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Balancing Global Pressures and National Priorities in India's Textile and Pharmaceutical Industries

Increased integration of the global economy and the governance of international trade through supra-national institutions have meant that institutional norms at the global level impact national economies. This study examines how India's textile and pharmaceutical industries coped with two global institutional changes implemented by the World Trade Organization (WTO) in 2005. WTO member countries agreed to adopt the Textiles and Clothing (ATC) and Trade Related Intellectual Property Rights (TRIPS) agreements on 01 January 1995, which were to be phased in over the next 10 years. The ATC abolished the quota regime governing global trade in textiles since 1974, while the TRIPS agreement called for a common global regulatory framework for intellectual property protection that required member countries to protect product and process patents for 20 years. The two agreements were part of a 'North-South grand bargain,' whereby developing economies gained concessions in sectors such as textiles and agriculture where they had natural, historical advantages. In turn, these countries accommodated the needs of developed countries in areas of intellectual property and services.

India was one of the few countries with a substantial presence in global trade in the textile and pharmaceutical sectors before 1995. Historical advantages in India's textile industry were built on the strength of the country being a major producer of raw materials and the ability to convert the materials into yarn and cloth. On the other hand, the Indian pharmaceutical industry grew due to domestic regulatory interventions in 1970 that recognized process rather than product patents, thus allowing local firms to reverse-engineer existing drugs through different processes. Both industries were of critical importance to the Indian economy on multiple fronts. The textile industry provided employment to large numbers of people, while the pharmaceutical industry contributed to societal health through affordable access to crucial drugs for the domestic population as well as for people in other developing economies. The export success of both industries was also essential for the state to maintain foreign currency reserves.

Changes imposed by the WTO, which prioritised efficiency-based competition in textiles and product innovation-based intellectual property rights in pharmaceuticals, altered the 'rules of the game,' and had the potential to disrupt India's existing advantages in the two industries and its position in global trade. The main argument developed in the study is that coping with these shifting global competitive landscapes, while at the same time preserving the industries' historical economic and social contributions, necessitated a systems approach comprising the state, industries, and firms. Using multiple sources that



Handlooms in rural Punjab. Preet Aulakh photograph

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include policy documents, industry reports and firm level data, the study maps out the workings of the institutional system of each industry from 1995 to 2020.

A key finding is the important role of the state in shaping the pathways through which each industry responded to the respective global change. Through various schemes, Indian governments provided direct resources for technology upgradation (textiles) and R&D (pharmaceuticals) of individual firms as well as for the development of clusters and industrial parks to facilitate knowledge transfer in each industry. Equally important were the regulatory changes initiated in each industry through negotiations and consultations between the state and industry associations that facilitated organizational access to international resource and product markets. These resources and regulatory changes helped both industries stave-off the global challenges and maintain their respective positions in global markets.

The study also finds that while state policies encouraged the upgradation of Indian firms' capabilities in both industries to effectively compete in global markets, the policies were also cognizant of the domestic welfare implications. Accordingly, the state put constraints on how resources would be allocated to different segments of the textile industry to ensure that small-scale sectors (e.g., handloom and powerloom) continued to remain viable in the new competitive context. Similarly, there were regulatory interventions through price controls of important drugs in the pharmaceutical industry to ensure affordability and accessibility in the domestic market. These constraints explain the contrasting pathways followed by each industry in its response to global changes. Two contrasts are noteworthy.

First, in the textile industry, much of the adaptation was through organic growth which entailed investments by Indian textile firms in upgradation of capabilities, with reliance primarily on domestic resources provided by the state. The pharmaceutical industry, in contrast, followed a different path of inorganic growth. This entailed both domestic and international mergers and acquisitions with foreign pharmaceutical companies, as well as becoming part of existing production networks of established multinational corporations and undertaking contract manufacturing and/or contract research for the foreign firms.

Second, in terms of accommodating competing welfare-efficiency goals for the two industries, the pharmaceutical industry was simultaneously able to achieve both affordability and innovation because of the possibility of price arbitrage across country markets. On the other hand, the textile industry fulfilled the employment goals through cross-segment adjustments whereby some segments sacrificed productivity to maintain employment while others sacrificed employment to increase productivity.

By critically evaluating the effectiveness of different policy instruments to enhance competitiveness in global markets of local firms and industries while preserving their contributions to economic and social welfare, this study provides useful insights for public policy choices in finding a balance between serving local and global markets, and between welfare and efficiency.

This brief summarizes some of the findings from the book, Coping with Global Institutional Change: A Tale of India's Textile and Pharmaceutical Industries (New York: Cambridge University Press, 2022). The research was supported through the SSHRC Insight Grants Program.