Can India replicate a ‘Make in India’ strategy similar to China’s ‘Made in China’ strategy and successfully produce and export labour-intensive goods? If one wants to answer such a question in a rigorous manner, it becomes necessary to deeply examine the underlying economic and institutional factors in the country that govern international trade and investment of firms at the micro-level. Grounded in economic theory and located in the Indian context, this book provides a systematic analysis of these underlying factors in the backdrop of local and global changes in the institutional environment. The author offers a historical perspective as he takes us through his research on this topic spanning an entire academic career.

The first section on the pre-reform era (1950s–1990s) is a monograph deriving largely from the author’s doctoral thesis on firm size and international trade. The second section builds on the first and extends those theoretical foundations, treating them as initial conditions for the post-reform era (the 1990s onwards) for the Indian institutional environment. The book’s central thesis is that domestic market’s structural dynamics determines international trade and investment behaviour of firms. This book is helpful as it helps to extrapolate towards a more precise understanding of the possible opportunities and implications of India’s global integration in the future.

The author subscribes to new institutional economics perspectives advocated by the late Nobel prize–winning economist Oliver Williamson. The new institutional economics (NIE) is a fertile field that promises deliverance from the excesses of microeconomics yet retaining its time-honoured benefits (Coase, 1998; North, 1991; Williamson, 2000). Broadly espousing that institutions matter to economic performance, NIE encompasses subfields such as transaction cost economics, property-rights analysis, public choice theory, constitutional economics, the theory of collective action, the principal–agent approach, the theory of relational contracts and comparative economic systems (Furubotn & Richter, 2008; Richter, 2005).

I would consider this book useful mainly for strategy and international business scholars and policymakers, but to some extent, it is also thought provoking for practitioners of international
business. The book is a rigorous scholarly work, and rarely has there been such a treatment of the Indian institutional environment comprehensively examining the past, present and future. My review adopts the perspective of an international business scholar and teacher, with an understanding of the transaction cost economics paradigm and some degree of familiarity with industrial and new institutional economics.

**SUMMARY OF THE ARGUMENT AND EVIDENCE**

**The Pre-reform Era**

The first part of the book deals with international trade behaviour of firms in the pre-reform era, when the economy had not opened up to international investment. International trade was the only component of international business in India. This section consists of an introductory chapter, followed by the second chapter consisting of a detailed review of the literature. The third chapter details the analytical framework and qualitative observations characterizing the model. The fourth and fifth chapters are empirical analyses of international trade behaviour and efficiency considerations of 132 firms from India’s engineering industry.

International trade and investments is argued to be a major source of economic growth for several developing economies such as South Korea, Taiwan, China and East Asian countries. The historical analysis for India begins with the institutions of capitalism inherited from British rule, followed by Fabian socialist policies adopted after independence, early select reforms in the mid-1980s followed by major internal and external reforms in 1991 that were implemented due to the balance of payment crisis. The entry of multinational firms into various sectors improved domestic competitive conditions. The international trade behaviour of small and large firms in the 1980s, facing differential transaction costs, is examined in-depth in this section. The relationship between firm size and international exports forms the core of the author’s research thesis. I could locate one statement that captures the essence of this very detailed section: On page 9, the author explains that the ‘market structure in terms of firm size asymmetry has important implications on the technological behaviour, scale economies, and strategic rivalry between large and small firms and, in turn, on international trade behaviour’.

Chapter 2 provides a good summary of the theories of international trade, ranging from those of Ricardo, and Heckscher and Ohlin on the comparative advantage of nations, to intra-industry theories of multinational firms trade by Hymer’s (1960) intangible assets theory, to those based on technology, product cycle, scale economies, and concluding with a note on the New Trade Theory, pioneered by Melitz (2003) and others, according to which firm-level heterogeneity in technology and productivity within industries matters. Chapter 3 proposes a model that combines the classical structure–conduct–performance paradigm with Melitz’s argument of firm-level asymmetric advantages specific to Indian institutional conditions. In short, large firms derived long-run market power in the domestic market through increased efficiency, leading them to a domestic focus. In contrast, small firms faced severe competitive conditions and high transaction costs of doing business, both in product and factor markets, resulting in the small firms lowered domestic comparative advantage and increased specialization and focus on exports. These hypotheses are tested in a cross-sectional study of about 100 firms in three different periods in the pre-reform era in Chapter 4 and confirm a systematic negative association between firm size and export intensity. Chapter 5 brings forth technical and allocative efficiency variables to empirically examine their effect on firm-level exports and finds that within a group of large firms, relatively inefficient and capital-intensive firms undertook export.

**The Post-reform Era**

Part 1 ignored international investments as in most industries, transnational corporations (TNC) were not allowed to operate in the pre-reform era. International investments are seen to expand (inter-industry) or substitute (intra-industry) international trade. The second part of the book subsequent to the liberalization reforms consists of an introductory chapter also including a brief literature review, followed by Chapter 7 on the extended theoretical model building incrementally from the first part by incorporating the presence of foreign TNCs with intangible assets and resultant changed competitive behaviour of domestic firms. Some of the assumptions and institutional conditions are relaxed from the first part. Chapter 8 is an empirical test of the model, Chapter 10 is a detailed commentary on Indian multinational firms, and then the book concludes. This section is relatively smaller but richer in implications and builds on foundations laid in the book’s first part. The traditional transaction cost–based theoretical perspectives in international business are acknowledged, from Hymer’s arguments to Dunning’s (1988) eclectic ownership–location–internalization (OLI) paradigm and global supply chain perspectives of Spence (2011).

The wide-ranging impact of reforms is analysed on new entrants, organizational structure, buyer–supplier relations, capital markets and venture capital, labour markets, final goods markets, entrepreneurship and
emergence of start-ups, and the nature of late-stage start-up funding in India as a barrier to innovation. Summarizing the model, on page 172, the author states:

The entry of new firms, especially TNCs, increases the number of firms but also results in technology and organizational heterogeneity such as the ‘New’ Trade Theory. This, in turn, increases possibilities for benchmarking and increases the opportunities for imitation by relatively inefficient firms. Furthermore, the relative advantage of TNCs in intangible assets could be diverse, differentiating TNCs within an industry. For example, the unique intangible assets and organizational practices of managerial and vendor development of the Japanese and South Korean firms might be distinct from the American and European practices. Local firms had to assess which practices are more suitable for them to accomplish domestic and international competitiveness.

This indicates the externalities to firms from intangible assets that can have public goods properties. The costs of production are analysed as a function of technology, organization, economies of scale and economies of specialization and externalities.

A large number of examples enrich the explanation of the model in Chapter 7. The Maruti and Suzuki joint venture, TELCO’s relations with suppliers, Mahindra and Mahindra’s indigenous development of the Scorpio van by purchasing the Italian design, locational advantages exploited by Ford and Hyundai near the Chennai port, the creation of an automotive supplier network in Chennai, outsourcing practices of TNCs leading to the development of a three-tier system of supplier firms and agglomeration into clusters. ‘Cluster activity can result in collective efficiency and reduce transaction costs of contract formulation and enforcement through repeated interactions’ (p. 188). The formation of clusters also covers the dynamics of the Bangalore software cluster.

Chapter 8 reports the econometric analyses of firm-level panel data for three industries: two-wheelers, automobiles and auto components for the post-reform era, taken from Centre for Monitoring Indian Economic Economy’s PROWESS database from 2007 to 2018. The results are somewhat mixed across industries, but in general firm-level technical efficiency is explained by the degree of vertical integration, indicating that the Indian economy is still a high transaction cost one, with firms preferring in-house control of technology-intensive processes. Another important result is that international trade activities seem to result in strong positive externalities, as hypothesized earlier.

Chapter 9 is an interesting short note on the emergence of Indian multinational firms in the global arena. It dwells on how these firms such as TCS, Wipro, Infosys in software, Reddy Labs and Ranbaxy in pharma, Bharat Forge in metals and Tata group have the potential to shape the world economy. The concluding chapter provides a crisp summary of the entire book.

EVALUATION AND COMMENTARY

While non-economists may criticize the reductionist treatment that neatly fits everything to the prescribed theory, there is certainly something to be said for the simplicity and coherence of the explanations. Moreover, new institutional economics has a much broader sweep of the phenomena, unlike more traditional economic lenses. Several theoretical lenses have been employed in the book, mostly within the transaction cost economics family, and there is a general overarching agreement with the ‘New’ Trade Theory explanation throughout the book. Trade increases when there is firm-level heterogeneity, i.e. increase in the number and types of firms such as TNCs, new entrant Indian firms, and internal and global supply chains between local and multinational firms, causing B2B and B2C transaction costs to decline and leads to expansion of economic activity. This book, therefore, makes the case for opening up the economy to global integration for overall economic growth. In doing so, it also assumes subtly the superiority of foreign technology and knowledge and that firms from emerging markets are always catching up, which is a criticism of much of the international business literature as well.

Williamson (2000), in taking stock and looking ahead for the new institutional economics, organizes institutions across four levels of social analysis. Level 1 represents social embeddedness, where the norms, customs, mores, traditions, religion and the like are located; institutions at this level change very slowly in the order of centuries or millennia. The second level is referred to as the institutional environment. The structures observed here are partly the product of evolutionary processes, but design opportunities are also posed. Level 3 is where the institutions of governance are located. The fourth level is the level at which neoclassical analysis works. The book primarily addresses level 2 and its implications for level 3. For a country like India, which has a great deal of heterogeneity in level 1, it may be worthwhile to attempt some acknowledgement, if not treatment, of these institutions, given the powerful scope of new institutional economics.

Chapter 9 is highly promising for further theory development, and it would have been desirable to have more elaboration on some of the author’s thoughts. For instance, on page 203, the author mentions that the learning–leverage–linkage framework of Mathews (2006) needs to be combined with Hymer’s intangible assets theory to understand Indian firm’s ability to both compete with and learn/leverage/link from local firms in developed economies. This could be an independent
research paper and a significant contribution to the unique theorization for emerging market multinationals. The sources of competitive advantage of Indian firms are reviewed in the extant literature; however, this could have been more exhaustive as it is a very valuable and important question that remains unanswered.

The chapters of the first section are rigorous and theoretical, and with minute details of econometric tests that should make interesting reading to students comfortable with microeconomics. A basic understanding of the concepts of microeconomics is a prerequisite to understanding the model in the first section, but the rest of the book requires only a preliminary understanding of transaction costs and the role of institutions. The literature review that builds upon the relevant theories and the research findings are of immense value to international business scholars and policymakers.

Several equations and daunting graphs make Chapters 3, 4 and 5 intimidating to a lay reader, but the author summarizes and reiterates the findings in the qualitative commentary and also provides several real-life examples to illustrate his point. The examples are not one-sided or eulogizing global integration, for instance, negative externalities are discussed equally well, such as the significant ground and river water pollution by concentrated clusters of small-scale firms belonging to a particular industry and concentrated in certain geographies in India.

The introductory chapter contains a brief comparative analysis of China and India, but the rest of the book mostly deals only with India until the concluding chapter revisits the country comparisons. The concluding chapter could also provide more detailed implications for policy. There is some indication on the role of the state in education, employment generation and income disparity, but given the rigorous study and interesting findings of this research, it would have been delightful to have more specific recommendations for policy and practice.

As an international business scholar, I enjoyed reading this rigorous treatment of a contemporary and relevant topic on India. I look forward to my students debating some of the hypotheses from the book in my upcoming international business class.

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