STATE, MARKET AND BUSINESS CLASS:
A CASE STUDY OF CONFEDERATION OF INDIAN INDUSTRY

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A dissertation submitted in fulfilment of the requirements for the Degree of Master of Arts in Development Studies

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DECLARATION

I, Avinash Kaur Kalsi, hereby declare that this dissertation entitled ‘State, Market and Business Class: A Case study of Confederation of Indian Industry’ is the outcome of my own study undertaken under the guidance of Dr. Ashwani Kumar, Professor, School of Development Studies. It has not previously formed the basis for the award of any degree, diploma, or certificate of this institute or of any other institute or university. I have duly acknowledged all the sources used by me in the preparation of this dissertation.

March 4, 2013                        Avinash Kaur Kalsi
CERTIFICATE

This is to certify that the dissertation entitled ‘State, Market and Business Class: A Case Study of Confederation of Indian Industry’ is the record of the original work done by Avinash Kaur Kalsi under my guidance and supervision. The results of the research presented in this dissertation have not previously formed the basis for the award of any degree, diploma, or certificate of this Institute or any other institute or university.

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Abbreviations

‘CII’ - Confederation of Indian Industry
‘FICCI’ - Federation of Indian Chambers of Commerce and Industry
‘ASSOCHAM’ - Associated Chambers of Commerce and Industry
‘MNC’ - Multinational Corporation
‘IMF’ - International Monetary Fund
‘TISCO’ - Tata Iron and Steel Company Limited
‘FERA’ - Foreign Exchange Regulation Act
‘ITC’ - Indian Tobacco Company
‘ISI’ - Import Substitution Industrialization
‘ELI’ - Export Led Industrialization
‘IT’ - Information Technology
‘JBC’ - Joint Business Council
‘EITA’ - Engineering and Iron Trades Association
‘IEA’ - Indian Engineering Association
‘EAI’ - Engineering Association of India
‘ICC’ - Indian Chamber of Commerce
‘AIEI’ - Association of Indian Engineering Industry
‘CEI’ - Confederation of Engineering Industry
‘FDI’ - Foreign Direct Investment
Abstract

“Weapons of the weak” has been a hallmark of literature on everyday forms of resistance and its interface with state power. However, there is a lack of engagement with evidence based ethnographical analysis of “weapons of the strong”. The proposed dissertation looks at business associations as a weapon of political mobilization wielded by the business class and seeks to unravel the political capacity of business actors to influence the market as well as the state. Revolving around a case study of the Confederation of Indian Industry, the dissertation also challenges conventional wisdom which holds that all business groups and actors have a common set of interest vis-à-vis the state.
CHAPTER ONE

THEORETICAL AND METHODOLOGICAL ENGAGEMENTS

1.1 Introduction

Though neo-liberal economic reforms since the 1990s have led to a reinvention of state-society relationships, there is not much theoretical and empirical engagement with “business and government relationships” in development studies. While much fancied and popular studies on civil society and associational revolution have enlightened us a great deal about how associationalism could impact development and governance, there is little known about the origins, evolution and political capacity of business actors to influence both the market as well as the state. Moreover, most studies on developmental state which focus on the role of state in “guiding markets” or “distorting markets” suffer from a statist bias and fail to see the autonomous role of business actors and associations in shaping the design and policies of the state in a developmental context (Sinha 2010).

Taking cue from Stanley Kochanek’s classic study of business and politics in India that license-permit raj led to cosy rental havens and particularistic relationships between Indian business and the state, the proposed dissertation challenges the conceptualization of business as a homogenous category of social power and also the standard wisdom in development theory that neoliberal economic reforms (policies) often impact business groups, uniformly and positively because liberals and Marxists seem to agree that all business groups and actors have a “common set of interest vis-à-vis the state” (Sinha 2010).
While talking of the business class in India, one needs to be very careful as it is an extremely broad category covering in function both trade and industry and in size from the small scale traders and industrialists through the medium enterprises to the large industrial houses (Nayar 1998). In addition to this, there are fundamental divisions between foreign and indigenous capital along with major cleavages within the Indian business community based on caste, region, family and kinship ties. Thus, the “business class” in India is more of a concept than a cohesive reality (Kochanek 1971). Moreover, these elements have divergent interests and thereby, have their own organizational expressions.

The three most important apex associations that dominate the business scene in India are the Federation of Indian Chambers of Commerce and Industry (FICCI), Associated Chambers of Commerce and Industry (Assocham) and Confederation of Indian Industry (CII). Prior to the transformation of CII from an engineering association to an all industry association, FICCI was the largest, most broadly based apex association which tended to represent older, more traditional, indigenous family owned business. Moreover, it had powerful connections with the Congress Party and the bureaucratic apparatus. Assocham, on the other hand, is the oldest business association, created in 1920 to represent the interests of the British capital in India. Following Indian independence, even though Assocham Indianized its leadership and membership, MNCs continue to have a major presence and its pronouncements are coloured by the intent to protect the interests of that lobby (Kochanek 1996).

Transformation of business collective action in the 1990s coincided with the Liberalization Program. Though liberalization seemed to reduce the role for political lobbying, Aseema Sinha (2005) outlines the reason that led to rise of CII by focussing on openings in political opportunity structure (brought by radical change in economic
policies) to understand the role of state actors and other micro-political institutions in encouraging or discouraging business. In the 1980s and 1990s, CII represented the more modern, younger and professional face of Indian industry. Rajiv Gandhi’s close relationship with the members of the body allowed the institution to acquire political access and influence which were denied to other bodies like the FICCI and Assocham.

In a persuasive assessment of relationship between business and the state in India, Aseema Sinha emphasizes how business strategies are themselves moulded by the features of the political-institutional environment. Building on her insight, I pay attention to the fragmentation, competition between associations in India as well as the conflict of interest that lies behind the façade of bureaucratized, modern business associations.

1.2 Literature Review

*Contextualizing State, Market and Business*

Business associations are ‘collective bodies that are intermediary between individual business action and state action’. They are judged on the basis of costs and benefits of the services they deliver (Bennett 2006). Business associations are believed to have a significant impact on state-market relations that help in improving the overall competitiveness of an economy. They perform certain ‘market supporting’ activities like lobbying for lower taxes, greater governmental efficiency and infrastructure provision. Business associations may also solve market imperfections by engaging in certain ‘market complementing activities’ like pushing for certain macro-economic policies, organizing inter-firm cooperation and creation as well as adoption of certain production or technology standards. Potential benefits of associations to government include lower administrative costs of regulation and the role that they can play in
offering an enhanced level of compliance with regulations (Doner and Schneider 2000; Bennett 2006; Hawley and Taylor 2006).

Theoretical Inquiry

The existing traditions of inquiry into business associations can be largely classified into: the pluralist view and the public choice view. Pluralists see development as involving the breakdown of ascriptive relationships and a corresponding rise in voluntary and formal organizations based on acquired status such as labour unions, professional bodies or business associations (Goldsmith 2002). They argue that business associations are needed to bargain and compromise over improvements in public policy which leads to stability and business expansion. They also believe that business associations have the potential to play a more general part in development by building generalized “social capital”, a concept popularized by Robert Putnam in his pioneering work on “Making Democracy Work”. Thus, the pluralist view holds that these groups are a part of a robust civil society, the social domain that exists parallel to the state and market (Goldsmith 2002; Schmitter and Streeck as cited in Bennett 2006; Reveley and Simon Ville 2010).

Public choice theorists, on the other hand, emphasize the ‘rent-seeking’ behaviour of business associations that is unproductive for society as a whole. Business associations are criticised for being mere lobbying organizations that serve primarily as vehicles for rent seeking, to help favoured firms obtain licenses and government favours of various sorts (Nugent and Sukiassyan 2009). In the world of public choice, business associations push the state to adopt new policies that favour the business class at the cost of economic efficiency (Harriss 2006). International experience shows that when economies suffer from policy distortions, business as a whole can become lobbyists for rent-reducing reform (Haggard, Maxfield and
Schneider 1997). Bwalya et al. (2011), however, argue that lobbying is not so bad after all as it helps to resolve information and coordination problems that constrain optimal policy selection by policy-makers. Furthermore, firms maintain a great variety of relations with the government that go far beyond simple lobbying (Woll and Artigas 2007).

Other scholars employ the theory of “policy networks” to identify how a wide range of possible policy actors who are linked to one or more state and non-state networks are able to exert influence on policy processes and outcomes (Bwalya et al. 2011). This is also in line with Advocacy Coalition Framework (ACF) which recognizes the role that various state and non-state actors play in shaping government policies in an attempt to advance their individual and collective interests (Sabatier as cited in Bwalya et al. 2011).

**Political Strength of Business and Business Associations**

While Charles Lindblom once famously argued that big business leaders enjoy a privileged position in politics, other scholars argue that business leaders find engagement in politics difficult (Olson 1965 and Bell 2006). Neil Mitchell (1997) strongly asserted that ‘the strength of national business associations is not the same as the political strength of business.’ Stephen Bell (2006), much like Aseema Sinha (2005) argues that the power and influence wielded by business leaders is heavily shaped by their institutional position. One of the institutional problems that business associations confront in their attempts to wield political power, according to Bell (2006: 156) is that

They confront a disconnect between “structuralist” and “instrumentalist” articulation of business power. The key source of business power resides in
business control over the economy and the investment process, a form of power wielded at the company level not at the level of business associations.

He further explains that the structural power is derived from business’s control over the economy and is arguably ‘the most significant power wielded by business.’ The instrumentalist power, on the other hand, is exercised in the overt political arena through explicit political activism and through activities such as collective business mobilization, campaigning, lobbying and political advocacy.

**Business and Collective Action Problems**

Studies have shown that business leaders have few incentives to join with others to engage in political mobilization. Olson (1965) explains that business leaders confront collective action problems because the public good benefits attainable by any one firm are usually small relative to the costs and uncertainties associated with collective political mobilization. Hence, businesses have a strong tendency to free ride. Polsky (as cited in Bell 2006) outlines that reasons that facilitate business mobilization-situations of perceived threat or opposition, capacity to discursively frame such threats and the role of government in supporting business mobilization. Similarly, Olson (1965) holds that when potential benefits of collective mobilization are sufficiently large, business firms are likely to engage in politics.

Studies have also outlined the limitations that business associations suffer from. Bennett (2006) lists out some of them- problems of low density, high opting out, instability over time and an inequality in the form of representation by associations of different types, sizes and businesses. Streeck and Schmitter (as cited in Bennett 2006) demonstrate that business association particularly voluntary ones, are subject to a process of endemic fragmentation, under-resourcing and diversity that limits their effectiveness.
1.3 Indian Context

Stanley Kochanek (1974) states that much of the studies of business and business associations have been largely confined to western societies as it was believed that the traditional societies were marked by an absence of an indigenous business elite. In reality, however, national associations representing both foreign and indigenous business interests have existed since the early part of the twentieth century. He argues that business associations are far in advance of other sections of Indian society and that business, unlike other functional groups in India such as the trade unions, student organization and peasant groups, has developed associations which are autonomous from India’s political parties (Kochanek 1974). These business associations were characterized by primordial loyalties to family and caste. Today, this pattern has evolved significantly and business associations have transformed themselves from ‘congeries of rival castes and families into a well-defined business class with a consistent set of interests and values pursued through cooperative organizational forms’ (Kochanek 1974).

Business community in India, like their counterparts in the west, encounter significant difficulty in establishing channels of communication with the state, mobilizing resources for collective action, maximising capabilities and developing representative structures which can successfully press its demands on government decision-makers (Kochanek 1974). These difficulties are largely a product of the environment in which businesses operate. The general public opinion in India has been anti-business. According to some scholars, this goes back to the nationalist movement and its picture of business as exploitative whereas others argue that in India, traditionally, intellectual pursuits rather than commercial activities have been
assigned the greatest value where the merchant came in a poor third scale (Weiner 1962; Kochanek 1971).

Despite all difficulties, business associations have developed autonomous structures of interest articulation that are capable of sustained collective action. It is believed that perception of threats on the part of both state and private sector as well as the perception of vulnerability to international competition and a sense of political vulnerability promotes collective action (Harriss 2006). This was evident in the case of successful developmental states of East and South East Asia where the political elites’ sense of geopolitical threat promoted commitment to national development. Moreover, business in India has been quick to adjust to the post-independence political environment and has developed unique patterns of access and interaction with the bureaucracy and the executive (Kochanek 1974; Sinha 2005). The state too, has responded favourably and there has been emergence of broadly consistent national goals shared by both state and business (Harriss 2006; Kohli 2006).

Harriss (2006: 2) brings out the need for a developmentally positive collaboration between the state and the private producers by arguing that-

There is now a significant body of research showing that countries with high economic growth also have governments that have intervened in the economy so as to provide incentives to both private capital and to discipline it. Successful economic growth has required the creation of a positive environment for private investment, in which capitalists (or ‘business people’) have confidence that their activities will be supported and not frustrated by the state, while at the same time the state has the capability of restraining negative effects of collusion between individual business people and agents of the state (in what is known as “rent-seeking”).
Experiences of developmental states have also shown that rapid industrialization was promoted not by minimal states that embraced the market but by highly interventionist states who prioritized economic growth as a state goal. Kohli (2006) opposes the well-embraced argument that slow rates of growth in India were due to a highly interventionist state and the import substitution regime. He calls this the “pro-market interpretation” of economic growth post-liberalization. He proposes an alternative account, a “pro-business interpretation” wherein he argues that the state’s changing role since 1980 - abandonment of left leaning, anti-capitalist rhetoric, and prioritizing economic growth by embracing Indian capital as its main ruling ally has led to economic success.

The government’s pro-business policy regime in the 1980’s which led to a relative ease of entry and growth, benefitted big business firms. Other groups of beneficiaries included new players like Reliance who were politically well-connected and were now in a position to compete with giants like the Tatas and Birlas. Over the years, business had grew increasingly critical of the licensing system, high rates of corporate taxation, of the severe restrictions on imports of goods and technology and the tight controls on foreign investment and foreign exchange transaction (Nayar 1998). The liberalisation program took care of these concerns of big business firms and dismantled the licensing and control structure. Taxes were also cut drastically in this period. Even though there was grumbling on the part of the small scale industrial sector it was successfully eclipsed by the welcome accorded by big business. This has led scholars to the conclusion that the liberalization program was pushed by a ‘narrow coalition’ which included narrow political leadership, technocratic policy elite, a segment of Indian capital and external actors like the IMF (Jenkins 1999; Kohli 2006). Thus, one can see how the business and political elite have been trying
to accommodate each other within the context of changing global and national conditions.

Nayar (1998) argues that while the business groups (specifically FICCI) favoured internal liberalization as it pushed government off their backs, they expressed serious discontent over the policy of external liberalization. Consequently, liberalization has brought about significant changes in business organization and lobbying which have all been ably documented by Stanley Kochanek (1996). He explains how the Indian capital split during 1980s in its political and policy preferences. While CII represented modern, export oriented business and favoured an open and competitive economy, FICCI and ASSOCHAM came to represent older business houses that had matured during import substitution regime. These business associations were wary of external opening (Kochanek 1996; Kohli 2006).

In sum, while these scholarly works on the business-government relations and business associations help in contextualizing one’s research, it also points to persistent gaps in literature. Much of the aforementioned work suffers from a statist bias and fails to see business as an autonomous entity wielding considerable political power and social identity. With statist bias towards analysing “large-scale structures, epochal events, and important people”, there is lack of material available on the quotidian practices of business groups in India (Skocpol 1979, Evans et al. 1985). There is also little engagement with the issue of political strength of business actors. Scholars have also failed to document the evolution of the organizational strength and bargaining power of Indian business associations. Moreover, there has been no attempt to explain the fragmentation, conflicts and competition that mark the institutional landscape of business association. Furthermore, very little research has been carried out to discuss how interest politics has transformed itself since neo-liberal reforms and how well
different segments of business are represented in the business associations. The proposed dissertation attempts to throw more light on these areas.

1.4 Rationale

Conventional wisdom in development theory conceptualizes business as a homogeneous category of social power and holds that all business groups and actors have “a common set of interest vis-à-vis the state” and are uniformly and positively affected by the neo-liberal policies. Instead of this ahistorical and reductionist interpretation, the proposed dissertation provides an analysis through a case study of Confederation of Indian Industry (CII) of fragmentation, competition and conflict that mark the relations among various business actors/groups/associations and also the general relations between capital and the state in India. Cast in historical institutionalism theoretical framework, the proposed study will focus on “institutional mediations” between “weapons of the strong” with the state in an attempt to document the transformation of business politics.

1.5 Objectives of the study

(1) To analyse the historically patterned relationship of state, market and business class/groups in a dynamic and volatile political environment of neoliberal economic reforms and its implications for democracy and development in India.

(2) To explain the origins, evolution, organizational behaviour and social power of business actors and associations and their influence in shaping the policy and political agenda of the government.

(3) To focus on heterogeneity and diversity in the institutional landscape of market and business class as evident in the increasing fragmentation, competition and conflict among the major business actors/associations in India.
(4) To document and analyse the transformation of collective business action through a case study of the Confederation of Indian Industry.

1.6 Theoretical Framework

Inspired by neo-institutionalism, the paper brings politics back into an analysis of business associations and unites historical and institutional approaches to the study of collective action by “strong” actors. Such an approach would look at how collective action of business is transformed over time but without ignoring the role of institutions and political contextual variables in shaping that transformation. Furthermore, using “macro-analytic” framework developed in the works of Skocpol and Somers (1980), that focus on distribution of power among classes, the study would emphasize both “structural and institutional attributes of polity”, as opposed to the fashionable “micro-analytic”(popularly known as “rational-choice”) examination of the interplay of actors and groups in the polity.

1.7 Methodology

Case Study

The researcher proposes to carry out a case study of the Confederation of Indian Industry in order to undertake a thorough, holistic and in-depth exploration of the change and transformation in the institutional landscape of business associations over time. The choice of case study in the proposed dissertation stems from the fact that it provides an overview and in-depth understanding of the case, process and interactional dynamics. Since the focus of the dissertation is on extensively exploring and understanding the associational marketplace rather than confirming or quantifying, the case study then, becomes a very useful study design.

According to Burns (1997:364), ‘to qualify as a case study, it must be a bounded system, an entity in itself. A case study should focus on a bounded
subject/unit that is either very representative or extremely atypical.’ Since, the rise of the CII has transformed existing business associations into developmental associations; CII presents itself as an atypical case and therefore, a case study can provide an insight into the interactional dynamics of the associational marketplace, as a whole.

Moreover, the researcher intends to use multiple methods to collect data, namely in-depth interviewing, obtaining information from secondary records (especially CII records and publications), gathering data through observations etc. This will enable us to undertake a historically sensitive analysis of the evolution of CII and state relations over time.

1.8 Chapter Scheme

The second chapter titled “Business Class and Economic Planning” provides an overview of the interaction between business class and state actors in the post-Independence era by focussing on how the positions of the government and the business class on crucial policy issues evolved in the planning period.

The third chapter “Statist Developmentalism and the Political Economy of Reforms” discusses the pulls and pressures of policy-making in a democratic polity, with an emphasis on the economic reforms of the 1990s. The chapter also throws light on how statist developmentalism played a crucial role in the transformation of the economic potential and activities of the business class.

The fourth chapter titled “Institutional Landscape of Business Associations: A Case Study of the Confederation of Indian Industry” attempts to capture the interactional dynamics of the associational marketplace in India by focussing on the conflict of interest that lies behind the façade of modern, bureaucratic associations through a case study of the CII.
The concluding chapter seeks to determine the extent to which the traditional view of business associations as rent-seeking, special interest groups is correct by focussing on the activities of CII. Tying together various strands, this chapter attempts to bring together the discussions in the previous chapters in order to understand how there has been a transformation of interest politics over the years.

1.9 Concluding Remarks

In sum, the relationship between state and business actors in India warrants far more scholarly attention that has been undertaken to date and the proposed dissertation is an effort in this direction. But given the present underdeveloped state of research in this field, the researcher thought it more appropriate to focus on the institutional study of the Confederation of Indian Industry which is elaborated in the overall context of state and business relationship. Such an institutional study of the Confederation of Indian Industry will help us understand the patterns and shifts currently underway in the business and politics relationship in India.

The next chapter attempts to take this discussion further by throwing light on the relationship between the business class and the state actors in the post-Independence period with a special emphasis on the First Three Five-Year Plans.
CHAPTER TWO
BUSINESS CLASS AND ECONOMIC PLANNING

2.1 Introduction

At a time when the civil society formation, “India Against Corruption”\(^1\) has violated a “code of silence observed in Delhi’s corridors of power” and has extended the spirit of public scrutiny to complicity between big business and the political class, it becomes interesting to test whether particularistic relationships between Indian business and the state in the license-quota-permit raj have been replaced by class-wide relationships between business and state actors (Yadav 2012). However, before we analyse the changes that are currently underway in the business-politics relationship, it is important to understand how economic changes have transformed the business-state relationship in India over the years.

This chapter traces the development of Indian business with reference to its interaction with the policy environment in the post-Independence era. It discusses how the fundamental positions of the government and the business class on various matters of economic development and other crucial policy issues evolved in the planning period, with a special emphasis on the first three Five-Year Plans (which also constituted the “honeymoon period for planning”).

\(^1\) “India Against Corruption” or the IAC claims to be a People’s Collective Movement to ensure a corruption-free India.
2.2 Towards Transition

From being steeped in trading and moneylending and lacking industrial initiative at the turn of the eighteenth century to playing a critical role in the power games that riddled the subcontinent at time of the fading Mughal glory and then subsequently, exploiting the emergent business opportunities, business in India had covered a long journey around the middle of the nineteenth century. However, up to this period continuity rather than change was the hallmark of the Indian business scene and it was only when the colonial masters sought to augment the economic capacity of their new principality that the climate for enterprise underwent a great transformation (Tripathi and Jumani 2007).

While a business-friendly climate was a mere unintended by-product of the colonial policies, it ushered in a new era of widened business opportunities. Tripathi and Jumani (2007: 51) hold that the British rule in India bears similarities with the pre-Meiji Tokugawa regime in Japan, whose highly regressive policies and programmes that were aimed at protecting the political-economic interests of the ruling oligarchy also laid the ground for the Meiji reconstruction. In other words, the administrative measures that were aimed at providing efficient governance of the colony and effective exploitation of its resources in the interests of the metropolitan country, in turn, served to enlarge the size of the market on one hand, and make for greater security of investment on the other. At the same time, Tripathi and Jumani (2007) argue that growing contact with European liberalism and technology was also instrumental in expanding the horizon of perceivable business opportunities for at least a section of Indians.

However, it must be stated at the outset that the growth of the business class was not merely a by-product of colonialism but was achieved by ‘waging a constant
struggle against colonialism and colonial interests, that is, by wrenching space from colonialism itself” (Chandra, Mukherjee et al. 1989). In other words, while the British economic policy was supposedly guided by the doctrine of laissez-faire and free trade, some were regarded more equal than the others. Kochanek (1974: 73) documents that—

‘Monetary policy toward rupee exchange rates and the purchases of government stores tended to favor British over Indian interests. British shipping was granted a monopoly of the coastal trade, receiving lucrative mail contracts, and obtained the right to carry civil and military government cargoes and personnel.’

As a consequence, Indian capital protested against the preferential policies of the colonial government and demanded that the exploitation of Indian resources be curtailed and that the state take a more active role in the development of indigenous industry (Kochanek, 1974). Aditya Mukherjee (1989:377) writes that—

In the process, Indian capitalists, with some of the most astute minds of the period in their ranks, developed a fairly comprehensive economic critique of imperialism in all its manifestations, whether it be direct appropriation through home charges or exploitation through trade, finance, currency manipulation or foreign investments, including in their sweep the now fashionable concept of unequal exchange occurring in trade between countries with widely divergent productivity levels. (G.D. Birla and S.P. Jain were talking of unequal exchange as early as the 1930s).

Subsequently, the leaders of the business class made efforts to mobilize Indian capital through their own business associations and through the Indian National Congress. Thus, while business made major strides during the colonial era, the bulk of the business community also developed a sense of interdependence, which eventually led to the beginning of a series of specialized structures for interest articulation which
will be dealt in the subsequent chapters. It is this sense of interdependence that has led commentators to claim that an all-India business class was already into place much before India gained Independence.

2.3 Independence: A New Business Climate

Business historians argue that on the eve of Independence, the business class was not as disjointed and fragmented as it was at the beginning of the colonial era. Despite the debilitating effects of colonial rule and British colonial policy, a strong foundation for upward progress of the private sector had already emerged. Tripathi and Jumani (2007: 239) argue that-

... but for the strong foundation, the Indian private sector had already developed it would not have been able to make such good use as it did of the expansion of opportunity base that freedom brought in its wake, coupled with the unprecedented active role of the state to speed up the process of economic transformation. True, the private sector enjoyed much less freedom after Independence, but the luxury of a vast protected market, that the post-colonial dispensation provided, more than compensated for the fetters that came in the form of numerous regulations and controls.

In stark contrast to the aforementioned position, scholars like Pranab Bardhan (1984) and Hamza Alavi (1972) hold that the civil society was already dominated by an over-developed state at the time of Independence and that “numerous regulations and controls” were in fact, a characteristic feature of the colonial administration.

There is, however, no question that the pattern of public policy was radically altered in the post-Independence era. The adoption of the mixed economy pattern of development helped determine the pattern of access and influence available to
business in the post-Independence period. With the advent of economic planning in 1950, the state became the overriding structure and exercised control over private industry through a policy of industrial licensing in conjunction with a host of other regulations (Arora 1981).

As far as the associational marketplace is concerned, Sharmila Kantha and Subhajyoti Ray (2006) argue that for industry chambers, independence appeared to be merely a blip in ‘business as usual’ attitude. The Bengal Chamber of Commerce Annual Report 1947-1948 simply mentions the President’s laconic speech in a passing, ‘Many new chapters have opened since we last met and this is of course our first meeting in Independent India and West Bengal’ (as cited in Kantha and Ray 2006).

2.4 “Bourgeois Enthusiasm for Planning”: The Bombay Plan

Nayar (1971) states that although economic planning rose into prominence in 1950 with the establishment of the Planning Commission, the business class made attempts to evolve economic plans even before independence. The “bourgeois enthusiasm for planning” first came to the fore through the two-part document published in 1944-45, jointly produced by leading industrialists in the country, popularly known as the Bombay Plan (Chibber 2003). Titled A Brief Memorandum Outlining a Plan of Economic Development for India, the signatories of the plan were Jehangir Ratanji Dadabhoy Tata, Ghanshyam Das Birla, Ardeshir Dalal, Sri Ram, Kasturbhai Lalbhai, Ardeshir Darabshaw Shroff, Purshottamdas Thakur das and John Mathai.

While the Bombay Plan did not represent the whole of the business community, the reception accorded to it was extraordinary as it set forth the views of some of the prominent businessmen and captains of Indian industry (Lokanathan
Towards the end of March 1944, the Federation of Indian Chambers of Commerce (FICCI) endorsed the Bombay Plan at its annual meeting and thus, the plan came to be regarded as ‘the proposal of India’s business community’ (Lokanathan 1945: 680).

The Bombay Plan (1945) intended “to put forward as a basis of discussion, a statement in as concrete a form as possible, of the objectives to be kept in mind in economic planning in India, the general lines on which development should proceed and the demands which planning is likely to make on the country’s resources”. Kochanek (1974) holds that the Bombay Plan was the most comprehensive expression of the demand of Indian business for a positive and active governmental role in encouraging development. It called for the establishment of centralized planning, the imposition of rigorous controls, the development of heavy industry, and the introduction of radical agrarian reforms.

While the Bombay Plan presents compelling evidence that industrialists were eager to build a developmental state, some scholars argue that the release of the Bombay Plan was not motivated by a genuine desire to launch a developmental state (Chibber 2003; Tripathi and Jumani 2007). Baldev Raj Nayar (1971: 855) holds that-

There was something inherently contradictory in a group of businessmen devoted to the pursuit of private profit proposing a program of economic development on the pattern of the Bombay Plan, with its firm invitation to the government for the strict regulation of the business community, would have been obvious to any observer.

Dwijendra Tripathi and Jyoti Jumani (2007) remind us that colonial exploitation perpetrated by a prominent capitalistic power had left an unsavoury image of businessmen on the whole. Moreover, the wartime conduct of a section of
Indian business had further tarnished the image of private enterprise and thus, the Bombay Plan was put forward by industrialists to build up their public image. D. R Gadgil has observed that-

The standard of social behaviour maintained by them (Indian business interests) during the war and after... have not been high. These standards have been revealed in a variety of ways: general avoidance of controls and extensive black marketing in all directions, evasion of income tax on a very large scale, hoarding and speculative operations even in times of public distress, hoodwinking and misleading official authorities and defeating public ends. An especially distressing feature of the situation has been that the standards of the richest and most influential do not appear to have been any different from those of others (as cited in Tripathi and Jumani 2007).

Thus, the Bombay Plan was an attempt by the business class to build up their public image. In a similar vein, Chibber (2003: 86) holds that the release of the Bombay Plan was a manoeuvre by members of the business class to maintain legitimacy in the face of the “Quit India” movement which was perceived as a serious threat by Indian industrialists.

An additional incentive for the release of the Bombay Plan was the prevailing sense of uncertainty about the policy approaches of the new Government headed by Jawaharlal Nehru. The business class realised that it would be subjected to a far higher degree of surveillance and control and thus, a plausible strategy for the business class was to push itself into policy circles, while future plans were still in the making(Tripathi and Jumani 2007). Chibber (2003: 99) argues that the twin task of the Bombay Plan was ‘to pre-empt the mass movement, on the one hand, and, on the other, to carefully coalesce the broader business class around capitalist planning. The
former would keep capital from becoming isolated, and the latter would then enable it to shape policy more effectively.’

However, the announcement of the Statement of Government Industrial Policy revealed all the pulls and pressures of the time. It made clear that capitalist preferences were not in favour of state-led or disciplinary planning as the Industrial Policy Resolution of 1948 attracted a hostile reaction from the business classes who pressed for decontrol of prices and disinvestment. This has led Vivek Chibber (2003: 29) to forcefully argue that the failure of the development state in India can be largely attributed to the widespread and organized resistance of the business class in the country. In other words, while the conflict between planners and the business class was not always apparent, the business class waged a campaign against any measure that would give planners any real power over their investment decisions. ‘To them planning meant the socialization of risk, while leaving the private appropriation of profit intact’ (Chibber 2004:7).

2.5 Business Class and Economic Planning

This section discusses how the fundamental positions of the government and the business class on various matters of economic development and other crucial policy issues evolved in the planning period, with a special emphasis on the first three Five-Year plans. Since, the first three Five-year plans of the government of independent India spanned fifteen years which is also equal to the horizon of the Bombay Plan, it becomes interesting to discuss the Bombay Plan vis-à-vis the first three Five-Year plans which were of a seriousness that was unmatched in the later years.
The First Five-Year Plan

The testing of the business class’ commitment to economic planning came soon after the announcement of the first Five-Year Plan by the government. Nayar (1971) holds that ‘on the one hand, the government was criticized for its timidity in planning and on the other, for its unwillingness to abandon controls’. The first Five-Year Plan evoked a contradictory response- anything that allowed for the growth and expansion of Indian business was welcomed, but reservations were expressed in the case of licensing provisions and regulations.

The President of the Bengal Chamber of Commerce is believed to have said, “There is an aspect of Government Policy on which I would like to say a word of caution. The regulation and canalization of resources on which the Government has now embarked will lead to the use of control in increasing degree. Control in any form means delay; in excess it may amount to strangulation” (as cited in Kantha and Ray 2006: 68).

The largest and the most broad based apex organization of that time, the Federation of Indian Chambers of Commerce and Industry (FICCI) was critical of the first Five Year Plan’s lack of emphasis on industry and the FICCI’s President, Mr Kothari expressed his concern with the “almost pedestrian” outlook of the Planning Commission (Nayar 1971). The FICCI was also opposed to reliance on foreign capital and foreign aid as it saw foreign capital as a threat to Indian business interests. In 1951, the Federation of Indian Chambers of Commerce and Industry (FICCI) reminded the government that “the use of foreign capital really places a burden on the community and large scale use of capital and the heavy liabilities abroad which go with it will give a slant to our monetary policy- a slant which may not be in the best interests of the indigenous industry and trade and the country as a whole” (as cited in
Nayar 1971). It also argued that wealth creation should assume centre-stage in place of distribution and thus, was opposed to the instrument of taxation.

However, even in spite of all the ritualistic reservations, the business class chose to remain low key while voicing any criticisms. G.D Birla is believed to have put it to Nehru, “perhaps we are the one community today which has stood by the Government wholeheartedly,” and that “there is a much larger field of agreement between your government and ourselves than between any other section of the society” (as cited in Nayar 1971).

**Second Five-Year Plan**

In the second Five-Year plan, the government sought to undertake what was set forth by the industry leaders in the Bombay Plan. The heavy industry component of the plan was believed to be important for providing employment, improving living standards. The Draft Note on the Second Plan stated clearly that ‘the basic industries are not only for the proper functioning of the manufacturing industries, but also for defence, agriculture, trade and transport inasmuch as they provide the materials needed by these sectors’. This was in line with the Bombay Plan (1945, 25-31) which proposed that-

Basic industries, which will get priority over the other type of industries... would include among others the following groups: Power, mining and metallurgy, engineering, chemicals, armaments, transport, cement. These industries are the basis on which the economic superstructure envisaged in the plan will have to be erected... Till these industries are developed, we shall naturally be at the mercy of foreign countries. To shorten this period of dependence it is necessary to give priority to basic industries over other industries and thus to speed up development.
Nayar (1971: 857) holds that though there was an agreement on goals amongst the business class and the government, there were serious differences over total economic strategy, the auspices under which it should be executed and as to who should bear the burden for its execution. The foregoing discussion points out that the government was closer to the spirit of the Bombay Plan than the business community which complained incessantly about the features that were so intrinsic to the plan.

Interestingly, the emphasis on heavy industry notwithstanding, the FICCI emphasized the demand side by arguing that-

The production targets can be achieved only if there is a demand for the products of agriculture and industry. This can only come with the ability and willingness of the people to consume. It would be wrong to under-estimate the dynamic significance of the people's propensity to consume. In a developing economy, both consumption and investment can and ought to increase side by side. And in fact the climate for additional investment not only in consumer goods but also in producer goods depends very much upon the rate at which consumption is rising. The sufficiency of purchasing power is therefore a prerequisite of industrial expansion, because it is only when people are in a position to consume that more will be provided and resources such as idle manpower can be utilized to augment both the resources for investment as well as the capacity to consume (Nayar 1971: 857-58).

Accordingly, the FICCI emphasized consumer goods in the draft plan, which according to Nayar (1971) has remained a ‘distinctive and unalterable feature of the FICCI position on economic policy throughout the planning period’. This, however, was obvious as the organization has largely been the chief spokesperson of the large scale manufacturing industry. Nayar (1971) states that the FICCI strongly opposed the
role allotted to small-scale and cottage industries and forcefully argued that even if
elimination of village industries resulted in employment it would merely be a short
term phenomenon. Also, while on one hand, the FICCI was overly concerned about
industry, transport and communications; agriculture and related issues conveniently
took a backseat.

Baldev Raj Nayar (1971) has brilliantly summed up the FICCI’s critique of the
Plan-frame and its own stand. After the release of the government documents on the
Plan-frame for the second Five-Year Plan, the FICCI strongly opposed “total
comprehensive planning” and warned that total planning would neither contribute to
greater progress nor fulfil the targets and that ‘the dangers of centralized planning
involving regimentation of the economy are great’ and further, the administration will
also be unable to bear the strain of such planning. The FICCI made it clear that it
wanted “indicative planning”, while the appropriate role for government was to
concentrate on the development of infrastructure (Nayar 1971). This disagreement
between the business class and the government on issues of economic planning,
however, was resolved because of the national crisis over foreign exchange in 1957.

Third & Fourth Five-Year Plan

Subsequently in the third Five-Year Plan, the FICCI again pushed for ‘an emphasis on
consumption for pushing forward economic growth; restraint on the expansion of
public sector and the removal of controls on the private sector; a tough minded
position on social justice; a virtual reversal of the heavy industry strategy and the
expansion of consumer goods industry; a cut in taxation to encourage savings and
investment’ (Nayar 1971). This meant that the FICCI’s stand marked a return to the
strategy incorporated in the first Plan. It was during this period that the FICCI
supported the in-flow of private capital. It made a departure from its earlier Swadeshi
position as the business class came to realize that ‘foreign investment, rather than being a threat, was a profitable path in the form of joint ventures with local industrialists’ (Nayar 1971).

Furthermore, when the border crisis between China and India escalated, the FICCI extended its support to the government and shifted its emphasis from consumer goods to production of crucial metal cutting, metal forming and chemical industries. However, even at this critical juncture, the FICCI sought to protect the interests of the business class by putting forth demands for restructuring of the tax system to stimulate private investment (Nayar 1971).

However, as a consequence of the Sino-Indian Border, the government was faced with the problem of a new tax squeeze and rising inflation burden. The problems for the government did not end there. There was also an agriculture crisis of an unprecedented magnitude along with poor performance of the public sector. Meanwhile, the performance of the private sector vis-à-vis the public sector instilled greater self-confidence in the business class who found the government vulnerable at many points and thus, did not hesitate to make their differences known with the government over economic planning in a sharp and shrill manner. The FICCI boldly stated that the Fourth plan must be a ‘break from the past. It must be based on a new strategy’. Nayar (1971: 862) summed up the FICCI’s strategy as follows-

In its essentials this new strategy consisted of: replacement of comprehensive planning by indicative planning; a resource-based rather than need-based plan; restriction of the public sector to agriculture and economic infrastructure; removal of restraints and controls on the private sector; cutting down on heavy industry investment; priority for agriculture and consumer goods industry, but a halt to any land reforms; benign neglect for social services; an end to any
more new taxation and greater emphasis on public borrowing; reduced reliance on foreign aid but more on private foreign investment.

Thus, while the captains of Indian industry announced their commitment to participate in post-Independence economic planning, it became very clear that both state actors and the business class had very different conceptions of the appropriate range of power to be enjoyed by the state. The business class waged a war against all instruments designed to give teeth to the planning apparatus, while simultaneously pressing for more subsidies and protection.

2.6 Concluding Remarks

From the time of formulation of the Bombay Plan to the fourth Five-Year Plan, the business attitudes towards economic planning had undergone a significant change. This transformation in the attitudes of business to economic planning can be attributed to ‘the tension between the motivation of private profit that motivates businessmen at most times and the transcendence of this motivation- at least in verbal terms- for short intervals in times of crisis or nationalistic fervour’ (Nayar 1971: 863).

However, Indian business continued with expansion and consolidation despite the advent of the licensing system and no discerning observer could miss the fact that private capital had a much wider and promising horizon for investment and profit. Tripathi and Jumani (2007: 154) argue that ‘continued political stability within a democratic framework- something that few countries emerging from colonial domination at that time could boast of- and growing signs of the Indian populace craving for material comfort-the revolution of rising expectations- added to the overall optimism’.
It should be clear from the foregoing discussion that the Indian state and the business class enjoyed a reasonably cooperative relationship in the two decades following independence. Mukherji (2008) argues that domestic industrialists assumed the position of junior partners and accepted regulation in return for protection and government finance. While the first Prime Minister, Jawaharlal Nehru preferred more regulation, he was clearly not in favour of pushing the private sector to the corner (Franknel 2005; Mukherji 2008). Mukherji also points out that the brief interlude of Prime Minister Shastri brought the business class close to the Prime Minister’s Office. However, this development was short-lived because of Shastri’s death in 1966.

Kudaisya (2003) holds that the regulation of the private investment was more liberal than what many in the policy circles would have desired at that time. New industrialists also emerged, with some erstwhile traders now entering into manufacturing fields. One of the most successful new entrepreneurs on the scene was Dhirubhai Ambani, whose meteoric rise from a petrol-pump attendant in Aden to top industrialist continues to fuel aspirations of millions even today. Further, the political strength of India’s entrepreneurial class grew manifold and business associations like the FICCI were able to articulate their demands to the government in a systematic manner.
3.1 Introduction

Statist developmentalism played a crucial role in the transformation of the economic potential and activities of the business class from the 1950s to the 1980s. Sinha (2003) forcefully argues that ‘state intervention is necessary not merely to correct market failures arising out of scarce capital, externalities, and technological improvements but also to achieve long term capital accumulation and society-wide developmental goals’. Contrary to the conventional view that interventionist states harm private activity, evidence suggests that new policy enunciations did not offer much of an immediate threat to the private enterprise. In other words, even though the socialist rhetoric reverberated through policy pronouncements, the private enterprise system did not suffer from insecurity and in fact, registered considerable progress.

Tripathi and Jumani (2007) note that by and large, the private sector was left undisturbed in its areas of operation as except for a few companies like TISCO, most private companies were largely dealing with consumer goods, which the state was highly unlikely to enter under the new dispensation. In addition, the government also provided credit facilities through the setting up of Industrial Finance Corporation of India (IFCI), National Small Industries Corporation (NSIC), Industrial Credit and Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI) and Industrial Refinance Corporation of India (IRCI). This was essentially meant to provide the private enterprise with funds for industrial projects on a long
term basis as the Indian banking system found itself ill-equipped to advance such large funds. These developments have led Aseema Sinha (2010: 461-462) to argue that-

State-led development facilitated the rise of nascent and new businesses, provided credit and budgetary support in the form of concession finance to both the public and private sectors, and defended the interests of national business against outside capital. More indirectly, public-sector effort provided the background for private capital to thrive and develop by laying the massive infrastructure of a modern industrialized economy. Even more interestingly, and counter-intuitively, restrictive regulations on prices and the poor-quality of infrastructure forced Indian companies to evolve cost-saving techniques and innovate.

3.2 The License-Permit Raj

As discussed in the previous chapter, the government was vested with vast regulatory powers under the system of centralized planning. Subsequently, certain unanticipated distortions had crept in and overshadowed the intended purpose of the new policy pronouncements. Instead of encouraging competition, the industrial licensing policy contributed to inefficiencies by creating severe entry and exit barriers and encouraging rent-seeking and lobbying (Basant 2000).

Tripathi and Jumani (2007) argue that though one of the objectives of the licensing policy was to prevent the rise of monopolies, the licensing system, by design, was tilted in favour of large business houses, because by being better informed and organized they could jump the queue and pre-empt others. Thus, control and licensing measures were more often than not, rendered ineffective, even counter-
productive. This has led many scholars to argue that the licensing system impeded the development of the private enterprise by placing limits on its growth and that the national government, with its big-brother posture, turned out to be too watchful for the Indian business to realize its full potential.

Kochanek (1974: 83), however, holds that this pattern of public policy post-Independence significantly impacted the business-government relationship. He argues that-

In addition to endowing government with vast regulatory powers, this licensing procedure provided an almost unlimited reservoir of benefits which it could distribute to individual businessmen in the private sector. The industrial license was the most important benefit bestowed by the government, because it automatically provided a near monopoly in the field. Large profits were equally predictable because of the government’s protectionist policies. The licensing system, therefore, generated fierce competition among business houses for a share in the available licensed capacity. Such cutthroat competition tended to inhibit the development of collective action to deal with larger policy issues.

This pattern of public policy necessitated a comprehensive system of interaction between the state and the private sector, thereby encouraging private business to organize itself for securing an industrial license and responding to details of government regulation and control. Government too, recognized the need for a formalized channel for consulting the private sector and created statutory bodies for consultation. These bodies, in turn, forced the business class to put in place industrial associations for collective dealings with the government (Kochanek 1974). Moreover, apart from these institutionalized forms of interaction, large business houses also
gained key access to decision-makers. Thus, scholars argue that the period from the early 1950s to late 1960s was the ‘golden age of private sector development based on business-government co-operation’ (Kochanek 1974).

However, this golden period of institutionalized interaction started to erode and the business influence on government policies weakened considerably. Mukherji (2008) holds that the period between 1969 and 1974, was marked by an adversarial approach toward the private sector. This was also the time when India’s democracy was deepening and the dominance of the Congress System was being challenged and when state-society relations, in the words of Lloyd and Susanne Rudolph, had moved from a pattern of “command politics” to “demand politics” (Rudolph and Rudolph 1987; Corbridge 2009).

Due to political compulsions of the time, Indira Gandhi befriended the Communist Party of India and what followed was the most radical phase of state intervention. The establishment of Monopolies and Restrictive Trade Policies Commission vested with the statutory authority to stringently regulate all large Indian companies whose assets were Rs. 200 crore or more, impeded the expansion of large private houses. Mrs. Gandhi’s regime witnessed the expansion of public sector as the government took over crucial industrial sectors such as banks, insurance, coal, steel, copper industry and wheat trade. The Foreign Exchange Regulatory Act (FERA) further introduced mounting restrictions on foreign capital investment by reducing the permissible foreign equity participation in Indian industry from 51% to 40%. This growing radicalism added to the insecurity of expatriates. These policies also discouraged potential foreign investors, thereby bringing about a decline in inward investments. Consequently, the foreign share of industrial activities declined by 1980 (Kumar 1994; Pedersen 2007). Tripathi and Jumani (2007) hold that among those
companies whose fortunes FERA had the most dramatic effect on were the subsidiaries of the petroleum multi-nationals- Burmah Shell, Standard Vacuum and Caltex who had already been pushed to the margins since the origin of the Indian Oil Corporation in 1964.

An interesting fact that emerges from the reading of economic history is that companies like Hindustan Lever and Indian Tobacco Company (ITC) remained unaffected by the economic radicalism of their times as they had already reduced foreign holdings in their ownership structure and had also made serious attempts to Indianize their management. Tripathi and Jumani (2007) believe that these companies were no more affected than their indigenous counterparts and in fact, were in a position to diversify their activities. ITC, for instance, diversified into hospitality industry, marine products, paper and export trading, cement. The diversifications, in effect, completely transformed the nature and character of the company.

Other than the plight of the expatriates, the indiscriminate expansion of the public sector was a defining feature of the Indira regime. As many as 131 new enterprises were added to the public sector within a period of fourteen years from 1970-84. In addition, the government also stringently controlled major banks, financial institutions and insurance companies. This has led business historians to argue that ‘the public sector emerged by the mid-1980s as a vast conglomerate of heterogeneous industries- a veritable leviathan dominating almost every major branch of the nation’s business’ (Tripathi and Jumani 2007).

However, the management of the public sector left much to be desired and the public sector failings led to public outcry as the common man expected the public sector to achieve what the private sector could not. Moreover, public sector undertakings were under greater scrutiny because of their reliance on the national
exchequer for finances. Tripathi and Jumani (2007: 206) document that while initially the expansion of public sector was criticized by a few economists and right-wing politicians, with the passage of time-

The disillusionment with the public sector became much more widespread. The supporters of the public sector ideology in the meantime dwindled in number and declined in influence, as the generation of the political class, for which the left-of-the-centre ideology was an article of faith, disappeared from the scene, and social hostility towards private enterprise, prevailing at the time of independence, became less and less acute in the face of the gathering disaffection against the public sector.

Subsequently, Indira Gandhi’s second tenure was a clear retreat from the policy of radical state intervention which will be dealt with later.

3.3 Economic Change, Business & Developmental State

While India’s private enterprises registered a comparatively slower growth from the 1945 to 1980s. Crucial structural changes were a characteristic feature during 1970s and 1980s; it is these changes that were to later leverage India’s business strengths in the 1990s. Considering that Indian economy grew at a sluggish rate of 3-4 per cent per annum in the period post-Independence, the growth acceleration in the recent decades has been quite remarkable.

Kohli (2006) argues that while the cumulative changes in the nature of the Indian economy since Independence as well as the shifts in the global context are partly responsible for the Indian growth story, a central issue for interpretation concerns the changing role of the state within India. Kohli (2006: 1252) argues that rapid industrialisation in the developing world was promoted not by minimal states
that embraced the market but by highly interventionist states who ‘prioritised economic growth as a state goal, ruthlessly supported capitalists, repressed labour, mobilised economic nationalism to provide social glue, and channelled firm activities to produce both for protected domestic markets and for exports’.

Similarly, scholars like Alice Amsden, Robert Wade, Vivek Chibber also argue that the quality of state involvement in East Asian Economies positively impacted the growth rates. Chibber (2003: 6) writes that-

…these economies-Japan, Taiwan and South Korea- had engineered their spectacular success not through any fidelity to free-market policies but with a reliance on highly interventionist industrial planning. The Korean and Taiwanese states had actively manipulated trade and exchange rates, the allocation of finance as well as the price structure of the domestic economy, it was also shown that both countries not only had developed a large public enterprise sector but had also been active in directing the structure of private investment.

3.4 Two Varieties of Statism

During its era of intensive development, the Korean government made effective use of private sector resources. Woochan Kim (2011) outlines the three main factors behind the phenomenal achievement in the private sector. Firstly, support from the state in the form of government subsidies enabled Chaebol firms to enter new industries and enlarge their sizes. Secondly, export-oriented growth and fierce competition in the export market functioned as a disciplining factor, resulting in the minimization of waste. Lastly, the government refrained from expanding the public sector, thereby leaving ample room for the private sector to expand.
Woochan Kim (2011) argues that the most important policy change in the 1960s was a shift from import substitution to export promotion. While in the beginning, promotion measures were introduced in a piece-meal fashion i.e. tariffs were exempted on imports of raw materials and intermediate goods for export production, income taxes were reduced for export earnings and preferential loans were extended for exports. It was in 1964 that the government adopted the Comprehensive Export Promotion Program that put together all the past export promotion measures into a comprehensive framework.

Further, export performance was closely monitored by the head of state and great emphasis was laid on meeting export targets. Woochan Kim (2011) holds that ‘Full cooperation with the government simply meant more profits’. For instance, Woo-Jung Kim of the Daewoo Group which dealt primarily in exporting textiles, apparel and leather products succeeded in enjoying preferential treatment loans, exemptions and tax benefits because it was successful in achieving export targets set by the government. This, however, did not mean that business entrepreneurs were completely passive. Woochan Kim (2011) reminds us that their entrepreneurship and business acumen also proved to be a crucial determinant in the spectacular growth of the economy.

Thus, the quality rather than the fact of state involvement led the industry toward greater efficiency and productivity. Chibber (2003) remarks that – ‘much of the interesting variation in the outcomes (in this case, success in fostering industrial development) depends on the state’s having the capacity to fulfil the tasks assigned to it’. In a similar vein, Alice Amsden (1990) forcefully argues that-

All governments know that subsidies are most effective when they are based on performance standards. Nevertheless state power to impose such standards,
and bureaucratic capability to implement them, vary from country to country... The state in Korea, Japan, and Taiwan has been more effective than other late-industrializing countries because it has had the power to discipline big business.

So, while the Korean state was characterized by ‘adequate state capacity’, the Indian state with its ‘excessively bureaucratic style, lack of coherence in policy and utter inability to discipline big business’ failed to install a developmental state and prod the business class towards achieving greater efficiency. Moreover, the Indian state adopted the import-substituting industrialization (ISI) in place of export-led industrialisation (ELI) which ‘generated different political incentive structures for the capitalist classes: ISI made it possible, even rational, for Indian capitalists to resist the effort to build a state that could impose discipline on private firms; ELI, on the other hand, made it rational for Korean business to acquiesce to its own disciplining by a developmental state’ (Chibber 2003: 10).

3.5 The Political Economy of Reforms

Responding to Chibber’s thesis that the Indian state was not successful in disciplining big business (which is why, the state was less successful in securing economic growth), John Harriss (2010) argues that India’s economic development was largely constrained by an ambiguous climate with regard to private sector development and that high rates of growth have followed from a shift in the ‘investment climate’, starting in the 1980s.

Similarly, Kohli (2006) argues that the sluggish growth rate prior to 1980 can be largely attributed to the state-dominated economy wherein the state pursued a ‘variety of goals simultaneously, and none too effectively’ and holds that the growth
acceleration since 1980 can be associated with ‘a narrowing of the state and capital ruling alliance, the state’s near-exclusive focus on growth promotion as a priority goal, and institutional insulation of key economic decisions from popular pressures’.

As discussed earlier, the regime of radical state-industrialization and indiscriminate expansion of the public sector could not be sustained politically beyond 1970s (Kohli 2006; Tripathi and Jumani, 2007). After returning to power in 1980, Indira Gandhi prioritized economic growth, and ‘put the rhetoric of socialism on the back-burner’. Kohli (2007: 17) argues that this political shift was a reflection of several underlying political realities—

a growing realization that redistributive possibilities were increasingly limited,
the negative impact that radical rhetoric had on the state’s relations with the corporate sector, as well as on the corporate sector’s willingness to invest; of course, relatively low economic growth, especially industrial growth, during the 1970s.

Thus, the government sought to reorder the class underpinnings in favour of capital and the policy shifts went beyond actively supporting the business class in their profitable endeavours. Policy changes included tax breaks and subsidies to the corporates, expansionist monetary and fiscal policies, supply-side supports, greater public investment along with limiting the labour’s capacity to strike (Kohli 2007).

As far as the policy preferences of the business class in India are concerned, the most remarkable trend was the discontinuation of the unified opposition to external liberalization. Kohli (2007: 19-20) points out that—

Import substitution protected business houses either became more competitive over the 1980s or lost their political capacity to sway policy. As the newer, more globally oriented business houses converged around a refurbished,
government supported chamber of commerce— the Confederation of Indian Industry— the alliance of state elites and of select members of the corporate sector was able to push through an external opening of the economy.

The government’s pro-business policy regime in the 1980’s which led to a relative ease of entry and growth, benefitted big business firms. Other groups of beneficiaries included new players like Reliance who were politically well-connected and were now in a position to compete with giants like the Tatas and Birlas. Over the years, business had grew increasingly critical of the licensing system, high rates of corporate taxation, of the severe restrictions on imports of goods and technology and the tight controls on foreign investment and foreign exchange transaction (Nayar 1998). The liberalisation program took care of these concerns of big business firms and dismantled the licensing and control structure. Taxes were also cut drastically in this period. Even though there was grumbling on the part of the small scale industrial sector, it was successfully eclipsed by the welcome accorded by big business. This has led scholars to the conclusion that the liberalization program was pushed by a ‘narrow coalition’ which included narrow political leadership, technocratic policy elite, and a segment of Indian capital and external actors like the IMF (Jenkins 1999; Kohli 2006).

3.6 Reforms in the 1990s

Faced with a balance of payment crisis which was further precipitated by rising inflation, the P.V Narasimha Rao government introduced big-bang reforms that pushed the Indian economy towards global economic integration. Attributing the crisis to unsustainability of expansionary macroeconomic policies that were undertaken in the 1980s, the pro-competitiveness technocracy brought about
significant changes in industrial, trade and infrastructure policies in 1991 that were by and large, in line with the ‘Washington Consensus’ (Mukherji 2008). Efforts were made to bring down the fiscal deficit through cuts in defence spending and in subsidies for exports, sugar and fertilizers; system of industrial licensing was dismantled and the reforms also opened the door to greater foreign direct investment in India.

Nayyar (1993) argues that the origin of the crisis which surfaced in 1991 can be attributed to the large and persistent macro-economic imbalances since the 1980s. It was observed that the large fiscal deficits, overtime, had a spill-over effect on the trade deficit culminating in an external payments crisis. The internal imbalance in the fiscal situation and the external imbalance in the balance of payments situation were sharply accentuated by impact of the Gulf Crisis on the economy in late 1990. A combination of such events led to an unprecedented erosion of international confidence in India. Subsequently, Moody’s and Standard and Poor also downgraded India’s international credit rating (Corbridge 2009).

The disintegration of the Soviet Union in 1991 and the resultant loss of export markets and foreign assistance pushed India closer to the U.S. and the World Trade Organization. Long term critics of India’s development strategy welcomed the reforms. To quote Behrman & Srinivasan (1995: 2468), ‘The dethronement of the higher dominant paradigm and elevation to a higher status, if not enthronement, of openness, competition and the market in development is best illustrated by India, the earliest articulator of, and the last among major developing countries to abandon, the dominant paradigm’. Furthermore, Washington too, used the prevailing debt crisis in Latin America to launch a bold assault on the dirigiste forms of economic
management (Corbridge 2009). It was under such circumstances that the minority government pushed through economic reforms.

Nayar (1998) argues that almost simultaneously with the stabilization measures, the state took on the task of economic restructuring that was beyond any IMF conditionalities that may have been required. The underlying premise behind such a restructuring was largely the realization that earlier policies had failed to achieve growth and eliminate poverty.

3.7 Politico-Economic Interpretations of the Reforms

Characterizing the 1991 episode as merely a liquidity crisis, Arjun Sengupta has questioned the necessity of initiating such a complete package of reforms. Bhaduri and Nayyar (2007) argue that, the balance of payments crisis was relatively minor and the temporary crisis of liquidity could not be blamed on the flaws in India’s post-independent development strategy. But the government did just that and introduced the big-bang reforms. Similarly, Patnaik and Chandrashekhar (1995) also maintain that in spite of certain flaws, the planned economy should not have been held responsible for the economic crisis which necessitated the IMF loan. They argue that the crisis was entirely speculative in origin and not related to the immediate performance of the real economy.

John Harriss and Stuart Corbridge (2000) hold that the economic reforms in 1990s had largely taken the form of an “elite revolt” against the dirigiste form of economic management that constrained India’s loose coalition of business groups and urban middle class. In a similar vein, Ashutosh Varshney (1999) argues that reforms were essentially elite concerns focusing on liberalizing capital markets and the trade regime. He holds that elite politics largely takes the form of consultations between
business and government, and between the Indian government and the global financial institutions whereas mass politics, is conducted on the streets through agitations/demonstrations. According to Varshney (1999: 249),

Reforms that touch, directly or primarily, elite politics have gone farthest: a large devaluation of the currency, a restructuration of capital markets, a liberalization of the trade regime, and a simplification of investment rules.

This argument helps explain the persistent failure of the state to tackle fiscal deficits, restructure labour laws, reform agriculture or modernize state-owned enterprises.

Further, Rob Jenkins’ (1999) institutionalist argument throws light on the consolidation of the reform process. Jenkins argues that in the climate of openness, governing elites were successful in ‘selling the benefits of reform to individual constituencies and the public at large’. He further suggests that the reform process has been implemented in the post-1991 period in a fairly informal manner. Under the guise of continuity, the political class succeeded in concealing the reform’s radical implications and thereby, re-assuring those groups who may be threatened by them by negotiating policies and accommodating interests. Hence, Jenkins’ position is that the state has in fact, a greater measure of autonomy than what is conceded by theorists and the two features of the Indian polity- namely, democracy and its federal structure have enabled to state to push through economic reforms. Jenkins argues that political institutions can neutralise opposition to reforms by promoting longer time horizons and institutionalizing bargains between competing groups.

Similarly, Manor (1995) argues that the reforms were cleverly implemented and that changes in policy were announced steadily, in modest steps. Since, reform measures were most likely to affect only a narrow set of interests and incur
displeasure of another set of interests; the government postponed any further steps and let the resentment dissipate.

One of the primary reasons why the political class avoids political confrontations and prefers to undertake reforms by stealth is provided by Pranab Bardhan (1998) who argues that the enthusiasm for reforms among the richer regions and the upper castes/classes do not eventually “trickle down” to the marginal ones and thus, ‘even the most avid reformist politicians find it necessary to tone down their reform rhetoric at election time, when they have to face the unwashed masses’. Thus, the economic reforms unfolded through a process of political accommodation and negotiation and were largely driven by elite concerns. Political changes since about 1980s have been fairly dramatic: ‘a reluctant pro-capitalist state that flirted with socialism has essentially been supplanted by an enthusiastic pro-capitalist state with a neo-liberal ideology’ (Kohli 2007). There has been a reordering of the state’s class underpinnings, in the favour of capital and against labour. Thus, the reforms in India ‘have been prosecuted by or on behalf of social elites which have been in revolt against an earlier model of state directed economic development’ (Corbridge and Harriss 2000).

3.8 Concluding Remarks

The story of the Indian economy throws light on the pulls and pressures of policy-making in a democratic polity. From the enthusiastic nation-building efforts to the constraints of the planned economy, from incipient liberalization to dramatic globalisation, business and the policy-making apparatus in India have covered a long journey. One of the most striking features of the Indian growth story has been the change in the composition of the growth pattern where the services sector grew by
43.7 per cent (in current rupees) and 34.4 (in current dollars) in the last two decades, and constitutes more than 50 per cent of the economy (GDP) (Kapur 2002 as cited in Sinha 2010). New business groups in the service sector were involved in the Information Technology (IT), pharmaceuticals, hotels and other commercial ventures (Sinha 2010). Furthermore, Baru (2000) states that ‘nearly a quarter of the top one hundred private companies in India today are owned by first generation businessmen’. These new groups include Reliance, Ruias (Essar), Mallya (UB group), Abhay Oswal, Mittals, Nagarjuna, as well as the new pharmaceutical companies, Ranbaxy, Sun Pharma, Dr Reddy’s Laboratories, and in other sectors TVS Sundaram, Hero Honda, Onida, Videocon, among others (Baru 2000; Sinha 2010).

Thus, at the national level, expansion of economic activity has created a large, diversified and a complex business class. Business is organized along different dimensions and such diversification challenges the conceptualization of business as a homogeneous category of social power. In fact, the institutional landscape of business and business associations is marked by fragmentation, competition and conflict. This is most evident in the case of competition between the prominent national business associations- FICCI, CII and ASSOCHAM.
CHAPTER FOUR

INSTITUTIONAL LANDSCAPE OF BUSINESS ASSOCIATIONS IN INDIA

A CASE STUDY OF CONFEDERATION OF INDIAN INDUSTRY

4.1 Introduction

Drawing on public choice theories, most scholars argue that business associations are dominated by short-term, rent-seeking concerns which more often than not, come into conflict with broader societal goals. Yet, empirical research in many developing countries points to the fact that business associations undertake a broad range of functions and activities, many of which promote efficiency. This chapter seeks to document the changing relationship of business and politics in India through a discussion on the institutional landscape of business associations, especially the Confederation of Indian Industry and also attempts to capture the interactional dynamics of the associational marketplace in India by focusing on the conflict of interest that lies behind the façade of modern, bureaucratic associations.

4.2 Background

The emergence of modern voluntary associations in India dates back to the colonial times. The Bengal Chamber of Commerce was formed in 1854 and soon, became a powerful influence on government in matters of industrial policy (Kantha and Ray 2006). Drawing on interest group literature which suggests that groups proliferate during periods of rapid change, Kochanek (1974, 1996) argues that business associations in India developed in the early part of the nineteenth century as a
response to the end of monopoly of trade of the East Indian Company and acceleration of social change under colonial rule and British economic policy. As a result, caste-based associations and caste federations expanded their activities to include politics in order to counter the forces of modernization and social change. Moreover, the indigenous entrepreneurial elite and merchants strongly felt that British trade and economic policy were heavily tilted in favour of foreign capital and thus, organized themselves into associations to counter the influence of foreign capital on British economic policy. Kochanek (1974: 8) states that-

Eventually they supported the educated middle class in founding of the Indian National Congress, which was formed as a pressure group demanding greater Indian participation in the colonial government. Although some businessmen dissociated themselves as the Congress became more radical, Indian business became the chief source of funds for the nationalist movement.

Thus, throughout the period of nationalist agitation, the Indian entrepreneurial elite strived hard to carve a distinct identity from that of foreign capital by arguing that their interests were not the same as those of foreign capital and thus, the voice of British business in India could not be considered representative of the indigenous entrepreneurial elite. Subsequently, the Indian business community succeeded in gaining seats in the legislative councils at both the state and the national levels and were also represented on various advisory bodies. This has led Kochanek (1974: 9) to argue that ‘business was the only major economic interest in the modern sector which organized itself for collective action and was capable of articulating and pressing its own demands on government independently of the nationalist movement’.

However, despite advantages of early mobilization, the business community has been incapable of acting as a unified business class and cleavages within the
business community based on caste, region and family continue to manifest themselves in the multiplicity of competing business associations (Arora 1981; Kochanek 1996). Further, the historical split in interests between foreign and indigenous capital still survives in an “evolved form” in internal politics and external relations of the various business associations (Namjoshi and Sabade 1967).

While there are numerous business associations at national, regional and sectoral levels, the institutional landscape of business associations in India is dominated by Federation of Indian Chambers of Commerce (FICCI), Associated Chambers of Commerce and Industry (ASSOCHAM) & the Confederation of Indian Industry (CII). These organizations differ greatly in their culture of participation, extent of financial resources and power available to them. They also differ ‘in a variety of other ways including regional representation, number and size of business houses represented, size of staff, strength of secretariat, physical infrastructure, patterns of control, strategies and relations to government’ (Kochanek 1996).

4.3 FICCI and ASSOCHAM

The FICCI

As discussed earlier, until the 1880s, the FICCI was the largest, most broad-based apex organization representing trade and industry in India. Interestingly, in 1956, B.M Birla, one of India’s top industrialists noted, “I think the FICCI is the largest party in a sense, next to the Congress Party, which is so well organized” (as cited in Kochanek 1996). Founded in 1927 to counter the forces of foreign capital and act as a voice of indigenous capital, the FICCI increasingly came to be dominated by Calcutta and Bombay, the two largest centres of trade and industry in the country (Kochanek 1974, 1996; Nayar 1998). In the words of one of its founders Purshotamdas Thakurdas,
“The original object of starting the federation was to get a proper foothold before the executive at Delhi, so that the claims of the Indian commerce and industry would not be at a disadvantage in comparison with those of European interests” (FICCI, Silver Jubilee Souvenir: 184).

Kochanek (1974: 160) holds that the creation of the FICCI as a permanent body to articulate the interests of Indian capital was a remarkable achievement. He argues that-

The federation came into being despite innumerable family, community, and regional rivalries and was able to survive despite the development of strong conflicting interests and differences over political strategy and tactics. Thus, even though the new federation has never represented all of the Indian business communities, it was clear that the new apex chamber, with its twenty-four members drawn from Calcutta, Madras, Lahore, Karachi, Delhi, and Ahmedabad, was the most representative Indian business association in the country. Furthermore, it marked the beginning of sustained associational activity at the all-India level. The FICCI became an important forum for the expression of Indian views on all economic policies affecting the sub-continent.

However, factional conflicts plagued the federation almost immediately after its creation, when the Congress began its second major civil disobedience campaign in 1930. Politically, the close identification of the federation with the Indian National Congress was resented by most Parsi and Gujarati industrial houses belonging to the Bombay Millowner’s Association. These industrial houses not only withdrew financial support from the Congress but also went so far as to sign a separate agreement with British industry. Following this event, a factional battle ensued and
the Bombay group was defeated which led to the ascendancy of the Calcutta Marwaris in the federation (Kochanek 1974). Their position was further strengthened when the Bombay industrialists led by Tatas and Mafatlals decided to resign over a clash within the federation involving business ethics.

But by the late 1970s, Bombay replaced Calcutta as the dominant group in the federation as a result of rise of Communist group in West Bengal and the ensuing decline in industrial growth in West Bengal. This intense regional competition and conflict among top business houses for supremacy eventually led to the split in the Federation of Indian Chambers of Commerce and Industry in 1986 on the eve of the celebration of its Diamond Jubilee Anniversary (Kochanek 1996).

Moreover, traditional patterns of leadership selection and conflict management also started to erode as many of the patriarchs of the old established business houses died (Kochanek 1974). The ensuing family feuds and competition for office in the federation made conflict management difficult. More importantly, there was a breakdown of consensus (Sisson 1993). This breakdown was accompanied by the ‘manipulation of established norms, rules and procedures, including the competitive enrolment of bogus members to control elections’ (Kochanek 1996). Further, business houses from the North and the South also challenged the dominance of the Bombay and the Calcutta group in the federation and demanded a greater say in the federation affairs. Also, it must not be forgotten that the FICCI was never representative of the entire business community and was heavily tilted in favour of the top industrial houses which provided for the bulk of its associate membership income. This pattern of oligarchic control had negative consequences for the maintenance of organizational cohesion (Kochanek 1971).
In 1982, the federation witnessed yet another major split over the issue of control of organizational elections and decision-making in the federation. Kochanek (1996: 536) argues that ‘Reduced to a minority, the Bombay group charged that most of the new members were bogus or “controlled members”. The North, however, insisted that all new members met existing federation rules for membership and were therefore legitimate members’. The editor of one of the leading financial newspapers went so far as to comment that federation politics had become “reminiscent of factional maneuvers of political parties” in India (Financial Express, May 25, 1985). Finally, the Bombay group resigned from the federation.

However, R. P Goenka, the new federation President, adopted a conciliatory approach and convened an informal meeting with senior leaders where it was agreed that the federation would address the issue of bogus membership. As a result, the Bombay group agreed to withdraw their resignations from the federation. The compromise, however, was not successful and unlike 1985, the split became final.

Thus, factionalism and internal group politics was a regular feature of the federation and eventually, led to the split, following which the FICCI was no longer the most prestigious and broad-based apex organization in the country. The split had far-reaching consequences on the institutional landscape of business associations in India as it led to the revitalization of ASSOCHAM and the rise of the Confederation of Indian Industry.

**ASSOCHAM**

In contrast to the FICCI, the Associated Chambers of Commerce (ASSOCHAM) was formed by British business as a response to the growth of Indian political and economic nationalism. Although it was conceived as a federation, it increasingly came to be dominated by the Bengal Chamber of Commerce (representative of British
managing agency interests) which provided the leadership and resources to support the organization in return for position of dominance within the organization (Kochanek 1974: 117). Interestingly, ASSOCHAM survived and even prospered in the post-Independence era as the government policy and elite attitudes oscillated from antagonism, partial acceptance to active encouragement of foreign capital (Kidron 1965). However, the growth of ASSOCHAM needs to be seen in the context of changing nature of foreign capital in the years after independence.

As discussed earlier, after Independence, ASSOCHAM Indianized its capital and management and as a result, power passed into the hands of multi-national corporations located largely in Mumbai. This made the leadership of foreign investment in India much less insecure. ASSOCHAM changed from a ‘gentlemen’s club of merchants into a modern, professionally organized trade and industry association’ (Kochanek 1996).

Further, following the resignation of the Bombay group from the Federation of Indian Chamber of Commerce and Industry (FICCI), ASSOCHAM broadened its base further to include the Bombay group. The split of the federation also enabled the organization to broaden its interest base, expand its membership, and thereby, receive a massive infusion of money and talent (Hardgrave and Kochanek 2007). ASSOCHAM, now claimed to represent a total of 4,80,000 direct and indirect members (Kochanek 1996). Although it was smaller than the FICCI, ASSOCHAM came to represent most major foreign multinational companies along with a majority of India’s top 20 business houses. Hardgrave and Kochanek (2007: 462) note that- ‘The reorganization, however, also shifted power within the organization away from professional managers toward India’s large family-dominated business houses, and ASSOCHAM became transformed into a mirror image of the FICCI’. The main point
of difference between FICCI and ASSOCHAM, however, was that they differed in their regional base. While the FICCI largely tended to reflect the interests of the North and the East, ASSOCHAM represented the interests of business of western India (Kochanek 1996).

Kochanek (1996: 541) also notes that the split in the FICCI led to an intensification of struggle for supremacy between the FICCI & ASSOCHAM wherein ‘competing claims of supremacy rested on questions of size, representation and the degree of proximity to government’. Although the split reduced the membership of the federation, the FICCI still remained the largest business association of the country. The loss of bogus members, however, had a crushing impact on the federation’s budget. Business India (1988) noted that income from subscriptions dropped from Rs. 82 lakh in 1985 to Rs. 50 lakh in 1987 which was not sufficient to even cover operating costs. As far as the quality of membership was concerned, ASSOCHAM took the lead as it could lay claim to a majority of the top industrial houses. The FICCI however, could boast of a superior secretariat with a larger and a more specialized staff. Kochanek (1996) reminds us that because of its historical development, ASSOCHAM did not have a secretariat in Delhi as all secretariat services were provided by the Bengal Chamber and thus, even after reorganization when ASSOCHAM shifted its entire secretariat functions to New Delhi, it was never able to match that of the federation.

The competition between the FICCI and ASSOCHAM assumed an ugly proportion on the issue of control of India’s Joint Business Councils (JBCs), which were created under bilateral trade agreements between India and its major trading partners as forums for discussion on issues concerning trade, investment, technology transfer etc. Kochanek (1996: 543) notes that-
The JBCs, however, were more than simply vehicles for bilateral business discussions. They also enabled Indian businessmen to gain easy access to ministers and top decision makers. The public fight for control of the JBCs, noted the Indian Express (April 16, 1988), “is a commentary on the times when economic decisions are generally not taken on merit and industrial units pride (themselves) on their ability to get things done through sefarish (connections)”. 

Today, although the traditional barriers between Indian and foreign capital are breaking down and there is substantial overlap in membership between the FICCI and the ASSOCHAM, the fissures between FICCI and ASSOCHAM have widened. In the year 2000, ASSOCHAM snapped its ties with FICCI, following the “big brother” behaviour of the federation which peaked during the visit by the erstwhile U.S. President Bill Clinton. The Hindu (2000, May 19) reports that-

ASSOCHAM officials concede that the bulk of the back room effort is done by FICCI because it manages the secretariat for the various JBC’s. Mindful of FICCI’s larger contribution to the functioning of JBCs, ASSOCHAM deliberately played second fiddle. “But the JBCs did not follow the spirit of partnership. There was no partnership approach at all decision making process and in the drawing up and finalising of programmes and related activities”, said Mr Bajaj.

FICCI, on the other hand, appeared to be unaffected by ASSOCHAM’s withdrawal from the JBCs and went as far as to argue that ASSOCHAM’s contribution, since 1988 when the partnership was established had always been of a “very miniscule number of companies participating from their side” and that ASSOCHAM had also
“reneged” on its financial obligations to the tune of Rs. 53.59 lakhs, towards FICCI for the working of the JBCs since 1994 (Business Line, May 21, 2000).

The battle for control over JBCs has thus, assumed a massive proportion. Recently, the ASSOCHAM Secretary General DS Rawat wrote a letter to the Ministry of External Affairs demanding that the existing system of JBCs should be revived and ASSOCHAM-FICCI-CII should be entrusted with an equal number of JBCs so as to facilitate quicker and more effective initiatives in promoting the cause of trade and industry (Zee News, July 30, 2012).

4.4 The Story of CII: Introduction

The Confederation of Indian Industry is a non-government, not-for-profit, industry-led and industry-managed organization. It has a direct membership of over 7100 organizations from the public as well as private sectors, representing small and medium enterprises as well as business giants. It also has an indirect membership of over 90,000 companies from around 250 national and regional sectoral associations (‘Membership’, n.d.). CII has an extensive reach both nationally as well as internationally where it operates through a network of nine overseas offices, comparable to trade offices.

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry and has initiated seminal movements for industry in many areas such as quality standardization, corporate governance, social responsibility, technology, energy and environment management etc. Additionally, in order to strengthen these services, it has also set up institutes of learning that supply training, resources, assistance and partnership to business in
management of quality, logistics, competitiveness, energy and environment (Kantha and Ray 2006).

4.5 The Origin of CII

The origin of CII dates back to 1895 when five engineering firms formed the Engineering and Iron Trades’ Association (EITA) under the aegis of the Bengal Chamber of Commerce. Kantha and Ray (2006) remind us that though EITA was dominated by British companies, its demands were in line with nationalist aspirations of the time. The EITA increasingly demanded that products be purchased locally as the import of steel and engineering products arrested industrial growth in India. However, even though the EITA was put in place to present a united front to policies affecting the nascent sector, it could not match the powerful manufacturing lobbies that influenced the imperial state from London.

This period also saw the establishment of the Tata Iron and Steel Company (TISCO) which was the first engineering company owned and funded by Indians. It positively impacted the confidence of the engineering industry in India and is believed to have led to the change in the name and nature of the EITA. Kantha and Ray (2006) argue that internal tension between manufacturers and traders was also an important factor in the change in name. A conflict of interest emerged as the traders preferred government orders to be placed with companies in the UK, while the manufacturers of engineering goods increasingly sought industry promotion through public orders (CII website). Kantha and Ray (2006: 26) write that-

In view of the fact that the government’s store purchase policy defined much of the activity of the EITA, the conflict between the ‘engineering’ part and the ‘iron trades’ was inherent. The decision within EITA to separate from trading
interests was therefore a crucial one. There was an understanding that it would soon become difficult to reconcile the interests of the manufacturers and traders under the same roof.

As a result, the name of the association was changed to Indian Engineering Association (IEA) in 1912. The Indian Engineering Association (IEA) carried on its correspondence with the authorities through the Bengal Chambers of Commerce, which gave the engineering association a ‘credibility and presence it may otherwise not have had’ (Kantha and Ray 2006). The IEA strived hard to achieve a more favourable stores-purchase and for greater protection to industry in the form of tariff protection. However, this period also saw the growth of a new class of Indian entrepreneurs which felt that the IEA was not as responsive to its needs. Thus, the Engineering Association of India (EAI) was established in 1942 and represented small and medium engineering firms that were owned and promoted by Indians. The EAI was affiliated to the Indian Chamber of Commerce (ICC).

Following Independence, the two associations were actively involved in expanding their membership and in articulating concerns of their members in matters relating to imports, raw material supplies and labour regulations. However, in the period after 1965, Kantha and Ray (2006: xiii) note that-

…external circumstances such as prolonged drought and wars within the neighbourhood, as well as internal factors such as the decline in public investment, caused an industrial recession that continued into the next decade. At the same time, policy environment restricted industrial growth and public perception of industry turned adverse. Communication between policy-makers and business was stultified. A new dimension in government-industry interface was needed.
As a result, the EAI and IEA merged into a single organization and also dissociated themselves from their affiliated associations. Kantha and Ray (2006) hold that this was an important development as both EAI and IEA were materially different to each other even though they were committed to the well-being of the engineering industry. IEA was affiliated to the Bengal Chamber of Commerce which was closely linked to the ASSOCHAM, whereas the EAI was set up under the Indian Chamber of Commerce and thus, belonged to the FICCI camp. Another point of contrast between the two associations was that while IEA heavily represented British interests, the EAI was founded by the Indian capital (Kochanek 1996). As a consequence, both the associations differed in their membership, organizational structure and culture of participation.

Thus, the formation of the Association of Indian Engineering Industry (AIEI) was one of the most important developments in the history of CII as it could now claim to represent the small and the large companies, the public and the private sector, British shareholder companies, Indian proprietors as well as the new generation of Indian entrepreneurs. More importantly, the merger helped in delinking the EAI and IEA from the FICCI and ASSOCHAM and created a new history in the chamber movement of India. Until then, regional and local chambers, industry associations and companies were compelled to choose between the FICCI and the ASSOCHAM (Kantha and Ray 2006).

4.6 The Rise of CII

This newly formed association, AIEI, held its first meeting on 24th April 1974 in which crucial decisions were taken that continue to guide the organization and functioning of CII even today. An important idea that emerged out of the meeting was
that the association needs to move into newer regions. It was also felt that the associations should represent a broad range of industrial interests. Another radical convention adopted at the meeting was that the newly formed association would deal with whichever government was in power on the same terms. Kantha and Ray (2006: 112) hold that-

Over the years, the association has adhered to the above guidelines with commendable discipline and commitment. These guidelines have helped tremendously towards providing it with a credible trust-worthy image, and the grounding for being a non-partisan and true representative of Indian industry.

Another point worthy of mention here is that the AIEI sought to form relationships with the lowest level of the bureaucracy where most of the work was initiated rather than intervene at the political level (Kantha and Ray 2006). This enabled the association’s secretariat to build friendly relationships with the bureaucrats, who in time, came to occupy key positions in the government when the economic reforms were being carried out. Further, AIEI adopted a cooperative approach in its partnership with the government.

Stanley Kochanek (1996) notes that the AIEI received a major boost from Prime Minister Rajiv Gandhi in 1985 when he agreed to address AIEI’s annual meeting at the very time when he had refused a similar invitation from the FICCI. The association also received a fair degree of visibility when Rajiv Gandhi invited AIEI leaders to accompany him on trip to the Soviet Union (Sinha 2005). However, by this time, AIEI realized that since it was a sectoral association, it could not really compete with apex associations such as the FICCI and ASSOCHAM. Thus, the AIEI began to include engineering related industries such as telecom, information technology and others into the core activities of the Association.
Further, Rajiv Gandhi’s thrust on modern engineering industries is also believed to have directly impacted the transition in 1986 when the name finally changed from Association of Indian Engineering Industry (AIEI) to Confederation of Engineering Industry (CEI). Aseema Sinha (2005) documents that Rajiv Gandhi suggested that CEI represent all industry and move beyond its engineering focus. He is reported to have told the Secretary-General, Tarun Das: “You are doing good work. I like the work you are doing. Why don’t you transform into a general industry association?” (as cited in Sinha 2005). Subsequently, after many deliberations and discussions, CEI became the apex body for manufacturing industries at the national level. In January 1992, the association changed its name yet again to become the Confederation of Indian Industry. Thus, the Indian state played a major role in transforming CEI from an association with an engineering focus to an all-industry association. This is in line with Schneider’s (2004) argument that state actors contribute to patterns of competition and collaboration among business groups; facilitated the rise of CII as a competitor organization to the FICCI.

Similarly, Aseema Sinha (2005) argues that in a quest to further his reform program aimed at technological modernization, external opening as well as a reduction of state intervention, Rajiv Gandhi renewed his links with the AIEI. AIEI was preferred over FICCI as over time; FICCI had become ‘protectionist, weak and had acquired vested interests in the continuation of a regulatory system rather than its withdrawal’ (Sinha 2005: 9). In contrast, AIEI’s stated aims such as globalization, deregulation, professionalism and strong partnership approach with the government resonated with Rajiv Gandhi’s reform program. Furthermore, AIEI with its office in Calcutta was outside of the pre-existing business-state networks and thus, could support the reform program wholeheartedly. Thus, by way of using the organization
as a platform to further the reform program, Rajiv Gandhi simultaneously ‘gave access, symbolic importance, and explicit tasks to CEI at a crucial moment in its development’ (Sinha 2005).

Kantha and Ray (2006) remind us that this was the time when the CEI also undertook unique initiatives to ameliorate the dismal condition of Indian industry. It initiated a quality movement among its member companies and also instituted missions for technology, energy, export promotion, environment conservation, thereby providing its members with crucial information. This has led many scholars to argue that CII represents a classic example of a “development association” responding to crucial market and state failure challenges (Shastri 1997; Sinha 2005). Aseema Sinha (2005: 8) writes that-

The CII supports the ongoing economic reform process pressuring the government to provide infrastructure (e.g. power sector reform) and a non-corrupt administration. It self-consciously abjures distributive and particularistic needs of its individual members, claiming that no narrow and individual specific demands of members are defended in front of the government.

Thus, from the early 1990s, CII has been the dominant organization representing the Indian industry. Kochanek (1996) elaborates that the rise of CII was a result of a multiplicity of factors. He argues that over time, CII became the richest business organization in the country wherein most of its Rs. 22 crore budget came from promotional activities and services such as international trade fairs, energy audits, missions on technology, export promotion, training programs in quality management etc., unlike other business associations who relied upon membership subscriptions as their chief source of income. Second, the CII played an active role in promoting
exports and in the process, built an extensive network of overseas contacts. Third, Kochanek (1996) argues that the CII was successful in developing a complex decentralized system of national, state, zonal and local organizations that provided grassroots services and opportunities for membership participation. Fourth, as discussed earlier, strict adherence to the guidelines laid in the first meeting of the organization avoided any kind of factionalism by developing a decision-making style based solely on consultation and consensus (Kochanek 1996; Kantha and Ray 2006). Fifth, as opposed to other business associations that took a reactionary approach to issues, the CII talked about a partnership and pro-active approach to government.

Finally, CII developed a specialized secretariat of three hundred analysts under the able leadership of its secretary general, Tarun Das which was successful in establishing excellent rapport with all levels of bureaucracy. In an interview with Business Standard (January 12, 1992), Tarun Das revealed – “We have consistently had a policy of working with the civil service that is there at the centre and the States. We find that they are the administration, they are the prominent people there. And, therefore, we feel that while we must address the political level… and we do that but on a continuous basis, there is a continuous dialogue and interaction with the bureaucracy at all levels.”

Kochanek (1996) notes that CII’s lobbying style was based on a more professional version of the principle of quiet diplomacy traditionally employed by ASSOCHAM. Simultaneously, the CII also adapted to the informal ways in which business-politics relationship has evolved in India (Sinha 2005). CII’s lobbying process involves-

…frequent informal contacts, providing up-to-date information, avoidance of public criticism, and working to help bureaucrats achieve their policy
objectives without asking for quid-pro-quo. Having established a close working relationship, demands are submitted in the form of carefully prepared briefs based on reliable data and well-reasoned arguments. Discussions are held in private and are based on a non-confrontational, constructive, cooperative, problem-solving and bargaining style of negotiations. This style has given the CII a reputation within the bureaucracy of an organization that produces quality work and is highly professional, forward looking and dynamic (Kochanek 1996: 546-547).

Thus, CII had developed unique patterns of access and interaction with the government which eventually made it the most powerful business association in the country. Aseema Sinha (2005: 15) persuasively sums up the factors leading to the rise of CII as follows-

CII’s emergence and success in breaking into a pluralistic interest group arena dominated by many organizations owes itself to crucial sponsorship by the prime minister, and his reformist allies. This opening up of the political structure in the mid 1980s led to the rise and the transformation of AIEI into CEI and then CII. Reciprocally, Rajiv Gandhi’s reform program represented an opening in the political opportunity structure of the Indian state for the smaller, external association and CII was able to convert its outside status and informal connections to its advantage only because it adapted to the nature of state power in India’s political economy.

4.7 Business & Economic Reforms

Though, CII’s aims and activities were in line with the reform program, it largely supported “internal liberalisation”. As the depth of policy change initiated by the
economic reforms dawned on the Indian business, even the CII felt uneasy at the threat that foreign capital posed to Indian industry. Nayar (1998) notes that in respect of joint ventures, it appeared as if the MNCs were eager to reduce or altogether eliminate Indian participation and thereby, assume total control. As a result, in 1996, CII Director-General Tarun Das sharply criticised the behaviour of foreign nationals in India, pointedly referring to their “coyboy” approach towards its local partners (Nayar, 1998). CII made it clear that while it welcomed foreign investment, it felt that there was a need to regulate access for foreign investment. In a CII memorandum titled: “MNCs: Indian Strategy Needs Rethink”, Das declared on behalf on Indian business that “there is discomfort with dominance and control, there is clear discomfort with outdated or obsolete technology and products” (as cited in Nayar 1998). However, this stand led to a furore among its MNC members which eventually resulted in a softening of CII’s position.

Thus, while the business associations are in favour of greater FDI to accelerate economic and industrial development, they also want greater protection for the Indian industry. Nayar (1998: 2464) has summed up the differences in the apex associations-CII-FICCI-ASSOCHAM’s stand on reforms as follows-

There are subtle differences among the associations in that Assocham is likely, barring an aberration from time to time, to remain silent or articulate reservations about swadeshi or economic nationalism; CII is likely to express its concerns over the FDI threat but in diplomatic language; and the FICCI with the largest proportion of family-owned business is likely to offer a more comprehensive and explicit position.
4.8 Inter-Associational Competition in India

As discussed earlier, the competitive environment provided a powerful context for the emergence of the CII which continues to shape the institutional landscape of business associations in India even today. The competition between the FICCI and ASSOCHAM for superiority created space for the entry of a new organization in the associational marketplace. At first, the CEI thought of a merger with ASSOCHAM. However, when it moved from an engineering focus to an all-industry association, it was recognized as a powerful competitor by the FICCI and ASSOCHAM.

Sinha (2005) argues that up to late 1980s and early 1990s, business-government relationship was analogous to a political exchange and that, barring CEI, business associations ‘sought only particularistic benefits for their firms or sectors abandoning any governance or developmental activities’. However, as discussed earlier, CEI provided key development services to its members and thereby, presented a new “business model” in the associational marketplace. In an interview with the Financial Express, the newly appointed Secretary-General of FICCI, Dr. Amit Mitra revealed: “I am glad that Tarun Das has worked wonders with the Confederation of Indian Industry. It has helped wake FICCI up” (June 16 1994). Thus, in a response to CII’s “business model”, FICCI restructured itself by initiating campaigns to expand membership, subscription and also brought about significant organizational changes. Sinha (2010) notes that during this period, FICCI also started organizing trade shows and exhibitions and most importantly, began publishing a journal called Quality Trends, in response to the CII’s quality movement. Furthermore, the FICCI also set up a division titled “Protocol” to handle visits of foreign delegations.

In an attempt to move away from its identification with the protectionist regime, the FICCI launched a major restructuring exercise and appointed an
economist as its Secretary-General. Like CII, the FICCI too made attempts to establish itself as a sustainable, profit-oriented entity. In the process, FICCI started putting competitive pressures on CII to reinvent itself. Thus, competition in the associational marketplace has led to the restructuring and transformation of the existing business associations into developmental associations (Sinha, 2010).

In 1999, in the first initiative of its kind, the FICCI appointed Andersen Consulting, now known as Accenture, for restructuring and redefining its role in the associational marketplace. The Financial Express (August 30, 1999) reported that with the entry of foreign competition, the FICCI felt that it needed to restructure and re-strategize its business and thus, Andersen Consulting was appointed to advise FICCI on the role it should play in the rapidly changing economic environment. The consulting firm also studied the secretariat structure of the FICCI. Similarly, in 2001, the Confederation of Indian Industry also hired management consultants- Boston Consulting Group to restructure the organization and provide new focus to its activities. The Financial Express (December 3, 2001) noted that BCG India had a relook at CII’s existing businesses and organized new focus areas for its members like healthcare, retailing, entertainment, biotech and logistics.

Furthermore, associations like the FICCI and the ASSOCHAM changed their organizational profile and undertook restructuring from time to time to respond to the needs of industry. Veeshal Bakshi (2001) notes that-

One of the key aspects of the era of perestroika at the national industry associations is the conscious strategy of each to carve out its special niche, so that they do not tread on the others’ toes as they used to in the past. Clearly, there is an effort to focus on core competence (The Financial Express, December 3).
Thus, while FICCI claims superiority through research and providing information on internal and external factors, CII has taken the most elaborate initiatives in the field of quality. On the other hand, ASSOCHAM has been shifting its focus on tourism by working closely with state governments. Thus, we see that business competition in India has assumed a developmental role and business associations are increasingly revitalizing themselves to provide value-added services to their members.
In the famous aphorism of Harold Laswell, politics is the study of ‘who gets what, when and how’. This puts the question about the nature and extent of business-state interactions at the very heart of inquiry of political science and related fields. While there has been a transformation of interest politics since the 1990s, the foregoing discussion shows that India continues to be a ‘state dominated pluralist system’ where business associations vie for the state’s attention. Competition and fragmentation, a regular feature of the business associations also reflect the historical pattern of development of Indian business along the lines of region, caste and community.

While there have been attempts to unite business associations at various points of time, the competition within business system has prevented the merger of the three major business associations (i.e. CII-FICCI-ASSOCHAM). The first merger was mooted as early as June-July 1990 and in July 1992, an apex committee was also formed to deliberate on the issue. However, the merger could not take place as leading industrialists in FICCI felt that the merger was not in their best interests (Sinha 2010). Subsequently, at various points, business leaders pushed for a coordinated and cooperative working of chambers of commerce and business associations (Das 2013). However, even today, unified collective action remains a distant possibility. While this lack of business unity affects the instrumentalist power of businesses and the strength with which it can negotiate with the government, the competition has managed to keep the business associations on their toes.
In the process, business associations like the Confederation of Indian Industry have responded to the policy environment by filling niche markets for business services. Over the years, CII has been able to look toward the future and anticipate challenges that will confront its member firms in a competitive economy. With its focus on enhancing competitiveness of its members, CII provides an array of ‘market complementing’ services through its Centres of Excellence which specialize in aspects such as quality, energy management, sustainable development, logistics, small business competitiveness etc. Besides these services, CII also undertakes a wide-range of activities to include sectors other than private engineering and industry firms. The cluster movement aimed at enhancing productivity and competitiveness of small enterprises is the largest project of its kind in the world (Kantha and Ray 2006).

These services primarily help firms do what they currently do more efficiently, serve new markets, utilize new technologies and production methods, develop new markets and help firms plan collectively to meet anticipated challenges. Apart from providing these ‘market complementing’ activities, CII also works to strengthen the overall functioning of markets by supporting the provision of public goods like infrastructure and strong public administration through direct associational actions and indirect pressure on government officials respectively.

CII also has an impressive event list. While the central and regional offices of CII hold their own shows and events separately, the CII in partnership with the World Economic Forum also organizes the India Economic Summit which brings together hundreds of business, political and civil society leaders from all over the world. Over the past few years, these Indian Economic Summits have moved beyond from a narrow focus on economic policies to issues such as education, irrigation, health, environment and the role of civil society (Bhattacharya 2009).
Then there are affiliated associations which jointly conduct sector specific events with CII. Public sector undertakings also seek CII’s help in organizing their exhibitions. Kantha and Ray (2006) note that some of the prominent exhibitions that the CII holds in partnership with the government are the Indian Mining Machinery Exhibition, the Indian Railway Equipment Exhibition, Petrotech for oil and gas Machinery and DefExpo for defence equipment. These exhibitions play a major role in integrating private and public initiatives and provide a unique buyer-seller interface. Furthermore, today, the government also views industry as being crucial in solving the problems of society and as the institutional interface between the government and the industry, CII serves as a facilitator for corporate efforts in social development (Kantha and Ray 2006).

Thus, it can be argued that CII carries out a wide range of economic and business development activities that go beyond and are more widespread than lobbying and other transaction cost-related activities. This causes us to rethink the traditional view of business associations as rent-seeking, special interest groups. While this does not disconfirm the Olsonian arguments that business associations are naturally tempted to seek rents, it shows that as associations lobby for rents, they can also provide a range of services that reduce information and transaction costs (Doner and Schneider 2000).

More importantly, CII represents business and industry on economic, trade and industry matters and since 1998, it has been part of the official delegates to ministerial meets. This institutionalized access to policy deliberations in the government has given the association a high density of membership along with significant material resources. Scholars argue that the more representative an association is, the more likely it is support policies that are generally good for
economic stability and growth, rather than narrower, rent-seeking goals (Olson 1982, Maxfield and Schneider 1997). Furthermore, it should also be noted that efforts to influence government indirectly through associations are likely to be less distorting than those made by individual firms in the form of payment to officials (Nugent and Sukiassyan 2009).

Thus, CII, with its high member density, adequate professional staff and effective mechanisms for interest aggregation, has become institutionalized as a strong and legitimate peak association for business in India, an encompassing group that can claim to represent all the major sectors and can work out broadly agreeable positions on economic policy.

CII has both responded and adapted to the existing distribution of power and the potential threat from other business associations. The rise of CII was ‘conditioned not only by opportunities and openings, but also threats and challenges within the dominant power hierarchy’ (Sinha 2005). As discussed earlier, competition between the FICCI and ASSOCHAM transformed the institutional landscape of business associations in India and paved way for the entry of CII. Furthermore, the reformist tendencies of Rajiv Gandhi also enabled the CII to gain valuable access. Ever since, the competition between the business associations has led to the revitalization of business associations.

It can be argued that the reorientation of business associations towards a more developmental role can be attributed to their relationship with key constraining institutions as well as their internal strength. Thus, rather than engaging in costly conflicts and competition, business associations have increased specialization by acquiring more and more developmental features. In other words, Indian business associations have come a long way from being mere grievance-oriented organizations.
to becoming professional, service-oriented organizations. This change in the institutional landscape of business associations has been accompanied by significant changes in the business-government relationship. However, while business associations show no sign of disappearing, it is surprising that there is very little systematic research on the political strength of business associations and on what sort of associations work best and for what purposes.
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