Chapter-10

Implications of the research study and directions for future research

work

10.0.0. The research study has clearly shown that the theory postulated by Porter (1990), that each country/nation has competitive advantage/competitiveness in certain areas can be applied to states/provinces within large countries such as India. As explained in detail in chapter 2 of this dissertation competitiveness of countries is assessed each year by the WEF using 67 criteria focusing on growth competitiveness, current competitiveness and economic creativity among other things.

10.0.1. Growth competitiveness in the context of Indian states measures' factors that contribute to the future growth of the economy of a state and why one state is growing faster than the others. It has also been shown that in India economic growth of each state and the factors which contribute to economic growth in each state are distributed extremely unevenly.

10.0.2. On this basis as explained in detail in Chapter 2 Indian states have been divided into three categories.

   (i) States which are at a lower levels of development, where the rate of economic growth/competitiveness is determined primarily by the mobilisation of primary factors of production: land, primary commodities and unskilled labour and where there is little FDI. These are the BOMARU states (as defined by Brahmananda (2000) explained earlier in chapter 5 of this dissertation) in the north and states in the north east.
(ii) States which are at a middle level of development, where the rate of economic growth/ competitiveness is income driven and where there is greater FDI. Examples are the states of Haryana and Punjab.

(iii) States which are at a comparatively high levels of development, where the rate of economic growth/ competitiveness is determined by the improved manufacturing technologies and the inflows of foreign capital and technology that support high competitiveness and economic growth. Examples are the states in the south and west of the country close to the coast of India.

10.1.0. As explained in Chapter 2 the current competitiveness index identifies factors that underpin high current productivity (and hence current economic performance) and in the context of the Indian States is measured by the NSDP per person/ growth in NSDP per capita and may be measured as a percentage of the all India average.

10.1.1. Here once again (this is explained in detail in Chapter 7) the growth figures of the RGICS study (September 2000) show that the states can be divided into three categories. viz.

(i) the laggard states with rates of growth below 4 percent. e.g. the states of Bihar, Assam, Uttar Pradesh, Orissa and Meghalaya;

(ii) the middle level states with annual SGDP rates of growth between 4 and 6 percent. e.g. the states of Haryana, Punjab, Manipur and Karnataka; and

(iii) and the high growth rate states with annual SGDP rates of growth above 6 percent. e.g. the states of Kerala, Madhya Pradesh, Tamil Nadu, Arunachal Pradesh, Goa, Rajasthan, West Bengal, Andhra Pradesh, Tripura, Maharashtra, Gujarat and Mizoram.
10.1.2. It was also shown in Chapter 7 that it is the states of Maharashtra and Gujarat
with the maximum number of areas of competitive advantage which have the highest
growth rates in the SGDP and the highest increase in the NSDP growth rate.

10.2.0. As mentioned earlier in Chapter 2 the third index for measuring the
competitiveness of an economy viz. economic creativity – where an important factor is
openness of the economy is controlled by the Government of India not being within the
control of the states, other criteria will have to be applied to measure the competitiveness
of Indian states.

10.3.0. Thus even though it is possible to judge the competitive advantage of Indian
states using similar parameters/ criteria to those used by the WEF and the IMD still some
of the criteria used for judging this competitive advantage /competitiveness will have to
be different. The study has also shown that this competitive advantage/ competitiveness
can vary significantly by region, by city/ area within the same state (and that this need not
be confined to a cluster of similar industries within a limited area but can be in a number
of industries/ services within the same geographical area) and by state within the same
country.

10.3.1. As explained in detail in Chapter 2 the World Economic Forum (2000-01) has
emphasized an important theme confronting many nations. According to this report as
countries move from resource based to knowledge based economies so do its structural
bases of global competitiveness. At low levels of development, economic growth is deter-
mined primarily by the mobilization of primary factors of production. As economies
move from low to middle income status global competitiveness becomes income driven.
Further this integration of the national economy into international production systems supports economic growth. This is also applicable to the position of India which has states at all the three levels of development.

10.3.2. As explained in detail in Chapter 2 confirmed by the figures and the discussion in Chapter 7 of this dissertation states in India can be divided into three categories viz. those that are at a lower levels of development, where the rate of economic growth/competitiveness is determined primarily by the mobilization of primary factors of production and where the FDI is not significant (examples are the BOMARU states of Brahmananda (2000) and states in the North East); those that are at a middle level of development, where the rate of economic growth/competitiveness is income driven and where there is greater FDI (examples are the states of Haryana and Punjab) and the third group of states is that which are at a comparatively high levels of development, where the rate of economic growth/competitiveness is determined by the improved manufacturing technologies and the inflows of foreign capital and technology that support high competitiveness and economic growth. (these are the states in the South and West of India).

10.4.1. This research study has also shown that the model of Porter as modified by Macmillan and Tampoe (2000) when applied (as explained in detail earlier and as summarised in exhibit 9.0) to the position of the states in India requires considerable modifications. As explained in detail in earlier, in order to take into account the peculiar conditions prevailing in India where we have a particularly strong central/federal government which not only gives funds to states but also directly (i.e. not through the
states) to Municipal Corporations/ councils/ rural local bodies, etc. Further unlike many federal polities like the United States of America (where the residuary powers are with the states) in India all the residual powers are vested in the central/federal government and this position requires to be put as a variable in the model. As mentioned in paragraph 9.6.1 In addition to the three factors, viz. lobby groups, complementors and fashion and fickleness there are other factors and many links which are unique.

10.4.2. As explained earlier lobby groups in India in the form of influential Non Government Organisations (NGOs) operate at the Central/ federal Government, the State Government, City and rural local Governments (the Village Panchayats, the Panchayat Samitis and the Zilla Parishads).

10.5.1. As explained earlier in one of the new factors to be added is infrastructure. This factor is taken up at the overall country level viz. national highways, interstate waterways and electricity grid, railways, airlines, etc.; at the level of the states viz. state highways, local waterways, electricity boards; at the city level intra city roads, water supply, local electric supply, etc. and the rural/ local level viz. major district roads, link roads, village roads, regional water supply schemes, etc.

10.5.2 As mentioned earlier in the case of India and Indian states fashion and fickleness are affected by chance and local conditions and this group of factors effects demand conditions at a local level significantly.

10.5.3. As mentioned earlier in the case of India and Indian states complementors affect demand conditions and local and supporting industries and are extremely important in the location of a business.
10.5.4. As mentioned earlier in the case of India and Indian states the Chance factor affects demand conditions, factor conditions, structure of firms and rivalry, related and supporting industries and fashion and fickleness.

10.6.1. The research study has also shown that it is possible to draw reasonably correct conclusions with regard to the competitive advantage/ competitiveness of states despite non-availability of totally accurate/ complete data as in the case of many state-wise data for Indian states. However, unlike the WEF or IMD studies this researcher has not tried to give quantitative numbers to the various indices or calculate weighted averages on the lines of Jenster because the extremely diverse sources from which the data was drawn would only permit general conclusions of competitive advantage and any detailed quantitative calculations would not change the conclusions and would require much more time than was available to the researcher for completing the thesis.

10.6.2. The research study has tried to find answers to some questions such as the model to be used for ascertaining the competitive advantage/ competitiveness of states in large countries like India. It has also tried to answer the question as to which areas in India are more competitive have competitive advantage and that there exists a North-East South-West divide with regard to competitiveness/ competitive advantage within the country.

10.7.1. The study has also highlighted the fact that competitive advantage is a relative phenomenon and a state which does not continuously strive and is able to improve faces the risk of sliding back comparatively even though it may have improved (witness the position of Kerala vis-à-vis Maharashtra in the development of HDI).
10.7.2. The study has tried to throw some light on the reasons for this uneven development in competitive advantage but has raised more questions than it has answered. Why has the north-east south-west divide occurred? Is it because the states to the south and west are closer to the sea and have therefore been able to develop exports to a greater extent because of better communications with the importing countries; or is it because of the perception of lesser corruption i.e. things get done even though there are areas of corruption in these states, whilst in others things do not get done despite pay offs as felt by this researcher, or is it because of the development of better infrastructure as felt by Dr. Mark Robinson, former Programme Officer of the Ford Foundation in New Delhi (he mentioned this on 16th October 2001 while asking a question to this researcher during his presentation on some aspects of Good Governance in Maharashtra for the International Workshop on contemporary issues in Public Policy and Governance organized by the Centre for Public Policy and Governance of the Institute of Applied Manpower Research, New Delhi on the reasons for the North-East South-West divide) or is it because of the action taken in the British colonial times to develop the infrastructure in Mumbai Port, etc has not finally been answered. It needs more detailed probing and gathering of data which was not available to this researcher despite his best efforts.

10.8.1. Due to the difficulty of obtaining data and the need for constant updating due to the intervening census there may be some contradictions in the conclusions arrived at by this researcher.

10.8.2. The broad conclusions can be used to determine the direction in which efforts have to be made to improve the competitive advantage/competitive position of states.
Whether the state should concentrate to improve the already developed areas and thus increase the already existing disparities within it or whether it should strive to improve the backward areas in the process neglecting the developed areas and losing any competitive advantage it may have over its competitors as has been tried in the case of Maharashtra where the state tried to force/persuade industries to leave the developed Mumbai-Pune-Thane-Nasik belt and shift to lesser developed areas. In the process the state did lose quite a bit of the competitive advantage/competitiveness to other states but is now regaining it with the reversal of the policy and allowing development in the city of Mumbai (at least for non-polluting and service industries).

10.8.3. The modifications suggested in the model of Porter by Macmillan and Tampoe to take into account other factors enumerated by Grove (1996) (paragraph 9.0.6) and by this researcher (Exhibit 9.0) will help to a greater extent explain the competitive advantage/competitiveness of states/cities/rural local areas but a lot of work still remains to be done to identify all the factors which lead to the competitive advantage/competitiveness of a state/city/local area. This will require more data than is currently available to this researcher despite his best efforts.

10.9.1. With the availability of additional data/inputs determination of additional variables and their quantification may be possible whereby a quantitative cybernetic (possibly a black box type where with specific inputs the exact amount of competitive advantage/competitiveness can be determined with some specificity) model for determining the competitive advantage/competitiveness of specific areas/states within a country can be developed.
10.9.2. One of the areas for future research could be finding out the reasons for the north-east south-west divide in competitive advantage/competitiveness within the country. Unless this is done we could have a situation like in China (where the coastal areas are highly advanced with a fairly high standard of living and a large competitive advantage and the interior areas like in parts of Xinjiang Province are extremely backward with very little competitive advantage) with the southern and western parts having a high growth rate, high standard of living, high per capita income and competitive advantage whilst the northern and eastern parts (with the exception of areas around Delhi and Punjab and Haryana) having a much lower growth rate, much lower standard of living, low per capita income and virtually no competitive advantage.

10.9.3. Another area for future research could be finding out how this divide within a country could be bridged. Unless there is improvement in the rate of productivity/utilization of the money being put into specific backward areas and substantial reduction in the perception of corruption with respect to these areas, it will be like putting good money after bad and without much of a rate of return for the amounts put in.

10.9.4. In addition to the reasons of better existing infrastructure the perception of greater corruption in these areas i.e. greater opacity (this is an index compiled by M/s Price Waterhouse Coopers which weighs the effects of unclear legal systems and regulations, macroeconomic and tax policies, accounting standards and corruption on the capital markets of a country on a scale of 150 (India in 2001 had an overall score of 65 whilst China had 90 and Singapore had 30 and the USA 37)) could be one of the reasons
for the existence of the north-east south-west divide in the competitive advantage/ competitiveness within the country.

10.9.5. No such index on a state wise basis has been compiled for the states within India. Even though many of the laws are all India laws, there are a considerable number of state/local laws which effect business. Furthermore even though Corporation tax (i.e. tax on companies) is a central tax still the sales tax (now value added tax) and octroi, etc are local levies which have a significant effect on the profitability of businesses. Also accounting standards may be all India standards still the perception of corruption varies from state to state. So another area of future research would be compilation of such an index on a state wise basis and finding out the effects/linkages of this with the competitive advantage/competitiveness between states and within the states in the country.
References
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