MARKET REFORM AND ECONOMIC GOVERNANCE IN ASIA (PP-267)

Instructor: Chiranjib Sen (PTVF, Public Policy Group)

I. Course Objectives:

This course will discuss the relationship between economic growth and institutions in the era of market reforms. Markets are embedded in institutions. As the economic role of the government changes, these institutions must also adapt. The institutions of policymaking, regulation and promotion play a key role in enabling markets to function effectively. The course will focus on the contemporary experience of selected Asian countries that have attempted to transition to a market economy after decades of dominance by government in the economy. The empirical analysis will focus on countries that combined capitalist economic systems alongside an activist developmental state, i.e., India, S. Korea, Japan, Singapore and Taiwan.

The aim of the course is to:

- Provide a perspective on past three decades of economic policy in the Asian region. These countries provide interesting contrasts in the way in which erstwhile state-dominant economies have adapted: (a) their policies from economic nationalism to engaging with globalization, and (b) adapted institutions to enhance the role of markets vis-à-vis the state as allocative mechanisms.
- Examine through a political economy lens the evolving relationship between governments and business enterprises, and the associated policy and institutional transitions.
- In the context of enabling markets, examine the following selected set of three sector-specific policy challenges and the institutional reforms that are needed. We shall examine the current Indian context in these areas, and analyze the comparable experience of other Asian countries, to seek possible policy lessons:

  a. Large Private Manufacturing Industry: The relationship between large private enterprises and government, the changing character of policy making institutions and the institutional response to the threat of crony capitalism.
  b. Public Sector Natural Monopoly Industries: The evolution of independent regulatory and audit institutions where the private sector is inducted, public assets are privatized, and markets established. (The case of Indian coal and telecom spectrum allocation)
  c. Private Participation in the Social Sector: (The case of Higher Education). This sector is characterized by the rapid growth and the marked rise of private providers. This sector has traditionally been dominated by public academic institutions. The entry of private players has impacted equity of access and quality.

II. Outline of Session Themes (10 sessions):

Session 1:
• Economic Nationalism, Policy Institutions and Markets in the Pre-Reform Era in Asia (1960-90)—A Comparative Overview
  o Dynamic Comparative Advantage and Strategic Capitalism in East Asia
  o The Institutional Structures of the Developmental State—Comparing India with S. Korea, Taiwan, Japan

Session 2:
• Growth and Structural Transformation in Asian Economies
  o Contrasting patterns of growth and structural change
  o India’s “stalled industrial transformation” vis-à-vis other structural evolution of other Asian economies
  o Differential performance and dualism among formal manufacturing enterprises
  o Business environment and governance as determinants of manufacturing performance
  o Weak governance as a key cause of India’s relatively weak performance

Session 3:
• Business, Government and Policymaking—Case Study of S. Korea
  o The rising economic power of big business and its impact on the autonomy of the state 1960-90
  o Restructuring the economic system following the East Asian Crisis
  o Lessons from the Korean experience with business-government relations
  ▪ Corruption and policy capture

Session 4:
• Market Reform in Asia and the Transformation of Economic Policymaking Institutions
  o The Washington Consensus Reform Model and the Role of the State
  o Changing Role of Indian Planning Commission, Korean Economic Planning Board, Japanese MITI,
  o Retaining Strategic Policymaking in the Era of Globalization
  ▪ Case Study: The Incheon Free Economic Zone (S. Korea)

Sessions 5 and 6:
• Governance of Private Sector Access to Publicly Owned Natural Resources
  o Weak Governance and the threat of crony capitalism
  ▪ Case Study of the Coal Block Allocation Controversy in India
  ▪ The Capture of the Policy Process
  o Crony Capitalism and its Structural Determinants
  o Strengthening Economic Governance
  ▪ Core Design Principles:
    • Rules-based vis-à-vis Relations-based governance
Applications:
- Strengthening Policy Making Process
- Strengthening Audit Institutions
- Lessons from E. and SE Asia

Sessions 7 and 8:
- **Independent Regulatory Institutions in Asia**
  - Indian Independent Regulatory Institutions—an assessment
  - The Evolution of Indian Regulatory Institutions via interaction between the policy process and the legal process—Case Study of the Indian Telecommunication Sector (TRAI, TDSAT)
  - Regulatory Design and Experience of selected Asian Countries—a Comparative Perspective
  - Strengthening Regulatory Institutions

Sessions 9 and 10:
- **Higher Education Policy, Roles of Public and Private Providers and Governance**
  - The strategic importance of higher education in the Knowledge Economy
  - Rising demand and the growing private participation of higher education services
  - Different categories of higher education providers and the varying institutional motives
  - Balancing the requirements of Quality-Quantity-Equity
  - The shortage of teaching faculty and policy suggestions
  - Opportunities and challenges of globalization of higher education
  - Lessons from the experience of Asian countries

III. **Recommended Readings (Tentative):**


Dreze, Jean and Sen, Amartya.*An Uncertain Glory—India and its Contradictions*, Oxford University Press, Allen Lane, 2013 (Chapter 3: India in Comparative Perspective, and Chapter 4: Accountability and Corruption)


Sen, Chiranjib. “Curbing Crony Capitalism in India”, Paper presented at the 11th Annual International Conference on Public Policy and Management, organized by the Centre for Public Policy, Indian Institute of Management Bangalore, 8-10 August 2016

Sen, Chiranjib and Balasubramanian, N. “Regulation in Corporate Governance and Elsewhere”, in Balasubramanian, N. and Satwalekar, D.M. Editors, Corporate Governance—An Emerging Scenario, National Stock Exchange of India, 2010.


Yergin, Daniel and Stanislaw, Joseph The Commanding Heights-The Battle Between Government and the Marketplace that is Remaking the Modern World, Chapter 5 (Crisis of Confidence-The Global Critique), and Chapter 13

IV. Pedagogy

The pedagogy in this course will be based on the following elements:

- lectures (which will follow a set of circulated presentation slides);
- discussion on selected video-clips, including from the PBS documentary Commanding Heights;
- discussion of specific case studies (coal allocation scam, telecommunication spectrum allocation and evolution of regulatory institutions, TRAI, TDSAT);
- students will work on individual term papers for which there will be time for discussion with instructor outside the class room. Students will be encouraged to choose term paper topics that will enable them to understand the context and dynamics of contemporary economic governance institutions in the light of comparisons with Asian economies.

V. Evaluation Method

- Term paper: 50%
- End Term exam: 35%
- Class Participation: 15%