued that these need further investigation in order to identify what are the likely directions TNC involvement in India will take in the future and shed light on what should be the extent of reliance on inviting TNCs in India's development policy.

17. India's Experience in Attracting FDI: A Close Look at the Recent Data—Biswajit Dhar & K.S. Chalapati Rao

This study sought to address the questions about the composition and quality of FDI in terms of its ability to contribute to national economic development that have arisen in the background of the rapid growth of FDI in recent years. It analysed the sectoral, host-country-wise and nature of inflow-wise patterns of FDI during September 2004 and October 2008. Apart from using the aggregate data, the study examined the reported largest 1,000 individual cases of FDI inflows, which accounted for about 80 per cent of the equity inflows other than in the form of reinvestments. The preliminary conclusions drawn by the study were: reinvested capital and acquisition of shares are major contributors to the reported FDI inflows; private equity (PE), venture capital

(VC) and hedge funds which are more akin to portfolio investments dominate the inflows other than reinvested earnings; the sectoral composition of FDI is shifting in favour of non-manufacturing sectors, especially financial and construction and real estate activities; contrary to the expectations, the pattern of PE/VC investments do not suggest that they are promoting new entrepreneurs and high risk and technology intensive sectors; and some part of the inflows into India do not even qualify as FDI even going by the very low threshold of 10% equity held by the foreign investor; and the possibility of round-tripping and transshipping FDI indicated by rising share of FDI from tax havens. The study concludes that the optimism associated with the rapidly increasing FDI inflows could be misplaced and India should place greater emphasis on the qualitative aspects of FDI.

18. Dynamic Panel Data Models: An Application to Indian Manufacturing Industries—Smruti Ranjan Behera

This paper presented a review of the econometric methods of dynamic panel data models. The focus was on the multivariate dynamic panel data models with persistent series, basically concentrating on the aspect of the multivariate autoregressive distributed lag models. The analysis tried to analyze the spillover effect of FDI across Indian Manufacturing industries with respect to the application of dynamic panel data models. It estimated the individual spillover effect across industry with dynamic effect of the lagged values of the dependent variable. The difference GMM and system GMM were used to capture the dynamic lagged values of the dependent variables in the panel data sets. From the analysis it was concluded that the dynamic effect of the lagged dependent variables has its special effect upon the labour productivity of different manufacturing industries.

19. Analysis of Merger Activities in India—Subadra Ragothaman, P.K. Bhatt & Aditya Srinivas

This paper focused on the effects on firm performance of mergers and acquisition, noting that the corporate sector has witnessed a substantial growth in mergers and acquisitions activities since 1991; that MNEs have been increasingly participating in merger activities; and that the Indian corporate world has made several footprints in the international markets by acquiring companies. The study examined some of the mergers that had taken place in 2004 and analyzed the performance of merged companies in terms of the trend of gross profits, sales, net profit, EPS, current ratio, debt-equity ratio and other performance indicators. It found that the merger decision has had a positive effect on firm performance.

20. Growth and Profitability of Acquiring Firms in India: An Analysis—Kuldip Kaur & Kushwinder Kaur

This paper analyzed the impact of mergers and acquisitions on the efficiency of seventy seven acquiring firms in terms of growth and profitability. From the analysis it was found that the results of merger activity have been mixed. The number of firms for which the growth rates increased is less than the firms with reduced growth rates in post-merger

years, but the results are much more significant for the latter case and very insignificant for the former. Overall, the study concluded that the sample firms have neither gained much in terms of net sales nor in terms of assets. As far as profitability of the firms under study is concerned, a similarly mixed picture emerged though it was found that the percentage of firms experiencing increased profit margin as well as profit rate was much lower in year 1999 than in year 2000.

21. Cross-border Mergers & Acquisitions—S. Beena

This study attempted to understand the nature and extent of cross-border merger and acquisition deals in India in the backdrop of the global scenario. It noted that globally the number and value of such deals is increasing year after year, and there has been a gradual increase in the share of developing nations over the years. In order to understand the intensity of mergers and acquisitions scenario in India, the study prepared a firm level database and found that 35 per cent of the mergers and acquisitions deals that occurred in India during 1978 to November 2007 were cross-border. The pre mid 1990s merger wave was dominated by domestic deals, with increasing cross-border deals since the mid 1990s and a wave of overseas deals during the post 2000 period. Sector-wise, manufacturing had been the largest seller, whereas majority of the purchases were made by the service sector, with the share of primary sector remaining small throughout. The study argued that the current surge in cross-border deals should be viewed in a multi-factor dimension, which involves the push factors from home country such as market constraint, need for low priced factors of production, increasing global competition, etc., as well as the pull factors from foreign countries such as the wider market, technology, efficiency generation through deriving synergies, etc.

22. Determinants of Cross-border Acquisitions: Evidence from India—Poonam Mehra

This paper attempted to determine how factors like market size of the host and home countries and market opportunities available in the host countries affect the choice of location for acquisitions. The study used a panel dataset covering acquisitions in 40 countries in case of Indian acquisitions abroad and 31 countries in case of foreign acquisitions of Indian firms for a period of 10 years (1997–2006). The paper concluded that a large percentage of the acquisitions by and of Indian firms can be attributed to the market seeking objective. The evidence thus indicated that acquisitions can be thought of as substitutes of trade, in general. The technology gap between the host and home countries turned out to be significant in case of Indian acquisitions abroad, indicating the cost saving motive behind such acquisitions. In case of acquisition of Indian firms by foreign firms, it was found that countries which have high infra structural development acquire more while low labour cost is a factor that attracts firms from abroad. Among the institutional factors, having a common legal origin and better regulation quality was shown to have a positive effect on Indian acquisitions abroad. In case of cross border acquisition of Indian firms, while a common legal origin had a positive effect, regulation quality seemed to have a counter-intuitive

sign which is consistent with the hypothesis that firms from developed countries with high regulation often invest in countries with less strict regulations.

23. Fringe Benefits Tax in India: Empirical Study of Collection and Compliance from Corporate Sector—Praveen Kishore

This study used Fringe Benefits Tax (FBT) collection data for the first two years after its introduction to assess its impact and to gain deeper insights for further reforming and fine-tuning the FBT regime. It was found that Banking and Insurance, Infotech and Petrochemicals are some of the important sectors of the economy making significant contribution to FBT collection. Further, out of the expense heads specified as base of FBT, it was found that 'employee welfare', 'conveyance', 'telephones' and 'maintenance of cars' are most important in terms of collection. Large numbers of statistical tests were also conducted. These indicated that: the proportion of FBT collection from different heads has remained same over the two years of its operation and that this proportion has remained same even at the level of 'economy sectors'; significant 'interaction' effect was found between 'FBT heads' and 'economy sectors'. However, tests indicated that sample data were not homogeneous. This pointed towards arbitrary booking of expenses under different heads, perhaps to avoid FBT.

24. Economic Liberalisation and Financing Pattern of Private Corporate Sector—P.L. Beena

This paper attempted to analyze the financing pattern of Indian industries during 1990–2006, and identified the resource mobilisation of Indian acquiring firms based on the case study approach. The study observed that firms or industries are mainly relying on borrowings when more finance is required. The so-called pecking order theorem does not seem to be applicable in the case of the Indian manufacturing sector although there is trend towards that behaviour. Further, it concluded that the stock market, which was expected to lower the cost of capital, it has not played a major role as far as the actual resource mobilisation of the Indian manufacturing sector is concerned. It argued that the increasing trend in the provision of depreciation needs attention from the angle of corporate governance.

25. Disentangling the Performance and Entrenchment Effect of Family Shareholding: A Study of Indian Corporate Governance, Manoranjan Pattanaik

Using an econometric framework, this paper established the relationship between Tobin's Q and family shareholding in India. By controlling for a host of factors, the paper documented a non-linear relationship between family share holding and firm value. In the previous literature, researchers have raised the issue of endogeneity problem in the study of ownership-performance relationship. This concern was addressed in this paper via instrumental variable regression method by instrumenting ownership by several exogenous factors. Despite the fact that in several specifications the curvilinear aspect of the relationship remained intact; the model statistics rejected the concern of endogeneity problem in case of India.

26. Do Stock Markets Allocate Resources Efficiently?: An Empirical Examination of IPOs in India, Vineet Kohli

This paper examined the pricing of Initial Public Offerings in relation to their future operating performance and risk. IPO firms have lower profitability, but receive higher valuation than their industry peers on the expectation that their earnings will grow in future. The paper, however, found that the expectation of superior growth was not realised in the post-issue period. It thus appears that low profitability firms conduct IPOs when investors are excessively optimistic about their growth potential. This paper concluded that stock markets in India have suffered from excessive optimism and poor evaluation.

EVENTS

WORKSHOP ON QUALITY IN SCHOOL EDUCATION

December 20, 2008

To encourage quality in education the ISID organised a Workshop on Quality in School Education on December 20, 2008. Quality education is today's need and schools should ensure that they provide such education to students opined Mrs Premlata Kataria, Director, Education Department, Municipal Corporation of Delhi. The objective of the workshop was to bring together service providers, policy makers and experts on education to discuss and debate issues like infrastructural facilities, curriculum, syllabus pedagogy and outcomes of interventions, implemented to achieve quality education for all. The thrust of the workshop was on presenting techniques to improve the quality of education and increase access possibilities for the hard-to-reach learners.

The key speakers were Mrs Premlata Kataria, Director (Education), Education Department, MCD, Government of Delhi; S.K. Bhatia, Retired Professor, CIE, Delhi University; and Shri Vinay Sharma from Partners India. The participants included Principals of 10 Central and 10 South Zone MCD Schools, Deputy Education Officers of these zones, and One School inspector from each of them.

The workshop had two sessions. The theme of first was how to make a difference in school education. It was an open session; principals put forth problems faced in the delivery of services in their respective schools, which adversely affect the quality of work. They also shared their strategies which boost them to work hard. The second session focused on the approach for improving Quality in Education in which the experts discussed the possible techniques. Primarily both the sessions aimed to discuss outcomes of interventions related to issues such as classroom processes, enhancing teacher accountability, developing and strengthening the institutional capacity to monitor learning outcomes and evaluate the impact of interventions, and strengthening the role of local bodies in school management.

The workshop evoked a very positive responses and there was unanimity among participants to implement the strategies discussed for quality improvement in school education.

MANAGEMENT DEVELOPMENT PROGRAMME (MDP) FOR E-GOVERNANCE PROJECT MANAGEMENT

January 12–16, 2009

The Institute organised a five-day Management Development Programme for e-Governance Project Management personnel from January 12–16, 2009. The Training Programme was attended by Senior Government Officials of Government of Delhi. The objective of the workshop was to provide hands-on training including management skills to managers of e-Governance to run successful projects and provide services to citizens efficiently.



The training programme in progress

The focus of the programme was on: e-Governance Project Management; Quality of e-Services; Citizen Management and Satisfaction; Behavioural Skills; and Technology Management. State-of-the-art methodology was utilized, including: interactive models of class-room learning; leveraging of personal and collective experience through reflection and dialogue; and exposure to national and international best practices. Also used were participative training strategies including case studies, structured discussions and planned reflection encouraging practical and relevant learning. The programme followed an interdisciplinary approach. Guest faculties (from Academia and Industry) who had significant experience were invited to provide first hand knowledge about the recent developments. Various exercises and Quizzes were also conducted by the trainers. The participants were asked to present a short project at the end of the training. Project work was presented by the participants. The feedback given by the participants was highly positive; it revealed that MDP was a successful attempt.

LECTURES/PRESENTATIONS BY VISITING SCHOLARS

- Prof. François Chesnais, Université de Paris XIII, France, delivered a lecture on ‘The Global Economy, Financial Meltdown and the Current Crisis’ on January 14, 2009.
- Marcelo Medeiros, IPEA, Brazil & Visiting Scholar, IHD, New Delhi delivered a lecture on ‘Rapid Industrialisation and Income Distribution: The Brazilian Experience’ on February 17, 2009.

- Dr Takahiro Sato, Associate Professor at the Research Institute for Economics & Business Administration, Kobe University made a presentation on ‘Growth and Employment in India: The Impact of Globalisation on Employment in the Indian Manufacturing Industries’ on February 25, 2009.
- Prof. Giuseppe Tattara, Department of Economics, University of Venice, Venezia, Italy, made a presentation on ‘Industrial Clusters in Italy: Restructuring of the Benetton Group’ on March 06, 2009.

FACULTY

PROJECTS / RESEARCH STUDIES

- Structural Changes, Industry and Employment in the Indian Economy: Macro Economic Implications of the Emerging Trends, a research programme sponsored by ICSSR, New Delhi in March 2009. This programme is co-ordinated by Prof. T.S. Papola.
- India Water Partnership (IWP) Action Plan 2009 initiated in Q1 2009. Several IWP partners have been assigned the research work in different zones on low water saving technologies. The work is being co-ordinated by the host institution ISID.
- Corporate Finance and Governance in the Indian Economy; Global Financial Crisis; Gender Dimensions of Development; and Basel norms on capital adequacy, the banking sector and impact on credit for SMEs and the Poor in India—Sunanda Sen (*Ongoing*).
- Impact of Increase in Petroleum Price on the Overall Price of the Indian Economy; Input Intensity of Production

NEW FACULTY

- Prof. Nasir Tyabji joined the Institute as Visiting Professor in September 2008. An economic historian with interests in the areas of technology, innovation and industrialisation, Prof. Tyabji has been the Director of the Centre for Jawaharlal Nehru Studies at the Jamia Millia Islamia, a Senior Fellow at the Centre for Studies in Science Policy of the Jawaharlal Nehru University, a Fellow of the Jawaharlal Nehru Memorial Trust and a Professorial Fellow at the Nehru Memorial Museum and Library, the Reserve Bank of India Chair Professor and a Fellow at the Madras Institute of Development Studies. Prof. Tyabji has many publications to his credit including three books.
- Prof. Prem S. Vashishtha joined ISID as Visiting Professor in December 2008. Currently, he is also Executive Secretary, India Water Partnership (associated with Regional & Global Water Partnership). His areas of research include—Micro economics with Business Applications, Quantitative Methods, Social Sector Policies; Public Policy & Governance with special focus on: Food Security, Poverty & Public Distribution System, Fertilizer, Power & Irrigation Sectors, Water Sector, Subsidies and WTO & Agriculture. Apart from holding teaching positions in several universities in India and abroad, Prof. Vashishtha has been Director, Agricultural Economics Research Centre, University of Delhi and a Consultant/Collaborator of the International Food Policy Research Institute (IFPRI).

ANNOUNCEMENT

- Neha Mittal was associated with ISID and IWP during Feb–Mar 2009 to work on her Masters' thesis on *Policy initiatives for ensuring safe drinking water supply for urban poor* to be submitted to the University of Manchester (UK).

Processes and Final Demand in Indian Economy; and Measurement of Import Intensity of Exports through Input-Output Table—Mahua Paul (*Completed*).

- India's Experience in Attracting FDI: A Close Look at the Recent Data; and Corporate Ownership, Wealth Accumulation and Regulatory Capture—K.S.Chalapathi Rao (*Ongoing*).
- Role of Performance of Independent Directors; and Exchange Rate Pass through Estimation for India—Mahua Paul (*Ongoing*).

PAPERS / ARTICLES

- "Speculation, Scams, Frauds and Crises: Theory and Facts", by Sunanda Sen, *Economic and Political Weekly*, Vol. XLIV No. 12, March 21–27, 2009.
- A review article on the companion volumes, "Liberalisation and Development: Collected Essays" and "Trade and Globalization: Collected Essays" (by Deepak Nayyar), by Surajit Mazumdar, in the *Book Review*, Vol. XXXIII, No. 3, March 2009.
- A review of "Labour Market Flexibility in Indian Manufacturing—An Empirical Inquiry of the Neo-Liberal Propositions", by Atulan Guha, *Economic and Political Weekly*, 2009 (*forthcoming*).

PRESENTATIONS IN CONFERENCES / LECTURES DELIVERED

- Mahua Paul presented a paper titled "Estimation of Export Demand Function, A Panel Data Analysis" at the Annual Conference of the Indian Econometric Society, held at Guwahati, Assam, January 08–10, 2009.
- Sunanda Sen delivered several lectures on "Global Finance" and "Global Financial Crisis" at Jamia Millia Islamia, New Delhi and at Kalyani University, West Bengal. She also participated in the panel discussions on the Global Crisis at CENTAD, New Delhi, and at the Delhi Institute of Management.
- Surajit Mazumdar spoke as part of a panel on the theme "The Role of Institutions as watchdogs of the nation" organised by the Department of Economics, Lady Shri Ram College, at its annual academic meet, "Equipoise", February 13, 2009.
- Surajit Mazumdar delivered a lecture on "The Global Crisis and India" at the Department of Political Science, Kirori Mal College, Delhi University, March 04, 2009.
- Atulan Guha made a presentation titled "Structure of Indian Manufacturing" at the *Conference on Contemporary Issues in Development* organised by Department of Economics of University of Kalyani, West Bengal, March 05–06, 2009.
- Atulan Guha made a presentation titled "Exchange Rate Management in Developing Countries: A Theoretical Note"

at the *Seminar on Global Financial Crisis, Microfinance and Indian Economy* organised by Forum of Development Economics, Kolkata, March 06–07, 2009.

- Sunanda Sen spoke on "SEZ and Female Participation" at the Centre for Womens Studies, Jamia Millia Islamia.
- Sunanda Sen delivered the DRS Talk on Labour in India's Organised Industry organised by the Department of Economics, Calcutta University.
- Surajit Mazumdar made a presentation titled "Global Crisis, Domestic Imbalances and the Problem of Industrial Demand" at the *Refresher Course in Economics* organised by the Academic Staff College, Jawaharlal Nehru University, March 9, 2009.
- Surajit Mazumdar made a presentation titled "Indian Industrialisation in Retrospect and Prospect" in the session on "Sectoral Growth Paths in the run up to 2050", at a UGC sponsored *National Seminar on India 2050: Eyeing the Growth Potential* organised by the Department of Economics of Kamala Nehru College, March 13, 2009.
- Jesim Pais and Satyaki Roy were discussants at the *National Conference on Corporate Sector, Industrialisation and Economic Development in India* organised by the ISID, March 27–28, 2009.
- Mahua Paul delivered few lectures on Econometrics to Indian Economic Service Probationers undergoing training at Institute of Economic Growth, Delhi in March 2009.

FACULTY PARTICIPATION IN SEMINARS / CONFERENCES / WORKSHOPS / SYMPOSIA

- K.S. Chalapati Rao participated in the *Conference on Administrative Reforms and Ethics in Governance*, organised by the Federation of Indian Chambers of Commerce & Industry, Delhi, January 06, 2009.
- Sunanda Sen participated in the conference on Global Economic Crisis organised by Forum of Development Economics, Department of Economics, Calcutta University.
- Atulan Guha participated in the *RIS Silver Jubilee Conference on Financial Crisis, Global Economic Governance and Development*, February 06–07, 2009.
- S.R. Hashim and Prem S. Vashishtha participated in 5th World Water Forum held at Istanbul, March 16–22, 2009.

BOOK REVIEW

OLD CHINA'S NEW ECONOMY: THE CONQUEST BY A BILLION PAUPERS

T.K. Bhaumik

Sage Publications India Pvt. Ltd

Pages: xxxiii + 295

Reviewed by T.P. Bhat

In recent years many books have appeared on various facets of Chinese economy, particularly on its high growth story. Most of them pertain to the beginning of country's transition to the socialist market economy. This book is not an exception to this fact, but is different in many other ways. Importantly, it highlights the critical role of two major agents—the government



and the people - in the successful transition to the high growth economy through which China's economic landscape has totally changed though it is still a low-middle income economy, with per capita GDP of around \$2000. This transition has not been smooth, but beset with challenges in every sphere of activity. The author sketches the problems with considerable care and caution and traces the story of development and growth.

The development of China is divided into five phases and the first three phases take stock of cultural heritage and rule of various dynasties including Japanese dominance. The fourth phase was under the Chinese Communist Party (CCP) rule, with Mao Zedong at the helm of power. The fifth and the current phase is the 'new China' that is the period of economic transition from 1978 to the present time. The author has made an honest effort to capture the developments that have taken place in the last three decades. The book captures the developments that have shaped modern China, which is acclaimed as the third largest economy. The book provides a bird's-eye view of the past to enable the reader to appreciate the significance of the changes that have taken place.

Chapter 1 provides capsule of historical setting in China, starting with Shang dynasty and ends with breakdown of the dynastic rule that led to proclamation of the People's Republic of China in 1949. In a nutshell, it depicts the picture of the economic oppression of the Chinese people over the years. China under Mao Zedong and economic life of the people is given in chapter 2. The Mao-era was an era of the worst catastrophe for the people without any liberty or rights. Narration of the circumstances within the CCP in the immediate post-Mao period and struggle for change has been illustrated in chapter 3. Initiatives undertaken by the leadership for purposes of the defined transition has been described in chapter 4. It also includes China's bid to seek accession to the WTO to accelerate the pace of reform. Chapter 5 is about China's modern economy as it evolved since the launch of economic reform in 1978 and its many-sided achievements. The shortcomings of economic reform also find place in the chapter. Areas of emerging crisis, emanating from growth process are dealt with in chapter 6. It touches the hard-core developmental issues which relates to the question of sustainability of growth.

Chapter 7 talks about the concern of the leadership about the existing growth pattern, its fallouts and consequences. The focus is on the 10th and 11th plan periods of China in establishing a harmonious society. Now, five-year plans of China do not symbolize a typical traditional planning for growth. It sets out guidelines and the principles. It works and works better. The 10th five-year plan is a pointer. Currently, the Chinese domestic economy is highly globalized, particularly the export sector and it has a vast influence on the global economy. The question that arises is about the impact of China's economy on global trading and economic order. China has a responsibility towards global economy as well. It has to maintain many balances in the

existing global economic order. Is China feeling responsible enough? Several such issues are discussed in chapter 8.

The author looks at the various facets of Chinese economic performance and observes that the momentum of growth received further boost in the objectives and visions for the 11th plan. With the broad-based investments across the regions and economic sectors and rising per capita household consumption expenditure, the momentum of growth is likely to be sustained even beyond 11th plan period. This clearly indicates that China is destined to be Asia's largest economy very soon. However, the problems of high growth do not find much place in the book. The problems such as environment pollution, high urban-rural income disparity, urban migration, health and sanitation, besides urban housing need urgent attention. Quicker solutions to these problems make development more balanced as well equitable. All said and done, the Chinese modern economy is young-only 30 years old and has vast untapped potential. By and large, growth has so far come from a few provinces, particularly coastal provinces. They are more likely to sustain their growth momentum. The laggard ones are now getting poised to register high growth taking the lead from their better-off counterparts. This might change the current pattern of inequitable growth among the regions. This aspect is not adequately highlighted by the author. So far, the growth has been driven mainly by the industrial sector, therefore, China is known as world industrial hub. China's services sector is relatively undeveloped, which is likely to emerge as the complementary driver of growth.

China now has become a capitalist roader and is competing with the matured capitalist economies, though the Chinese leadership is loath to use the phrase 'capitalist economy. But China is a state-driven, state-managed economy. The state which is the Chinese Communist Party (CCP) for all practical purposes is determined to push the economy towards the unique model of the socialist market economy, even though the prefix 'socialist' is only rhetoric. It is difficult to find any other country, where the government is as deeply committed to economic development as in China. Throughout the process of economic transition, the CCP has demonstrated its unique ability to manage various challenges on its own. Its apt handling of international pressure for appreciation of the Yuan in the face of rising trade surplus is one of the best examples. It is indeed equally important to note the role played by the people of China. It was the people, primarily ordinary peasants who have taken up the cudgels to walk the rough road to prosperity without waiting for the government help. Similar is the case with small entrepreneurs who set up Township and Village Enterprises (TVEs). The book however does not cover what makes the Chinese people prone to entrepreneurship, but it certainly illustrates what makes China different from many developing countries.

The author rightly comes to the conclusion that at a fixed propensity to save with rising income, both savings and consumption tend to grow. This will give impetus to growth. The economy will move to the next level of development. It is not just enough to acknowledge China as the world's manufacturing hub, it is steadily acquiring technological prowess in manufacturing. What is least recognized is that, besides its

high growth, China has reached a stage in the development of its manufacturing industry, wherein it is constantly renewing itself, as it is growing in terms of the scale of production. Technological levels are improving along with new capacities. Growing savings are facilitating the process of technology up-scaling by financing indigenous R&D activities of domestic enterprises. These and several other factors are not only lubricating high growth, but also helping the economy to gain increasing competitive power.

China's globalization story is linked to the economic reform. China laid greater emphasis on foreign investments rather than on foreign aid. Foreign investments were used to obtain access to both foreign markets and technology. Currently, China is the second largest destination of foreign capital and has huge trade surplus. Both are not likely to slow down in the near future. By 2010 China may be the largest exporter of merchandise and fastest expanding domestic market. Even as growth in imports is well short of the growth in exports, the domestic market is opening-up. This would increase the foreign exchange reserves and it will give considerable clout to China in the global affairs.

The Editorial Committee wishes to thank Prof. Abhilasha Kumari, editor till the previous issue, for her contribution towards starting this newsletter and making it a regular publication. The Committee wishes her all success in the new assignment, Director, School of Mass Communication, KIIT University, Bhubaneswar.

The author makes a passing reference to the Chinese exchange rate policy. China follows a conservative approach to the currency policy. China's robust external economy and its growing reserves are destined to play a critical role in the global economic order. What role is China likely to play? This depends on its view of the world economy. As of now, there is little indication of how China would like to mould the global economy to fulfil its vision of strong Chinese economy as was perceived in 1978. It would be interesting to watch China in the years ahead.

There are lessons in China's emergence as a major economic powerhouse. The author falls short of sketching some facets though he mentions some challenges for a country like India in the global market. There are also problems in China, particularly income inequality, regional disparities and environment pollution. The government is making efforts to address them but the book only makes casual references to these.

Written in a simple language which general readers would appreciate, the book is interesting and worth reading also for scholars.

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