

**Gurli Jakobsen and Jens Erik Torp (ed.).** *Understanding Business Systems in Developing Countries*. New Delhi: Sage Publications, 2001. Paperback. 260 pages. Indian Rs 225.00.

Edited by Gurli Jakobsen and Jens Erik Torp, *Understanding Business Systems in Developing Countries* strives to do just that by presenting the views of scholars in the field of development economics. Analyses of developing business systems at the international, national, and sector levels provide the reader with significant insight into how economies actually function. The dominant paradigm within which these analyses take place is that of growth-oriented capitalistic development.

Richard Whitley's study of emerging capitalistic economies and Henrik Schaumburg-Mueller's study of firms in the developing world represent the international level studies. Their overviews provide some interesting perspectives on the response of the private sector to structures at the national and international levels.

Whitley, for example, observes that the opportunistic behaviour exhibited by élite classes in the developing world has its origins in the transformation in loyalty patterns driven by changes in the economic and social structures of their societies. An arbitrary and erratic state makes it very difficult for domestic private sector firms to become large and efficient enough to be internationally competitive. On the other hand, Schaumburg points out that in an increasingly global economy, only those firms that are internationally competitive will thrive.

Given that a thriving private sector increases the taxable wealth available to a state, it is in the interest of both entrepreneurs and policy-makers in the developing world that a *concordat* be reached. Such an understanding, however, is possible only if there is a sustained dialogue between all parties concerned.

The need for greater understanding between the state and the private sector is highlighted by the country studies. Mark Holmstrom takes a look at how business systems in India have evolved through time and what strengths and weaknesses exist in the Indian way of doing business. The mode of analysis adopted is that of viewing India's business system in a dualistic manner. This approach reveals that there exist relationships characterised by both competition and cooperation between the rural/urban, public/private, large-scale/small-scale, and national/international sectors and actors.

Distrust of Multinational Corporations (MNCs) runs high and large-scale manufacturers (LSMs) have resorted to subcontracting to small-scale manufacturers (SSMs) in order to circumvent government legislation. Furthermore, the dominant family ownership pattern makes a great deal of the firm's success dependent on domestic politics and intra-familial relationships. With the progressive dismantling of the Nehruvian Licence Raj "...the logjam has broken..." but "when this will lead to better work, incomes, and welfare for the mass of Indian people is another question". (p. 64).

The other country study, which deals with the institutional context in which Ghanaian firms operate, is co-authored by Olav J. Sorensen and John Kuada. The authors begin with the premise that "...national recipes of successful economic growth emerge on the basis of an irreplaceable chain of fortuitous local circumstances". (p. 163). Ghana's local circumstances, however, can not be described as even remotely fortuitous.

The development process, which was both socialistic and import substitution-oriented, stalled in the 1970s and 1980s. Kinship relations, overstuffed and hastily created enterprises, rampant corruption, and the constraints inherent in the socialist/populist mode of policy planning all contributed to the slowdown.

Ironically, deterioration in the quality of life for public sector employees has led quite a few of them to enter the private sector. This was relatively easy for them since they had access to public resources and could bypass cumbersome legal formalities by using their connections. Regrettably, Ghana's exporters, even with the backing of an Export Promotion Council (EPC), cannot influence the terms of exchange and have great difficulty adapting to the requirements of the foreign business systems they seek to trade with.

The sector studies of the Malaysian auto industry and the Korean electronics industry, by Peter Wad and Dieter Ernst respectively, shed light on the linkages within and across business systems. Both studies are very useful as they show how everything from local culture to state policies can influence the competitiveness of individual sectors of the economy.

In the case of Malaysia "...the auto industry is a playing-ground for the overall development strategy of ethno-economic restructuring that has been rather successful". (p. 124). The policy followed by Malaysia in the auto industry is that of import substitution industrialisation (ISI) backed by strong state support for Bumi businessmen in the auto sector. By 1986 Malaysian auto assembly companies were under the control of domestic interests. Research and design capability, however, remains elusive and in the aftermath of the 1997 economic crisis is not likely to materialise any time soon. Furthermore, like all other Asian countries except for South Korea and Japan, the Malaysian auto industry is not export competitive.

Ernst's case study of the Korean electronics industry provides some clue as to how South Korea has managed its nearly miraculous late industrialisation. At the heart of the Korean strategy has been the effort that the learning and manufacturing process is indigenous. At the same time, South Korea's state-supported, vertically integrated, oligopolistic economic structure lends itself to quickly establishing economies of scale, which are absolutely vital in the electronics and automobile industries.

Although South Korean designs are inferior versions of their Japanese counterparts, lower costs enable them to compete successfully for markets. Now some South Korean conglomerates have made the leap from manufacturers to

producers and marketers of globally recognised brand names such as Sam Sung and Hyundai. Through a combination of reverse engineering and using advantages on the production side, South Korea managed to break the Japanese stranglehold over the global semi-conductor market.

Ernst rightly observes that the South Korean is very good at catching up. Having levelled the playing-field, however, the old-fashioned centralised research method used by the conglomerates is stifling innovation. The contrast with America and Japan, where research is much more decentralised and management techniques more flexible, is very great indeed. Furthermore, the underlying reasons that were the driving force behind Korean industrialisation can no longer be sustained under the present circumstances.

Another major Asian country that has experienced serious difficulties due to its institutional structures is Indonesia. Although Martijn F. L. Rademakers and Jos R. van Valkengoed limit their study of Indonesia to the *jamu* or traditional medicine industry, they make several interesting observations.

First, the Javanese dominate politics while those of Chinese origin dominate the economy. Second, in the absence of a reliable legal system, reputation determines the level of trust between firms. Third, collectivism is restricted to the community level while authority at all levels is highly personalised in nature. Last, state-business relations are characterised by patronage practices, a lack of risk-sharing, and a need for licences.

The principal strength of the book under review is that it studies a variety of economies at multiple levels and clearly establishes the importance of the institutional and social context to economic development. Much of what is written about India, Ghana, and Indonesia is of direct relevance to Pakistan given that it has been unable to take off like South Korea or even Malaysia.

The language used, though at times cumbersome, is what one has come to expect in articles and papers presented at seminars attended principally by specialists. Overall, *Understanding Business Systems in Developing Countries* is a useful and interesting addition to the growing volume of literature related to Development Economics.

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