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The transformation of Indian business: from passive resisters to active promoters of globalization.

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1 . Introduction – an Indian paradox.

In the international debate on the introduction of economic reforms of the Washington Consensus type in developing countries (Williamson 1993) it has often been noted that one important source of resistance to the introduction and implementation of reform policies would be established domestic business interests. The local industry in particular would in many countries owe its existence and prosperity to different forms of protective, state-directed import-substitution policies and the opening up of the economy that the reforms entail would pose a severe threat to the local business community, hence their reluctance to support reforms.¹

India was earlier seen as a prime example of a misconstrued economic strategy of reliance on state controls and protectionism of all kinds resulting in unproductive, rent-seeking behaviour of firms (Bhagwati 1993). India was furthermore - and perhaps for precisely this reason - seen as an extreme example of the reluctance to reform and most observers expected Indian industry together with other well-established local interests to vigorously oppose the introduction of reforms.² Researchers specializing in Indian affairs were also largely agreed in expecting this outcome. Several contributions discussing the half-hearted nature of those early reforms that were introduced under prime minister Rajiv Gandhi (1984-89) were unanimously of the opinion that a major hindrance for the implementation of liberalizing reform policies was the resistance offered by powerful domestic business interests who might well be interested in a higher degree of freedom from state regulation in the domestic market but who feared competition from abroad should barriers against imports and foreign investments be reduced or lifted completely (Kochanek 1986; Harriss 1987, Manor 1987; Kohli 1989; Nayar 1990:84-85). Their assessment was based on a perception that Indian business would not be strong enough to compete with potential foreign competitors and that they wielded a decisive influence over government policies. In this, they tended to follow Pranab Bardhan's influential analysis of the 'dominant' classes in the Indian political economy, in which the local

¹ See for instance contributions in Nelson et al. 1989.

² A slight digression. The World Bank had in the mid-60s attempted to introduce market oriented reforms in India, but had met with little success. The lessons learnt from that episode were later summarized in this way: "Economic liberalisation remains a sound, and indeed necessary, set of policies for development; the power to grant or to withhold aid money can be used, and should be used, to induce governments to liberalise their economies; but not, perhaps, in India". Mosley et al. (1991:29).

(industrial) business class was seen as one of three dominant classes (Bardhan 1984). Bardhan's analysis was essentially an attempt to explain why major policy changes were unlikely in India given the composition of its political economy and indeed the position of business.

Even after the major policy changes in 1991, a few events during the 1990s only reinforced this image of Indian business being relatively weak and afraid of meeting foreign competition. In 1993, a group of prominent Indian businessmen – the so-called 'Bombay club' - met in Bombay to issue a strong protest against the manner in which the government's new policies had created what they termed an 'uneven playing field' in which foreign companies could easily out-compete or buy-out local Indian companies. Later, in 1996, the secretary-general of the very influential Confederation of Indian Industry (CII), Tarun Das, issued a statement in which he offered a strong criticism of the 'cowboy' behaviour of certain foreign multinational corporations who – in his opinion – had taken undue advantage of the liberalized environment to 'bully' local companies. These high-profile voices of the Indian business class certainly reinforced the picture of a vulnerable interest group eager to seek public support against stronger foreign competitors.³

The Indian paradox arises when we look at the policy changes subsequent to the limited reform measures in the mid-1980s and the dominant explanations for why they remained limited. Despite the predictions from well-informed observers, the Indian government did initiate comprehensive economic reforms, starting in 1991, and the reforms included significant liberalizations of the external control regime, opening up for increased imports and for foreign investments. And despite predictions (and fears) to the contrary, domestic Indian companies have continued to thrive under the new policy regime to such an extent that they increasingly have ventured abroad into the global markets, including the key markets in the US and the EU. We thus have a double paradox: Despite predictions to the contrary, 1) policy reforms were initiated and carried through, and 2) Indian business enterprises did not wither away; on the contrary many became globally active. This double paradox raises some intriguing question: Why were the reform initiated in the first place and what was the role of domestic business, if any, in this process? Why was Indian business able to manage so well in the new policy environment, when they were supposed to be unable to do so, given their long period of sheltered existence?

³ Both incidents were extensively covered in the local press. See for instance *India Today*, November 15, 1993, and *Business India*, April 8-21, 1996. See also Nayar (1998) and Kantha and Ray (2006:172-173)

The conventional answer to these questions (slightly caricatured) runs like this. The reforms were initiated by a small group of intelligent, benevolent and farsighted politicians and/or bureaucrats who acted according to the prevailing economic orthodoxies (and with a little push from friendly international financial institutions in the crisis situation) in opening up for the dynamic play of market forces. Market forces then quickly provided the incentives for local business to restructure and make their business more efficient, and as the incentives worked their wonders, Indian business (like any other business would have done) started to expand, even across India's borders.⁴

In this paper I will try to provide a set of different answers to the above questions through a closer investigation of the role of Indian business as both an influence on the policy changes since the 1980s and as a recipient to the new policy regime, which changed the setting in which business operates. The structure of the paper is inspired by the broader theoretical discussion of the different roles business may perform in developing countries. According to Haggard, Maxfield and Schneider (1997) business can be studied in five different ways: 1) as capital, 2) as an economic sector, 3) as a corporate organization, 4) as an association, 5) as individual managers. In this paper where the focus is on the role of Indian business in the process of economic reforms, I propose to simplify these approaches into two main theoretical viewpoints. This is inspired by, but not fully identical to that of Charles Lindblom (1977: Ch. 13), who argues that business almost by default has a privileged position in a market-based society. On the one hand, business – if organised – is one among several interests groups, whose activities influence government policies. On the other hand - and this is what makes it a privileged group – private business is a constant influence on governments because of its privileged economic position, in particular its control over investment decisions. Whether business is organized or not government officials will recognize the necessity of adapting public policies to the needs of business. A first way of investigating the role of Indian business then is as capital, i.e. as a structural phenomenon that may evolve over time in its various characteristics, including sector distribution, technological sophistication, size distribution, geographical distribution and different forms of corporate organization. Such an investigation may also indicate the economic strength of Indian business vis-à-vis other economic structures, including those of foreign business. The second way of investigating the role of Indian business is to see it as an actor, primarily as a collectively organized interest group that tries to influence the

⁴ For a popular version along these lines, see Das 2002.

policies of the government, participates in formulation and administration of policies and also mediates between the government and individual companies.

2. Business as capital: the evolution of the structural position of Indian business.

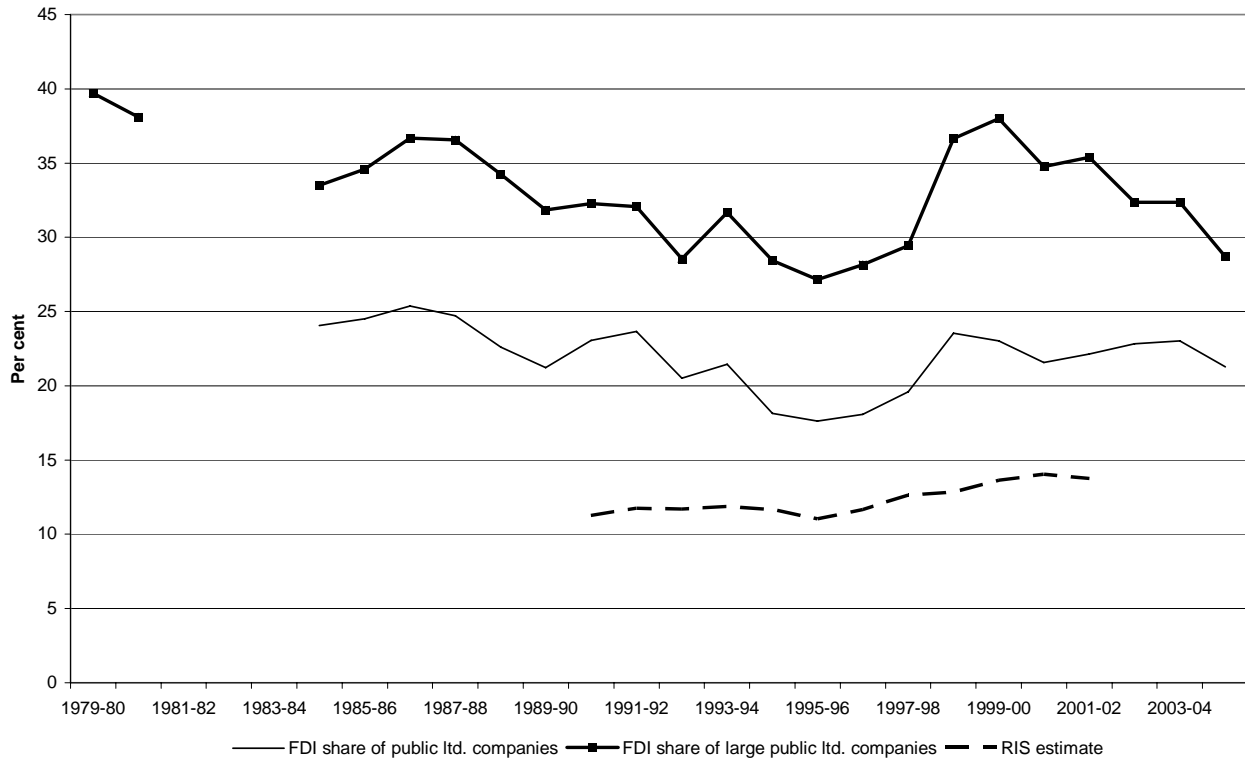
Three aspects of the structural position of Indian business will be covered here. One is the position of Indian business in what in a different context has been termed the 'triple alliance' between local private business, foreign private business and state owned enterprises – the three major ownership based groupings within the industrial economy (Evans 1979). A second aspect concerns the evolution and growth of private capital, including considerations over its technological and organizational sophistication and its sustainability as business, i.e. its ability to earn a profit. The third aspect concerns the organisational features of Indian business; in particular its organization in large family owned and managed conglomerates. Combined, these features may give an indication of the strength of Indian business. The focus for the discussion will be on the 1980s and 1990s and into the 21st century, but in order better to evaluate changes over time, data from earlier periods will occasionally be presented. The central question to be answered is whether Indian business could be rightly characterized as weak and uncompetitive in the period before the economic reforms of 1991, and what the subsequent development has demonstrated about the character and strength of Indian business.

As intended by the government of the newly independent India, Indian business developed significantly during the long period of import-substitution strategy starting in the early 1950s. Foreign firms had at the time occupied a dominant position in the industrial sector as well as in mining, plantations and trade but a deliberate government strategy had through the deployment of a variety of different instruments succeeded in reducing foreign dominance in most sectors, including many of the new industrial sectors that had been promoted through import-substitution. Especially since the late 1960's, the government had aggressively promoted national control over economic assets through nationalizations in key sectors like oil, banking, textiles and others, and through the Foreign Exchange Regulation Act 1973, which stipulated a reduction in foreign ownership to less than 40 per cent of the share-holding of private companies in many industries, although exceptions were allowed in many cases, especially in high-priority or high-technology sectors. In addition to

the restrictions on existing foreign enterprises, these policies had also discouraged prospective foreign investors, resulting in a decline in inward investments. As a result, the foreign share of industrial activities had declined somewhat by 1980, although some estimates report a smaller decline than expected (Kumar 1994:52-60; Athreya and Kapur 2001:407-408). Foreign companies had even been strengthened marginally in some sectors.

During the 1980s, a different pattern emerged. The Indian government started slowly to liberalize the rules regulating economic activities, mainly the domestic activities, but there were also some relaxation of the rules governing foreign investments and import of technology (Kumar 1994:30-31). As a result, foreign investments, and especially foreign technological collaboration agreements increased quite dramatically; collaboration agreements in the early 1980s and direct investments in the latter part of the 1980s. The interesting part of this story is that despite the increased opening towards foreign investments, Indian business seems to have managed quite well during the period. According to some estimates, the Indian controlled share of the corporate sector actually rose (and the foreign share dropped) during this period (Athreya and Kapur 1999; Athreya and Kapur 2001:408). This would be a first indicator that Indian companies might be capable of managing in an environment with increased competition from international companies. These estimates are in line with my own estimates based on company studies published by the Reserve Bank of India, cf. below.

Figure 1. Estimated share of foreign companies in sales of the corporate sector.



Note: The shares are calculated for each year as the share of the average value for the sample of foreign direct investment companies in the combined average value for the samples of public limited companies and large public limited companies, respectively. Each annual sample provides information for three subsequent years. This result in three different values for each year (except the first and last two years), hence the need to use average values. As the samples are of varying size every year, the estimates provided here are only indicative of changes in the corporate sector as a whole. The coverage of FDI companies is probably better than the coverage of the public and large public limited companies in the total corporate sector leading to a certain overestimation of the share of foreign companies. The estimate from Research and Information System for Developing Countries (RIS), New Delhi, covers a larger number of companies than the RBI samples.

Source: Reserve Bank of India Bulletin, various. Kumar (2005:1463) (RIS estimate)..

The economic reforms of 1991 meant a decisive opening towards foreign investment, and the abolishment of many restrictions on the domestic activities of all private companies, foreign as well as Indian. It also marked a new and more welcoming attitude towards foreign investments from the Indian authorities. This may be exemplified by the change of name of the administrative organ dealing with foreign investments from Foreign Investment Board to Foreign Investment *Promotion* Board. Foreign investments have indeed increased many times since the early 1990s and - as happened in many other countries which liberalized their economies - the share of foreign companies was expected to rise as a consequence. Interestingly, this appears not to have happened, at least not to any great extent. Different estimates of the foreign share of the Indian corporate

sector, cf. *Figure 1*, show that the decline of foreign control continued well into the 1990s, and only rose slightly towards the turn of the century. Once again, these aggregate figures point to a remarkable resilience of Indian business.⁵

At the individual company level the post-reform period did witness a number of highly publicized cases, where foreign multinational companies have taken over India companies some of whom were their local partners in existing joint-ventures. Coca-Cola acquired a local soft drinks manufacturer, the local Unilever subsidiary took over several local companies in the food industry and similar take-overs involved Procter & Gamble, Asea Brown Boveri and other international companies (Nayar 1998). While these cases became widely debated within India and often were seen as evidence of the weakness of the local Indian companies, many mergers and acquisitions involved local companies alone, and they did not result in any significant increase in the foreign control over the business sector as a whole. The overall picture is best summarized in *Table 1*, which is based on a large sample of companies, including government companies.

Table 1. Distribution by ownership of corporate sector assets.

Per cent share	1991		1994		1997	
Total corporate sector	100.0		100.0		100.0	
*Government sector	46.6		35.3		27.5	
*Private sector	53.4	100.0	64.7	100.0	72.5	100.0
- Indian private sector	46.0	86.2	57.2	88.4	64.3	88.6
-Top 50 Indian business houses	26.2	49.1	30.5	47.2	33.8	46.7
-Foreign private sector	7.3	13.8	7.5	11.6	8.3	11.4

Source: Centre for Monitoring the Indian Economy, *Corporate Sector*, April 1998 (www.cmie.com, accessed 12/5 1999).
Own calculation. The sample comprises more than 7000 companies.

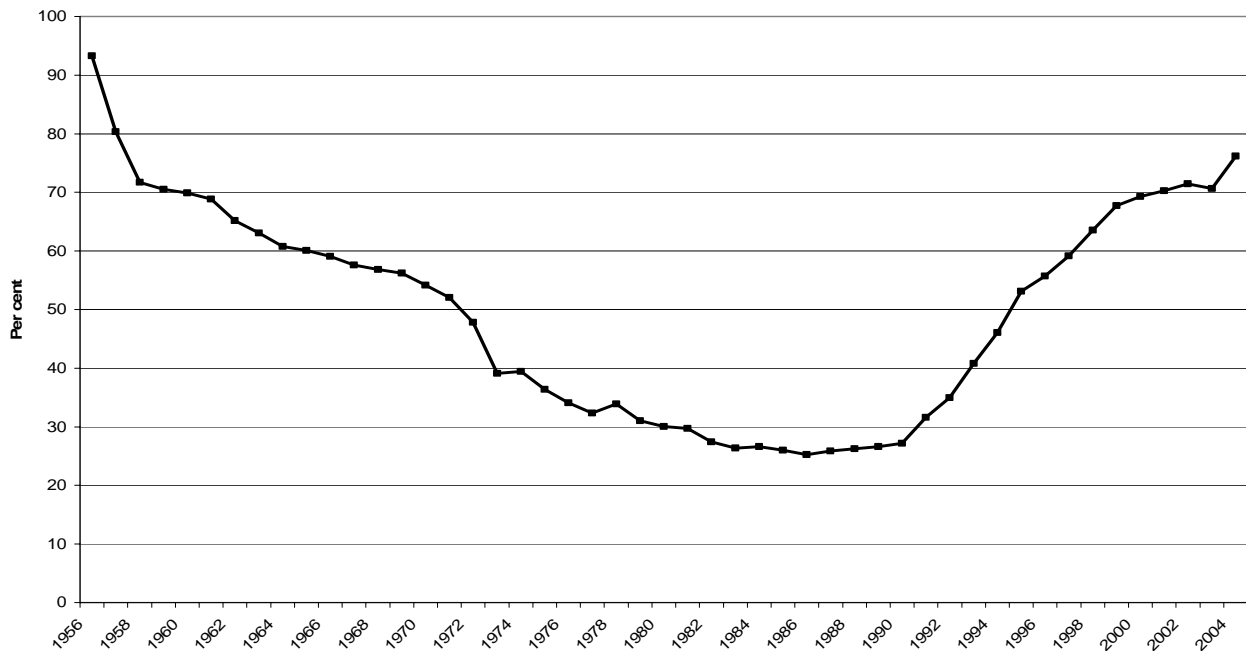
From the table it is obvious that the most important change in the total corporate sector in India since 1991 has been the decline of the government sector and the rise of private business. The rise

⁵ One possible (and partly) explanation for the contrast between large increases in inflows of direct investments and stagnating shares of foreign controlled companies could well be that the initial inflow of foreign investments went into consolidating (=increasing) the controlling shareholding in existing foreign controlled companies (Degnbol-Mertinussen 2001:190ff).

of the private sector has primarily been caused by an expansion of private Indian companies, while the share of foreign companies only has increased slightly, and – in line with the information above – a slight fall in the foreign share of the private sector in the first half of the 1990s. It is also noteworthy, that the share of the private sector held by the top Indian business houses (conglomerates) has remained largely intact - a demonstration of the resilience of this particular section of Indian business.

The decline of the public sector has constituted a dramatic reversal of the earlier pattern from the period with state-directed import substitution. The dramatic turn-around is illustrated in *Figure 2*, which show the reversal of the trend toward increased government share of the corporate economy. Once again, the reversal of the trend and the rise of the private sector started (slowly) in the mid 1980s, but took off after 1991. From *Table 2*, it can be seen that the most important factor behind the growth in the share of private business was the increased dynamism of the sector, and that the slowing down of the public sector played a lesser role. The relative progress of private companies in the 1990s was helped not only by the easing of restrictions on investment activities but also by the opening up of sectors which were earlier reserved for government companies, like public transport (airlines), telecommunication, infra-structure (power generation) and broadcasting (TV, radio). The emergence of completely new economic sectors associated with the so-called ‘third industrial revolution’ based on knowledge intensive industries like information and communication technologies (ICT), in India epitomized by new soft-ware companies and increasingly mobile phone and private broadcasting companies, has also made room for rapidly increasing private business activities. Again, this development had its origin before the 1990s, with the by now well-known software companies like Infosys, TCS and Wipro being well-established already in the 1980s (Heeks 1996).

Figure 2. Private share of total corporate paid-up capital, 1956 to 2005.



Source: Government of India, *Annual Report on the Working and Administration of the Companies Act, 1956*, New Delhi, various issues. (Own calculation)

Table 2. Growth of government and non-government companies, 1961-2001. (Average annual growth, per cent)

Period	Government companies		Non-government companies	
	Paid-up capital	Number	Paid-up capital	Number
1951-1961	35.5	11.2	5.4	9.9
1961-1971	14.2	8.3	6.7	1.4
1971-1981	18.7	10.5	7.3	7.5
1981-1991	15.8	3.3	14.3	13.5
1991-2001	7.2	0.8	28.4	9.8

Source: As Figure 2

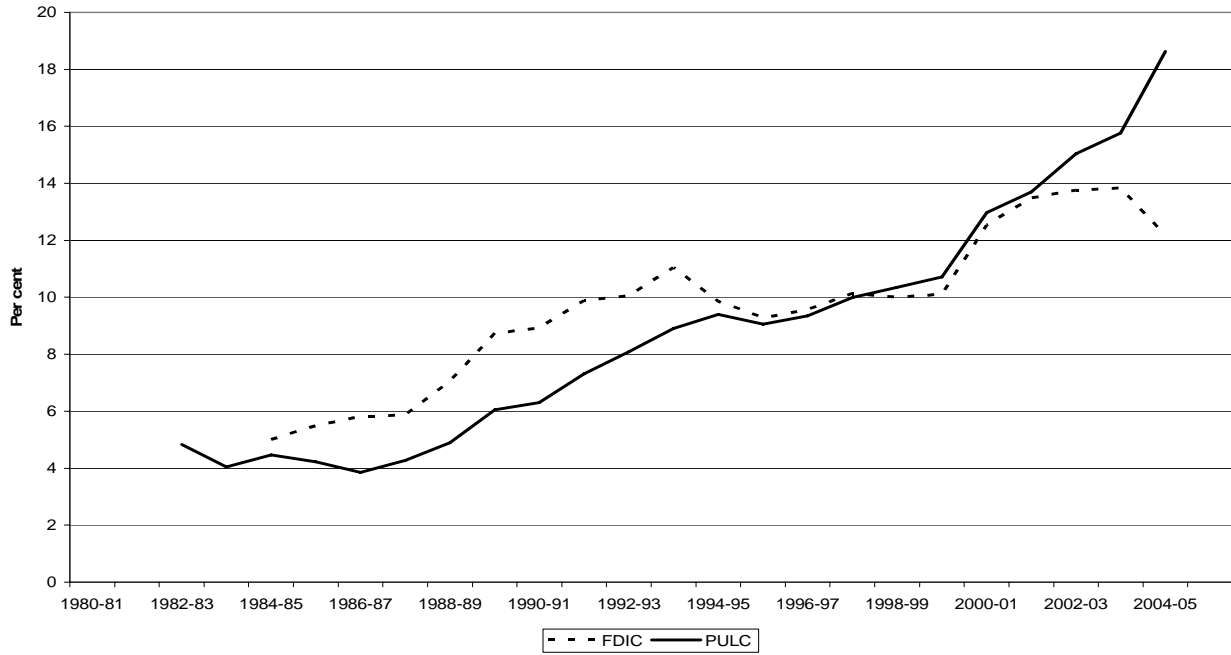
The rise of private companies located within sectors formerly within the sphere of government corporations or within the ‘new economy’ sectors has at the same time been a sign of important changes within Indian business. Looking at the level of individual companies (not conglomerates,

cf. above), Naushad Forbes has noted that among the top 100 individual companies as many as 49 companies had entered the 1999 list compared to the 1991 list (Forbes 2002). These 'winners' comprise companies in many different sectors, but a significant number of them comes from knowledge intensive industries (pharmaceuticals, software), while those companies who have dropped out of the list (but many of whom are still prominent companies) were almost exclusively in traditional industrial sectors (commodities, textiles, some engineering). Foreign companies were present in small numbers among both winners and losers. In addition to this change towards more modern sectors, the changes in the structure of Indian business have included the rise of new medium-sized industries, and a shift in the regional balance of Indian industries with new growth centres coming up, especially in the South (Tamil Nadu, Karnataka, Andhra Pradesh) and in the North (around New Delhi) (Baru 1995, 2000).

Indian companies have also transformed their activities, making them more and more oriented towards the international economy. As can be inferred from *Figure 3*, Indian companies have increased their export-orientation (and import-orientation) and they are today more oriented towards international markets than foreign companies. Once again, the change towards more outward-oriented company strategies started in the mid-1980s, some years before the economic reforms, slowed down a little during the 1990s only to accelerate after the turn of the century. In this respect also, the reforms seems to have supported, and extended, a transformation that was already underway within the Indian business community.

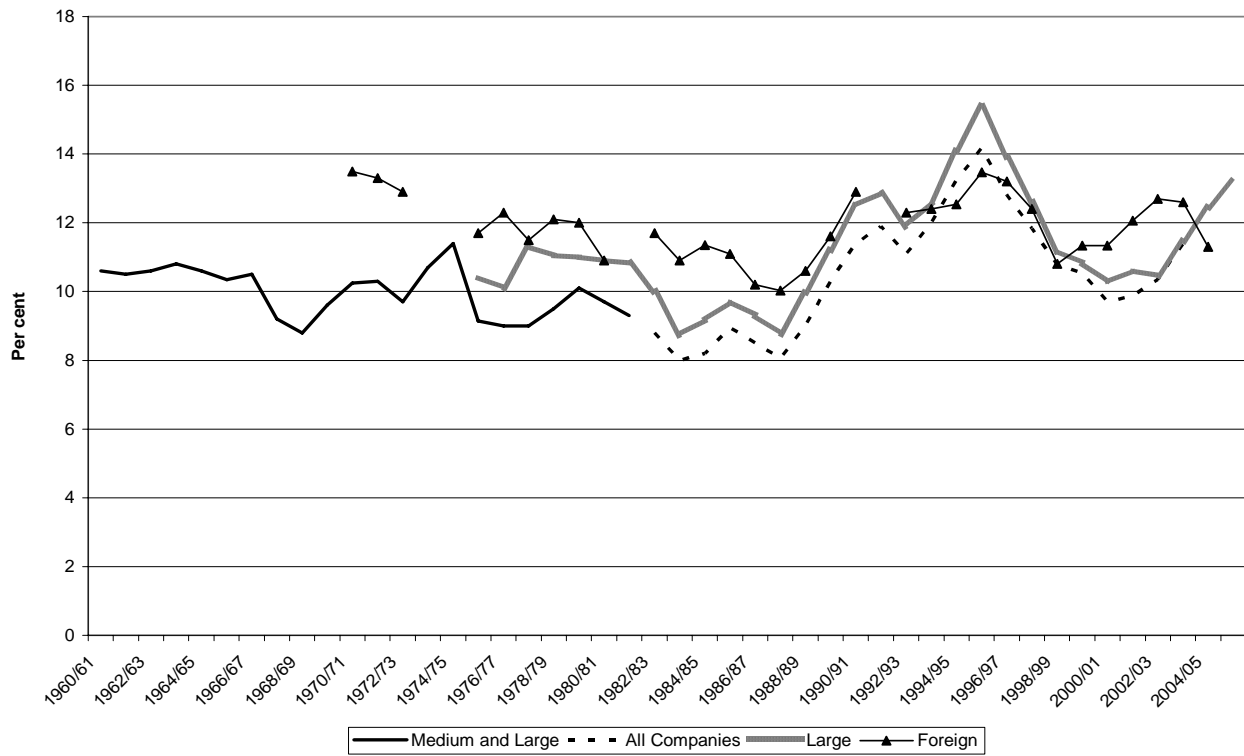
The ultimate aim of Indian business, as of any other business, is to make a profit. Historically, as can be seen from *Figure 4*, profit to gross sales ratios for Indian companies have oscillated around 10 percent annually, with higher profits for foreign companies and for larger companies. Profits started to climb, however, in the last years of the 1980s and after the reforms of 1991 they moved upwards to a higher level of around 13 per cent, with a drop back in the late 1990s and a new rise after 2000. The overall trend seems to have been a move to a higher plateau than earlier and in addition Indian companies seem to have eliminated their earlier disadvantage vis-à-vis foreign companies.

Figure 3. Export to sales ratio for selected companies.



Note: FDIC = Foreign Direct Investment Companies; PULC = Public Limited Companies
 Source: Reserve Bank of India Bulletin, various. (Own calculation as in Figure 1)

Figure 4. Profit to sales ratio for selected companies.



Source: Reserve Bank of India Bulletin, various. (Calculation as for Figure 1)

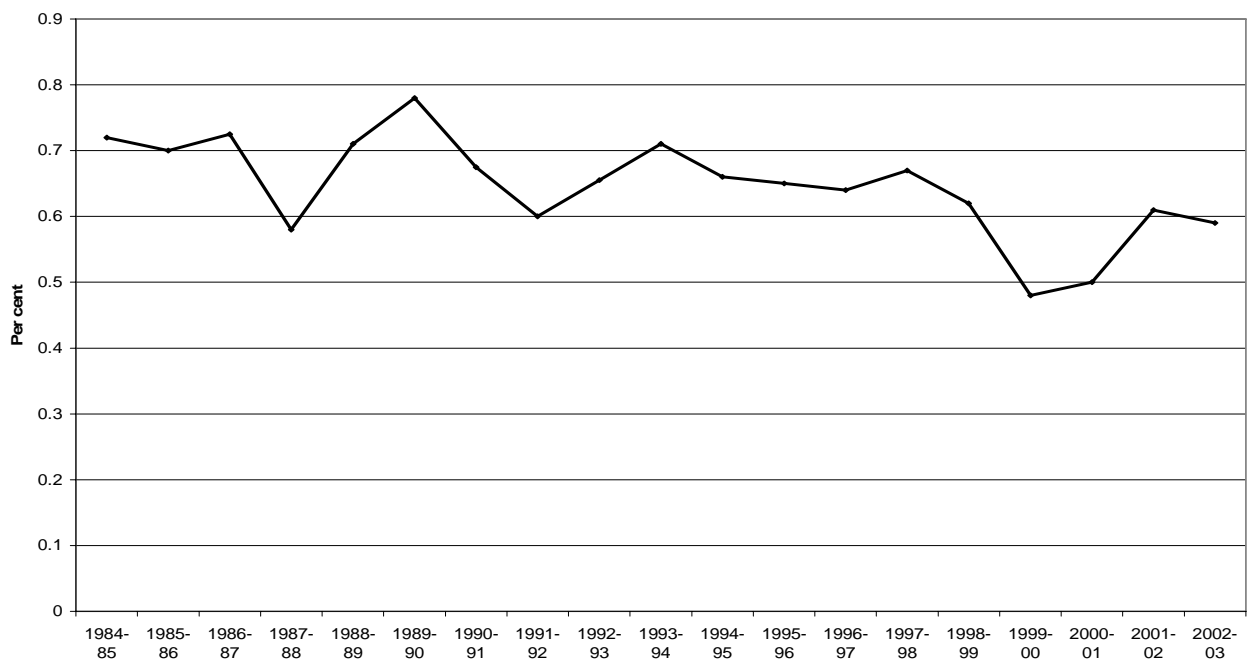
A final feature of Indian business as it has changed during the period under consideration here is their increasing international activities through investments abroad. These investments can be seen as the ultimate indications of the strength of Indian business because they directly concern their relations to international business.

Before the 1970s only few Indian business houses had ventured abroad, but during the 1970s and early 1980s more companies began to invest abroad, primarily in other developing countries (Pedersen 2007). Investments abroad were strongly regulated by the Indian authorities anxious to preserve scarce foreign currency. After a period of stagnation in the mid-1980s, investments abroad started to grow and following much more relaxed government rules, investments abroad grew rapidly from around the mid-1990s, only to virtually explode after 2000 with several examples of take-overs by Indian companies of private companies in both Europe and the US. Indian investments abroad have in recent years grown at a rate somewhat higher than the growth of foreign investments into India. In this respect, a large number of Indian companies have demonstrated their capability to aggressively take part in the new, more globalized world economy. It is, however, important to notice, that the rise of investments abroad have closely followed the easing of currency restrictions by the Indian government, and that Indian companies earlier were probably fully capable of investing abroad, but because of balance of payment considerations the Indian authorities would not allow them to do so on the desired scale.

The technological sophistication of Indian companies have usually been rated as being of modest proportions although Indian companies have been credited with being able to adapt imported technologies to the local market conditions (Lall 1987). Restrictions on the import of technologies have provided Indian companies with an incentive to make their own research and development efforts and it is generally acknowledged that a certain level of research and development capacity is necessary to be able to utilize imported technology properly. During the 1980s and earlier, an increasing number of Indian companies devoted some of their resources to research and development activities encouraged by different government support measures. To avail of government support, the companies had to register with the Department of Science and Technology, and the number of registered companies having research facilities doubled from around 600 in the early 1980s to almost 1200 in 1990-91. On average the registered companies spend about 0.7 per

cent of sales on R & D during the 1980s, cf. *Figure 5*. After 1991, spending has declined as percentage of sales, and the number of companies registered by the Indian authorities has remained at the 1990-91 level.⁶ Although there are important variations between different industries, Indian companies seem on the whole to have reduced their technological development efforts. Instead, companies have used the by now much better opportunities to import foreign technologies.⁷ The number of technological collaboration agreements with foreign companies increased dramatically, especially in the first half of the 1990s, and there is little doubt that imported technologies were used to upgrade domestic productions facilities. If combined with the information on the growth and increased export orientation of the Indian companies this is an indication of a significant lift in the technological standards of Indian companies. What is much more doubtful is whether Indian companies have been able on their own to further develop their technological capabilities, given their now more modest research and development efforts.

Figure 5. Research & Development to Sales ratio for private sector companies



Note: Based on regular company studies. In case of overlap of information for different years, the average value has been used.

Source.: Department of Science and Technology, *R & D Statistics*, New Delhi: various years.

⁶ All figures quoted are taken from Department of Science and Technology, *R & D Statistics*, New Delhi, various years.

⁷ Similar trends are reported in Basant (2000) for the years up to 1994-95.

Studies of the development of individual companies do, however, point to several instances where this seems to have been the case and the modernization of companies has not only been in production processes, but has equally important covered production organization and managerial issues. A unique study of the reorganization of a large Indian company, *Crompton Greaves Ltd.*, an electrical engineering company, provides an example (Humphrey et al. 1998). The company had started as a British company before Independence but was later taken over by one of the large Indian business houses (the Thapar group). It had lived a quiet life under the protection of the old policy regime but in response to the liberalization of the trade and industrial control regime during the 1980s and especially after 1991 the company underwent a reorganization of its internal functioning and of its relationship with suppliers and customers with the self-professed ambition of being a 'world class producer' (*ibid.*, p. 46).⁸ Similar cases can easily be found in other sectors, and it is significant that for many companies their restructuring and upgrading process had begun sometime during the 1980s.⁹

A third kind of change within Indian business is more difficult to capture in hard data. Indian private sector companies have traditionally been family owned and family managed. This pattern has been maintained despite the fact that the large majority of companies have been formally organized as public limited companies with shares listed on the stock exchanges. This rule of 'Business Maharajas' (Piramal 1996) and their family members has had both advantages and shortcomings.¹⁰ Among the advantages was the high degree of control it ensured the original promoters of the companies, but in a dynamic, long-term perspective, certain disadvantages were obvious. One disadvantage could be the difficulty of combining the necessity for a professional management with continued hands-on family control. Many business families had sought to mitigate this dilemma by ensuring that their younger generation of potential business leaders received an adequate education, often abroad. A second problem for family-owned business houses has of course been the difficulty in holding the involved companies together or, if necessary, to arrange for a formal splitting of the conglomerate into smaller pieces. Problems like these have certainly beset many of the older business houses to the detriment of their growth trajectory, but some of the most prominent business empires in India - the Birlas or the Ambani- seems to have

⁸The study of the reorganization of the firm focused upon the development of 'just-in-time' and 'total quality management' systems plus the development of a closer relationship with supplier firms.

⁹ A number of company studies can be found in Ghoshal et al.2001.

¹⁰ See also the discussion in a special number of the Indian magazine *Seminar*, October 1999 ("Family Business: A symposium on the role of the family in Indian business").

been quite successful in splitting up existing business empires into viable and dynamic units.¹¹ It also seems that while the level of professionalism in the management of Indian business empires has increased in recent years, most companies and certainly the largest companies continue to be family owned.

Summing up the evidence presented on the development of Indian business through the last two decades it is evident that important changes have happened and that almost all changes point in the direction of an increased strength of the private Indian sector vis-à-vis both public sector enterprises and foreign companies. It is also evident that many of the changes that became so manifest late in the 1990s and into the 2000s were both visible and significant during the 1980s. It seems that the period with import controls, heavy state intervention and restrictions on the entry and operations of foreign companies may have contributed to low or modest economic growth, rent-seeking activities and inefficiencies of various kinds as claimed by many neoclassical critics but at the same time Indian business has succeeded in building a variety of strengths that have enabled them to accelerate growth during the 1980s and made them ready for the change to the more open and market oriented economic strategy that was initiated in earnest in 1991. In its role as ‘pure capital’ then, Indian business seems to have been ready for a change from sometime around the mid-late 1980s, if not earlier. If we return to the point made by Charles Lindblom about the indirect influence of business on policy-making, the fact alone that Indian business seemed ready for a change in policy only required that policy-makers – bureaucrats or politicians – were aware of this for policies to be changed.

Much can be said about the nature of the Indian bureaucracy – and of Indian politicians – but it is fair to assume that in terms of knowledge of what is going on in the economy and how business people view their own situation, they have sufficient knowledge to be able to form their own opinion about the policy measures that might be both appropriate and to some extent also wanted by industrialists.¹² Many of the top government officials in the 1980s and 1990s had in addition been chairmen of committees investigating different aspects of the economic control regime, including administrative reforms, industrial licensing, credit policy, black economy, import and export policy

¹¹ The Indian press has covered the splitting up of large business empires quite extensively. I draw on these press reports here. See also Tripathi and Jumani (2007: 184ff)

¹² A small observation: In the official directory of key central government officials, including ministers, it is customary to include not only official telephone number, but also residential numbers, thus making both official and less official contacts to government officials very easy. Today, of course, this information is often available on the internet.

and public sector enterprises (Swamy 1994: 185-186). From this work they had acquired an intimate knowledge of the actual developments of the economy and as the work of investigating committees involve extensive consultations with representatives from private enterprises and organized interest groups they would also have obtained a detailed knowledge of the situation and viewpoints of private enterprises. One of the architects of the reform proposals of the 1980s - Abid Hussain - thus observed in an interview in 1988 that: "A new breed of entrepreneurs has emerged and it is time to support them" (*India Today*, June 30, 1988, p. 55). Clearly, the changes within Indian business had been noticed. India thus seems to conform well to what Lindblom (1977: 175) describes as a normal activity for a well-functioning government in a market-based society:

“Any government official who understands the requirements of his position and the responsibilities that market-oriented systems throw on businessmen will therefore grant them a privileged position. He does not have to be bribed, duped or pressured to do so. Nor does he have to be an uncritical admirer of businessmen to do so”

3. Business as political actor: Indian business as organized interest group and its relationship with the government.

When seen from an actor perspective, Indian business can be regarded as an important interest group striving to influence policy-making in order to maximize their own benefits. The starting point for the investigation of the evolution of Indian business as an organized interest group will be the notion of developmental states developed by Peter Evans. In his discussion of economically successful states Peter Evans (1995) saw the nature of the interrelations between private business and governments as one important feature of a developmental state. ‘Embedded autonomy’ was his overall designation for the essential character of developmental states, and while the autonomy part referred to the internal character of the state, the ‘embeddedness’ part referred to the relationship between the state and private capital. A productive and positive relationship would require that the business-state relations became both dense and institutionalized, but fell short of either side achieving a dominant position.

Indian business has been collectively organized in a large number of industry associations and a smaller number of nation-wide central chambers of commerce since the 1920s. At that time Indian business started organizing in strong opposition to both the British colonial government and to the

dominance of British commercial interests. As a consequence, Indian business aligned itself closely with the struggle for political independence led by those politicians in the Indian National Congress who would later come to power in independent India.¹³ The most prominent apex organization for Indian business was *Federation of Indian Chambers of Industry and Commerce (FICCI)*, while most foreign business enterprises were organized in *Associated Chambers of Commerce and Industry (Assocham)*.¹⁴ With the strengthening of the Indian-controlled section of industry after Independence and the gradual erosion of the antagonisms between Indian and the remaining foreign business interests, FICCI became the most influential representative of private industry, while Assocham experienced a decline although the organization continued to represent selected, often older, foreign enterprises. FICCI was, however, still dominated by traditional Indian industrial interests, originating mainly from the Eastern part of the country and from the influential Marwari business community.

The interaction between state and business became important with the initiation of economic planning in the early 1950s. The idea of planning had taken root both in the nationalist movement and among Indian businessmen well before Independence and the close links between businessmen and politicians had given rise to a largely congruent vision of the strategy for economic development.¹⁵ Under the overall umbrella of the successive five-year plans which from 1950 onwards came to guide economic and social development, private industry was to be controlled through a policy of industrial licensing (investment permits) in conjunction with a host of other regulations. Most regulations were, however, to be administered in collaboration with representatives of the private industrial sector. To administer the industrial licensing system a *Central Advisory Council* with strong representation of private business interests was established, supplemented by separate *Development Councils* for a range of important individual industries.¹⁶ The industrial licensing policy thus included the establishment of a comprehensive, institutionalized system for consultation with private industry, encouraging private business to organize itself in a number of industry-specific associations (Kochanek 1974:88). In addition to the industrial licensing system, private business became represented in almost all spheres of economic regulation, from the

¹³ For a history of Indian business and its links to the political movement for independence, see Kochanek (1974).

¹⁴ See Kochanek 1974 for details on the organizational pattern of Indian industry. Assocham was established in 1920, FICCI in 1927.

¹⁵ The history of the early thinking on economic development is given in Marathe (1986: Ch.1)

¹⁶ The system is described in Kochanek (1974: 81ff) and in Marathe (1986: Ch. 3). Initially, 27 development councils were established covering the most important industries at the time.

board of the Reserve Bank of India and the boards of large state-owned companies to advisory councils on trade, infrastructure development, financial credit and scientific research amongst many others.¹⁷ Apart from these institutionalized forms of interaction with economic regulators, private industry had established multiple forms of interaction with both politicians and high-level bureaucrats. Individual large business houses established 'embassies' in New Delhi to follow up on their individual applications for licenses and other forms of government permissions and through their direct and personal interaction with party politicians and government ministers, businessmen in general had excellent access to key decision-makers (Kochanek 1974:265ff). This system of very close interaction between business and industry lasted until sometime in the late 1960s and the period from the early 1950s to the late 1960s has by one observer been called the 'golden age of private sector development based on business-government cooperation'.¹⁸

From around the late 1960s and early 1970s the system of close and institutionalized interaction between business and government started to erode. At the same time, from the mid 1960s, the Indian economy and consequently the planning system came into crisis, business influence on government policies was reduced and the Central Advisory Council and probably also many development councils became largely defunct (Kochanek 1985:203; Marathe 1986:76). An official commission investigating the industrial policy in the late 1970s thus deplored the decline in the working of development councils and recommended their revitalization.¹⁹ The government apparently did not implement the recommended changes, but there seems nevertheless to have been some improvements in the working of the development councils during the 1980s. By the end of the 1980s many development councils were thus known to be in operation.²⁰

The decline in the role of the institutionalized consultative mechanisms through the development councils does not mean, however, that there were less contact between businessmen, bureaucrats and politicians in the period after the late 1960s. What probably happened was that informal contacts increasingly were established between individual business houses and key bureaucrats and key politicians, including the Prime Minister, while the institutionalized contacts only remained in place at the level of overall policy formulation, for example between FICCI and the Ministry of

¹⁷ A comprehensive, but not exhaustive, list of advisory bodies with business representation is given in Malyarov (1983: 300ff).

¹⁸ Kochanek (1987: 1285; 1996: 159)

¹⁹ See Ministry of Industry (1978: 16-18) and Marathe (1986:118-123).

²⁰ DGTD (1990) lists ten councils in operation in 1989-90.

Finance. There are furthermore indications that individual level contacts between business and bureaucrats and politicians increasingly came to involve various forms of illegal payments ('briefcase politics') (Kochanek 1985, 1987).

Parallel to the erosion of the institutionalized contacts between business and state, changes began to happen in the way Indian business organized itself. The neat pattern of organization with FICCI at the top (and Assocham in decline) came increasingly under strain. The strains became especially visible within FICCI during the 1980s. The failure of FICCI to accommodate the new up-coming industrialists and some of the organization's existing members made these companies look for other ways to have their interests served. Increasingly many companies seemed to favour the existing association for the important engineering industry. *The Association of Indian Engineering Industry (AIEI)* possessed many of the features that were in demand among the new type of Indian industrialists. The AIEI had emerged in 1974 as a fusion between two organizations representing foreign and Indian engineering companies, respectively.²¹ This feature alone made it unique in the Indian context. It was also unusual because of its representation of both public- and private-sector companies and small- and large-scale industries. Furthermore, it was reputed for its strong professional orientation and its internal organization seemed free from the favouritism of sectional interests that had been so controversial within FICCI. It also had a strong regional network of organizations which made it comparatively easy to organize the new up-coming industries in both the South and in the North region of the country. In 1986, the AIEI changed its name to *Confederation of Engineering Industry*, and in 1992, the organization was again renamed giving it its present name, *Confederation of Indian Industry (CII)* reflecting its new, self-proclaimed role as the apex organization for the industry in India. This self-definition does indeed reflect the fact that since the early 1990s CII has been the dominant organization representing Indian industry.²² It is significant, that the idea of establishing itself as an industry organization goes back to the late 1970's and that the final encouragement to realize this idea came from prime minister Rajiv Gandhi in the mid-1980s (Kantha and Ray 2006:148-149). This is an indication that important sections of Indian business were prepared for changes at an early stage and that sections of the political elite were actively encouraging them.

²¹ The story of the associations of engineering industry is told in Kantha and Ray (2006).

²² Aseema Sinha (2005) gives a detailed description of the competition between the industry associations and the rise of the CII.

The changing pattern of organization within Indian industry represents not only the rise of new elements within the sector. It also represents a change in the convictions and interests of private industry with a new outlook coming to the forefront, different from the traditional outlook of Indian industry. It was thus a stated objective of the CII to work towards a globalization of Indian industry; it claims to have a philosophy in favour of deregulation, de-control and de-licensing in all areas and it claims to possess a more activist role vis-à-vis the central government. It also purports a strong professionalism in its work. In addition, the CII claims to have a 'partnership approach' in its working with the Indian government and its various agencies - a claim that seems to be confirmed by its close collaboration with many government agencies.²³ By the late 1990s, the CII membership had expanded to close to 4000 companies – a rise of 50% during the 1990s and it continued to expand its membership reaching more than 7800 by 2006 (CII Online). Its membership profile reflects its foundation in a broad cross-section of Indian industrial enterprises, with a bias towards the modern, high-technology industrial sectors, including electronics and software. Included among its members are most of the large companies in India, but the majority are of course smaller companies with the largest number being based in the South (Kantha and Ray 2006: 178). In contrast, FICCI still mostly organizes companies engaged in traditional industrial sectors, the best example being the large textile industry, and FICCI membership has stagnated throughout the 1990s. Today both organizations have foreign companies as important members, but the majority of foreign companies are represented in the CII because of its strong presence in those modern sectors where foreign investments have been concentrated, but the foreign companies have been held out of the organization's leadership. The rise of the CII and the challenges from the new economic policy regime in the 1990s also led to a reinvigoration of FICCI.²⁴ The Federation changed its general secretary in the mid-90s, reorganized its secretariat, and has since become more pro-active in its contacts with government and much more professional in its preparation of various policy proposals. It still cannot match the CII in terms of professionalism and overall scope of its policy proposals, but it has clearly increased its capacity to interact with the government.²⁵

The pattern of interaction between Indian business and the Indian state also changed during the 1990s parallel to the changes in the organization of business. Some of the institutionalized channels

²³ These objectives and claims are taken from the CII's own declaration of objectives and principles as they can be found in CII (1992: vii).

²⁴ Interviews conducted with officials in the CII and FICCI in 1999 and 2002 supplementing and up dating the information from Kochanek 1995-96 and Kochanek 1996. See also Sinha 2005.

²⁵ For a comprehensive analysis, see Sinha (2005).

that had been established to oversee the industrial licensing system had eroded as mentioned above, but even after the abolishment of the licensing system in the early 1990s, the process of periodic constitution of both the Central Advisory Council and some of the Development Councils continued. A report from one of the large industrial corporations even noted a certain resurrection of the advisory councils during the 1990s (Birla Economic Research Foundation 1996: 52). The survival and possible resurrection of some of the institutionalized channels for business-government interaction has provided scope for continuous mutual exchange of information and policy advice to the government. The dominant form of business-state interaction continued to be through informal contacts, however. The rise of the CII have probably even led to an intensification of these informal but regular links between business organizations and the relevant parts of the Indian central bureaucracy.²⁶ In addition, informal contacts between individual companies and bureaucrats or politicians have remained a prominent feature of business-state interactions, especially for the large private companies.²⁷ These companies have had several channels of influence at their disposal: individual contacts, contacts through sector specific industrial associations and contacts through the all-industry associations, CII and FICCI. The individualistic pattern of business-state interaction became partly formalized in 1998 with the formation of the Prime Minister's Council on Trade and Industry.²⁸ The ten corporate members of the advisory council were appointed in their personal capacities and the selected members constitute a virtual *Top Ten* among Indian industrialists. While the Council has produced several reports on selected reform issues including suggestions for policy changes, critics have argued that too little action has followed these suggestions and that the influence of the council therefore must be seen as being quite limited.²⁹ A similar approach with the selection of key individual entrepreneurs was used with the setting up of the IT Task Force, also placed directly under the Prime Ministers Office in 1998. The work of the Task Force did result in some specific policy changes, but the normal, everyday interaction between the large and increasingly professional industrial associations and various government ministries has probably been much more effective in producing overall policy changes. One indication for a renewed emphasis on the collective voices of Indian business can be found in the reconstituted Council on

²⁶ Sinha (2005).

²⁷ In April 2001, the president of CII deplored the persistent lobbying done by individual companies. "I am sorry to say that we still have players in the industry who believe that they must be granted special rights and special conditions", *Times of India* (New Delhi), April 23, 2001.

²⁸ See the website of the council: www.nic.in/pmcouncils/itc.

²⁹ See reports in *India Today*, December 28, 1998 and September 3, 2001.

Trade and Industry in 2001 in which the presidents of the three apex business organizations (CII, FICCI, Assocham) were nominated as new members.

While Indian industry in general has supported the government's liberalizing policies, some concerns have been voiced over the danger posed by foreign competitors as mentioned earlier. Despite the government's initial condemnation of this outburst of hostility against foreign investors, it quietly changed the rules governing foreign take-overs and in 1998 formalized the protective measures.³⁰ The new rules (Press Note 18, 1998) required the foreign investor to obtain permission from its Indian partner in case of a change in their joint venture or establishment of new ventures. These protective measures were later relaxed (Press Note 1, 2005), and while their existence is an indication of the willingness of the government to listen to the concerns of Indian business, they must be considered as of limited and decreasing importance. This interpretation conforms well to that of Atul Kohli, who in a recent analysis of India's economic growth has characterized the government's policy reforms as being 'business-friendly' – friendly towards existing Indian business - rather than 'market-friendly' (Kohli 2006).³¹

One particular area which has seen an increase in the interaction between business and government has been in the management of foreign trade, where close relations to private industrial interests have been established. During the Uruguay Round of trade negotiations, there was only little interaction between negotiators and private business despite the existence of a *Central Advisory Council of Trade*.³² In May 1989, however, a new advisory body, the *Board of Trade*, was established in order to strengthen the dialogue between the government and private business. Private industry was represented on the Board through the three top organizations (FICCI, Assocham and CII) and through selected individuals. The establishment of the board has probably increased the level of interaction between government and business, but according to sources in both industry and in the department, it was only after the establishment of the WTO and the beginning of regular negotiations on the large variety of issues included in the WTO agenda, that a

³⁰ *Economic Times*, September 30, 1997.

³¹ The two categories are not mutually exclusive, though, and during the reform process they have increasingly overlapped and have become both business- and market-friendly. In Kohli's interpretation of events the policy reforms enacted under Indira Gandhi in 1980 were of much larger importance than the later policy changes. This may be true in the sense of heralding a new era, but the actual policy changes were rather limited.

³² The information on government –business interaction on trade issues comes from interviews conducted in the Ministry of Commerce in 1999 and in FICCI and CII in 2002.

much closer interaction was established.³³ The Indian delegations to the WTO negotiations in Seattle 1999 and Doha 2003 thus saw a significant participation from Indian business including both CII and FICCI, who also assisted in the preparation of the Indian negotiating position.³⁴ The initiative to this much closer interaction with private business came from the Department of Commerce and was prompted by the need for more specific knowledge of the situation within Indian industry given the enlarged agenda in WTO negotiations. A similar need for more expertise motivated the establishment of new links to academic research institutions and individual experts, leading to the establishment of a new kind of government-industry-academia partnership.

To sum up, the period since the early 1980s has seen a gradual emergence of renewed and changed forms of organization of Indian business as well as new forms of interaction between private business and the Indian state. These new forms of interaction have been stimulated by the emergence of the CII as the most prominent representative for industrial interests and as an organization who also has established intimate contacts to research institutions, especially those working in areas included in the WTO negotiating agenda. Despite some instances of criticism, the CII – and to a lesser extent FICCI - have been driving forces behind the liberalization policies throughout the 1990s. Especially the CII has been a much more active partner to the government during the 1990s than any previous industry association.³⁵ The erosion of the close relationship between Indian industry and the Indian state that happened since the late 1960s thus seems to have been reversed during 1980s and the 1990s has seen the emergence of a new and intensified form of government-business relationship. This also implies that the economic reforms undertaken by the Indian government were done largely in accordance with what the Indian business organizations had expressed as the collective viewpoints of industry.

³³ Sources in both FICCI and CII indicated the 1998 Geneva Ministerial meeting as the starting point for closer interaction.

³⁴ Interviews with CII, FICCI and Ministry of Commerce.

³⁵ For an account of some of the criticism voiced by Indian business against certain aspects of the economic reforms, see Nayar 1998. The activities of CII are listed on the organizations' website: www.ciionline.org.

4. Conclusion: Why did India liberalise and why did Indian business manage so well?

The paradox stated in the beginning of this paper can be rephrased: Why did India – the least likely candidate for liberalizing economic reforms – carry out such reforms starting in 1991? And why – excluding China as a special case – did India end up being the perhaps most successful reformer with high growth rates and an internationally expansionist entrepreneurial business class?

The narrow focus of this paper on Indian business does not allow for full and adequate answers to these questions, but the paper does point to some elements of a possible answer, especially given the fact that the business sector must be regarded as a key force in the reform process. The first part of the answer is that the effects of the long period with a state-directed inward-oriented economic strategy have been partly misunderstood. As this paper argues, this strategy had fostered a domestic business class who was much stronger and also more reform-oriented than the early judgments by most observers would lead one to believe, and possibly also stronger than the self-assessment of many Indian businessmen would indicate. In an international perspective it is indeed remarkable how painless the economic reforms have been for Indian business and how well many Indian companies have managed to not only survive but to prosper on both the domestic market and the global markets. A second part of the answer is that the Indian state – its politicians and bureaucrats – have been sufficiently well informed of the strength of Indian business to design and implement a set of policies – the reforms – that would allow business to prosper without compromising significantly on the traditional goal of national control over economic assets. The policies have not been designed as a grand strategy but have been the outcome of a continuous process of trial and error and of consultations back and forth between bureaucrats and businessmen as is usually the case in India. A third part of the answer is that the changed and strengthened collective organization of Indian business, especially through the rise of the CII, not only has mirrored changes in the structure of the local business sector, but has also through a multitude of different links to the Indian state been able to actively promote the adoption of many of the new more market-friendly policies.³⁶ A related argument for India's success that is only sporadically dealt with in this paper is that the reform policies especially in their sequencing and in their detailed execution were cautiously implemented and while radical by Indian standards fall far short of truly market-oriented

³⁶ As is natural for an official biography, Kantha and Ray (2006) in their story of the CII place considerable emphasis of the organization's active and independent promotion of the reform policies.

policies.³⁷ The notion of ‘business-friendly’ policies may better capture the essential nature of the reforms (Kohli 2006), but it is still an undeniable fact that the Indian economy today is open for imports and investments to an unprecedented degree and that the domestic scope for the free play of market forces has been vastly enlarged.³⁸

In a broader perspective, the Indian experience with economic development under different economic policy regimes and the role of Indian business in this context may give rise to different interpretations. One obvious interpretation would be to generally rehabilitate the import-substitution strategies of the past and to advocate a strong and directive role of the state. This position comes close to that of many critics of the market-oriented, neo-liberal strategies associated with international financial institutions like the World Bank and the IMF.³⁹ Another position could still follow the mainstream interpretation of India’s success by claiming that although Indian business was relatively strong even before the onset of market-oriented reforms, this state of affairs had come about in spite of the policy regime, not because of it. In this perspective, the decisive fact is that it was only after the policy reforms that the ‘take-off’ of the Indian economy happened, and that had the changes in economic policies happened earlier, India’s success would also have come about earlier.⁴⁰ The question of whether economic growth is based on local or foreign companies is here regarded as basically irrelevant. Market-oriented strategies will produce growth and prosperity no matter who are the actors on the market. The two above-mentioned positions are well-known and each position can pick elements from the Indian experience to support its viewpoints. A third interpretation, which I find provides a more relevant perspective to the international debate is that the basic attribute of the economic policy regime has been its ‘business-friendly’ nature, meaning friendly towards *Indian* business. Right since Independence and the start of independent policy-making policies have been business-friendly in India and while the degree of ‘friendliness’ may

³⁷ Market enthusiasts can point to the lack of privatization of state-owned companies, to the highly regulated labour market, to the lack of reforms within public administration and to the state-dominated financial system as indications of the half-hearted nature of the reforms.

³⁸ There is a related debate over the importance of different reform episodes. Bhagwati (1993:3) represent the mainstream viewpoint when he distinguishes between the ‘reform by stealth’ of 1980, the ‘reform with reluctance’ in 1985-86 and the ‘reform by storm’ in 1991 onwards. An opposite viewpoint has recently been formulated by Kohli (2006), who see the reform in 1980 as decisive, the 1985-86 reforms as ‘only a few changes’ and the 1991 reforms as a continuation of the earlier policies and modest in international comparison. I tend to stick to the mainstream viewpoint, but concede that a reappraisal of the 1980 reforms and their political implications is warranted.

³⁹ Ha-Joon Chang (2002) could be one example of this position.

⁴⁰ This is the position of Bhagwati (1993) and it can be found in many reports from the World Bank and from the IMF.

have varied somewhat over time it has never been absent.⁴¹ The type of policy that may be regarded as being business-friendly has naturally varied over time, and both protectionist and market-oriented policies can under different circumstances be part of a business-friendly policy regime. This interpretation comes close to that of Kohli (2006) and to the general ideas informing that part of the developmental state debate, which regards the close interaction between governments and business as the key issue rather than any particular type of economic policy. In this perspective, the Indian experience demonstrates the necessity to promote indigenous business as a precondition for economic success, but it does not follow from this that the policies used in the past to promote local business would lead to same result should they be adopted by other developing countries today. The global circumstances have changed to such a degree that it may no longer be an appropriate strategy, while the combination of market- *and* business-friendly policies pursued by India since the early 1990s might be a better and currently feasible model to learn from.⁴²

⁴¹ The so-called 'Bombay Plan' for independent India issued by a group of prominent businessmen in 1944 clearly demonstrates that Indian business at an early stage saw a strong role for the state as being necessary to achieve economic development. Thakurdas et al. (1944)

⁴² One important lesson that is not considered here is that the Indian experience with market-and business friendly policies does not seem to have helped much in eliminating poverty. For this to happen, a whole set of different policies will be necessary.

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