INDIAN BUSINESS GROUP AND ECONOMIC REFORMS SINCE 1991 : A CASE STUDY OF CONFEDERATION OF INDIAN INDUSTRY (CII)

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MINHA SHIN

Centre for Historical Studies
School of Social Sciences
Jawaharlal Nehru University
New Delhi-110067
India

2008

Chairperson
Centre for Historical Studies
Jawaharlal Nehru University
New Delhi - 110067, India

Date: 21 July, 2008

CERTIFICATE

Certified that the dissertation entitled: "Indian Business Group and Economic Reforms Since 1991: A Case Study of Confederation of Indian Industry (CII)" submitted by MINHA SHIN in partial fulfillment of the requirement for the award of the degree of MASTER OF PHILOSOPHY has not been previously submitted for the award of any other degree of this university or of any other university and is his original work.

We, recommended that the dissertation may be placed before the examiner for evaluation.

Prof. Kunal Chakrabarti
Chairperson

CHAIRPERSON
Centre for Historical Studies
School of Social Sciences
Jawaharlal Nehru University
New Delhi 110067

Prof. Aditya Mukherjee
Supervisor

Centre for Historical Studies
School of Social Sciences
Jawaharlal Nehru University
New Delhi-110067

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List of Abbreviations

AIEI	Association of Indian Engineering Industry
ASEAN	Association of Southeast Asian Nations
Assocham	Associated Chambers of Commerce and Industry
BJP	Bharatiya Janata Party
CEI	Confederation of Engineering Industry
CII	Confederation of Indian Industry
CMP	Common Minimum Programme
CPI	Communist Party of India
CPI(M)	Communist Party of India (Marxist)
CTBT	Comprehensive Test Ban Treaty
EITA	Engineering and Iron Trade's Association
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FERA	Foreign Exchange Regulation Act, 1973
FICCI	Federation of Indian Chambers of Commerce and Industry
FII	Foreign Institutional Investor
FIPB	Foreign Investment Promotion Board
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GOI	Government of India
IEA	Indian Engineering Association
IIP	Index of Industrial Production
IFIs	International Financial Institutions
IPR	Industrial Policy Resolution
IPS	Industrial Policy Statement
M&A	Merger and Acquisition
MNCs	Multinational Companies
MP	Member of Parliament
MRTP	Monopolies and Restrictive Trade Practices [Act]
NDA	National Democratic Alliance
NRI	Non-Resident Indian
OGL	Open General License
OPIC	Oversea Private Investment Corporation

PMLA	Prevention of Money Laundering Act
PSUs	Public Sector Units
R&D	Research and Development
RBI	Reserve Bank of India
RSS	Rashtriya Swayamsevak Sangh
SAD	Special Additional Duty
SDRs	Special Drawing Rights
SJM	Seadeshi Jargan Manch
SMEs	Small and Medium Enterprises
UF	United Front
US	United States
WTO	World Trade Organization

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Chapter I

INTRODUCTION

1. Background of Research

A number of significant economic changes have occurred in the Indian economy particularly since the economic reforms in July, 1991. Consequently, Indian economic reforms have been abundantly studied by several scholars to judge the extent of their impact on the economic growth in India. The primary focus of these studies has been the comparison of economic policy changes from 1991 with previous periods in post-independence India.[1] The question arises as to how the real actors of the economy, the Indian business group, were viewed as they faced a brand new economic environment. There have been few answers to this question.

In view of its crucial role in economic development, the business sector has long been the focus of special attention in the developing countries. However, as real economic players, their formal and informal responses to the economic reforms have been neglected despite their enormous significance. With this backdrop, this work would move onto analyses how Indian business groups have responded and reacted to the economic reforms undertaken by the Government of India in and from July, 1991. Additionally, their change of position with regard to strategy for the sustainable

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[1] Significant among the aforementioned studies are: Joshi, Vijay and I.M.D. Little (eds) (1996), India's Economic Reforms 1991-2001. New Delhi: Oxford University Press; Jeffrey D. Sachs, Ashutoshu Varshney, and Nirpam Bajpai (eds) (1999), Indian in the Era of Economic Reforms, New Delhi: Oxford University Press; Ahluwalia, Isher Judge and I.M.D Little (eds) (1998), India's Economic Reforms and Development: Essays for Manmohan Singh. New Delhi: Oxford University Press; and Krueger, Anne O. (ed) (2006), Economic Policy Reforms and the Indian Economy. New Delhi: Oxford University Press. etc.

economic growth would also be clearly delineated.

It must be noted that this particular topic comprises a very small section of most writings in this field.[2] Concomitantly, however, some scholars lay stress on describing Indian business group as a 'lobby group' or 'pressure group' to gain their own interest,[3] while their responses were depicted as 'business collective action.'[4] More recently, some scholars provided a different set of views compared to previous researchers. For example, Jørgen Dige Pedersen had started with the question: "why was Indian business able to manage so well in the new policy environment?" His answer had been that the state-directed, inward-oriented economic strategy fostered a domestic business class which had emerged considerably stronger, given this strength the business class was better able to deal with a reform regime. He therefore concluded that Indian businessmen were able to manage well in the new policy environment.[5]

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[2] See Baldev Raj Nayar, "Business and India's Economic Policy Reforms", Economic and Political Weekly, 1998, XXXIII: 38, pp. 2453-2468; also Baldev Raj Nayar, *Globalization and Nationalism: The Changing Balance in India's Economic Policy*, Chapter 5, pp. 156-185, New Delhi, 2001. Nayar gave details how Indian business associations such as Federation of Indian Chambers of Commerce and Industry (hereafter FICCI), Associated Chambers of Commerce and Industry (hereafter ASSOCHAM) and Confederation of Indian Industry (hereafter CII) responded to the reforms at an earlier stage during the 1990s. Palande also shows the Indian industrialist's response to the reforms, see P. S. Palande, *Coping with Liberalisation: The Industry's Response to New Competition*, New Delhi, 2000.

[3] For example, Atul Kohli saw that internal deregulation and the modest global opening were changes that were either demanded by Indian business groups, especially big business, or by a significant faction of the Indian business group. He concluded that the recent acceleration of economic growth in India was more a function of the pro-business tilt of the Indian state and less a result of the post-1991 economic liberalization. See Atul Kohli, "Politics of Economic Growth in India, 1980-2005", Part II, Economic and Political Weekly, 2006, XLI: 14, pp. 1361-1370; see also Stanley A. Kochanek, 'Liberalization and Business Lobbying in India', in *India's Economic Transition*, Rahul Mukherji ed. OUP, New Delhi, 2007, pp. 412-431.

[4] See Aseema Sinha, "Understanding the Rise and Transformation of Business Collective Action in India", *Business and Politics*, 7:2, August 2005. In this article, Sinha introduces and assesses a new political explanation for the origins of developmental associations. She assumed that state actors and intra-state dynamics play an unexpectedly large role in shaping business development in India even under conditions of neoliberal reform. According to her, business collective action supports the ongoing economic reform process pressuring the government to provide infrastructure and a non-corrupt administration. However, she also considered the business organization as a pressure group which tried to gain terms favorable to them; see also Kochanek, *op cit.*

[5] See Jørgen Dige Pedersen, 'The Transformation of Indian Business: from passive resisters to active promoters of globalization', Paper prepared for Sixth Pan-European Conference on International Relations, University of Turin, Italy, 12-15. September 2007.

Despite these pioneering works, enough work had not been done to understand the Indian business group's response to the reforms and their proactive role in sustaining the reform process itself. Given this background, I will focus on reconstructing the Indian business group's perspective and attitude change towards the economic reforms using the documents of the Indian apex industrial organization, Confederation of Indian Industry (CII). The period from 2000 onwards will also come under the purview of this study.

The period of study will be divided into three phases, namely: 1991-96, 1997-99, and the year 2000 onwards, respectively. Chapter 1 will discuss the CII's perspectives and responses to the new economic policy change during 1991-96. In many aspects, this period seemed to be the most controversial period despite the, relatively, stable government which continued till 1996. The focus will be on two controversial issues. One is about the Bombay Club's demand for a level playing field in 1993; and the other centres around the controversy on the entry of multinational companies (MNCs) into India raised by Tarun Das, Director-General, CII, in 1996. In fact, these two issues have often surfaced in most articles but, they were dealt with very briefly. I would argue that these two issues provide important clue towards understanding Indian business group's perspective on economic reforms as well as the nature of reform itself, that is, its rapid pace. Even though the raising of these two issues have been criticized as being anti-reformist voices by the media and pro-reformists of that time, I would argue that the controversy on these issues functioned as a balancing factor in the reform process, especially keeping the balance between the Government of India and business groups.

Chapter 2 covers the period of between 1997 and 1999, and examines the CII's change of attitude towards reform processes and their proactive role in supporting the

government. During this period, India experienced unexpected problems both internally and externally, namely: the East Asian financial crisis in 1997, and the economic sanctions following the Nuclear Tests in 1998. In many aspects, Indian business groups played a very important role in preventing reform processes from getting derailed from their goals. They not only concentrated on the internal reforms themselves for the improvement of competitiveness and efficiency but, also strengthened partnership with the government. Tiding over a difficult time, they became more proactive and confident about their role as an economic player. In addition to this, they seriously seemed to be getting concerned about the social problems in India. Indian business groups turned to the issue of how to maintain the long-term interests of not only the business sector but also the nation. This change of mindset was seen as an important marker for the further development of Indian business groups. Finally, the outcome of their overall endeavours during this period got realized in the form of Indian MNCs, particularly since 2000.

Chapter 3 will chalk out the CII's preparatory steps and internal discussions about building Indian MNCs since the economic reforms of 1991. The matter of competitiveness and efficiency has been always an important issue for the Indian business group. However, having experienced success at home and in foreign markets during the 1990s, Indian business groups now turned their eyes on the matter of becoming international economic players. Some aspects may be linked with the question as to what was the Indian business group's business strategy in the era of globalization?

2. The Confederation of Indian Industry (CII)

In India, business associations appeared since the nineteenth century when the Calcutta Chamber of Commerce was formed by a British interest group in 1833. Consequently, various business associations were formed, particularly by British traders. It was in 1882 that, for the first time, an Indian trade association, the Bombay native Piecegoods Merchant's Association, was formed.[6] In 1895, the Engineering and Iron Trade's Association (EITA) was formed in Calcutta. It was one of the various trade associations formed by British traders. In 1912, the EITA separated itself from trader associations and became the Indian Engineering Association (IEA). Thereafter, it applied itself closely with manufacturing activities. IEA had grown through the difficult period that was comprised of the two World Wars, the Great Depression and the struggle for independence.

However, during this period, the most significant changes that occurred in Indian industry, as Aditya Mukherjee argues, were located in other area. It was the rise of the new Indian capitalist class as a "class for itself".[7] They had shown strong growth in various sectors namely: cotton mill, iron and steel, and so on. Given this situation, a new association consisting of Indian manufacturers came into being in 1942. It was the Engineering Association of India (EAI) which was affiliated to the Indian Chamber of Commerce in Calcutta.

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[6] For understanding the emergence of business associations in India during the nineteenth century, see Aditya Mukherjee, *Imperialism, Nationalism and the Making of the Indian Capitalist Class 1920-1947*, New Delhi, 2002, pp. 34-35; Stanley A. Kochanek, *Business and Politics in India*, USA, 1974, part one; and Sharmila Kantha and Subhajyoti Ray, *Building India with Partnership: The Story of CII 1895-2005*, New Delhi, 2006, pp. 13-151.

[7] Aditiya Mukherjee, *op cit.*

In 1974, the EAI and IEA merged into a single organization named the Association of Indian Engineering Industry (AIEI) and it dissociated itself from the other two national chambers, namely: FICCI, and Assocham. It was a bold decision under the circumstances since, FICCI had attracted all the limelight as the most powerful business association. Despite its small size with an all-India staff of only 50 and budget of only Rs 1 million a year,[8] the CII went into areas of international trade promotion and opened offices in the Middle East, UK, USA, Canada, Singapore, among other countries.[9] At this time, the AIEI also shifted its headquarters from Calcutta to New Delhi.

AIEI had assumed the new role becoming an all-Indian representative of the engineering industry. One of their efforts was reflected in the change of its name to the Confederation of Engineering Industry (CEI) in 1986. AIEI also received support and encouragement from the government during Rajiv Gandhi.[10] Pedersen argued that "this is an indication that important sections of Indian business were prepared for changes at an early stage and that sections of the political elite were actively encouraging them."[11] As many scholars admitted, the support from the government was a significant stepping-stone for the CII to become an all-India, representative business organization.[12]

In 1991, the issue of merger of CEI with Assocham was taken up but, this proposal

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[8] Tarun Das interview, *Rediff.com*, 8 April, 1998.

[9] Tarun Das interview, *The Hindu*, November 01, 2000; See also Aseema Sinha, *op cit.* fn. 40 in p. 10.

[10] For discussion about how CII became a nationally-recognized business association in such a short time, See Kantha and Ray, *op. cit.*, pp.148-9; and Aseema Sinha, *op. cit.* pp. 9-13. Aseema Sinha saw the sudden transformation in Indian business politicsas having been connected to the business collective action.

[11] Jørgen Dige Pedersen, *op cit.* p. 20.

[12] CII rose to a nationally-recognized association representing diverse sectors of Indian industry. For more details, see Aseema Sinha(2005), Stanley Kochanek (1996) and Jorgen Dige Pedersen (2007). They suggested that the CII increasingly came to represent India's more modern industries – especially engineering firms, often located in the south of India – who were more interested in exports.

was rejected by CII's senior members because of Assocham's character which was seen to be considerably different from the CII.[13] By 1992, CEI had endeavored to carve out a strong relationship with its members, foreign industrial organizations, and particularly the Government of India. With a strong partnership with various institutions, CEI became the Confederation of Indian Industry (CII) with the approval of the members, with effect from 1 January 1992. The change of name to CII reflected "the expansion of activities and services."[14] As we shall see, since then many changes followed in its primary activity, and structure, like its composition of membership and size.[15]

In 1974, when the two associations, EAI and IEA, took the step of merger into a single organization, it had barely a thousand members. However, as Table 1-1 shows, during the period 1989 to 1991, the number of its members increased to much over 2,000. During the early period, if the prominent region was the eastern region which housed the headquarters of the original organization of the CII, later on it was the southern region which had the largest number of members. As pointed out by Kantha and Ray, "this shift in the balance between CII regions reflects the geographic variances in the development of industry in the recent past and reveals that regional differences are equalizing over the years as industry moves beyond traditional centres of business."[16]

[13] Kantha and Ray, *op cit.* p. 175; See also Aseema Sinha, ibid., pp. 18-19.
[14] For understanding the background of changing name, See CII AR 1991, p. 1; Dhruv M Sawhney, CII President, 'CEI has become CII', Special issue, January 1992, *CII Communique*; and the CII's internal process of the change its name, see Kantha and Ray, ibid., pp. 175-77.
[15] Even though the CII National Council and the general members expressed their consent and support to the change of name, CII's main focus remained on engineering. CII AR 1991, p. 1; Kantha and Ray, ibid., p. 177; also Aseema Sinha, ibid. fn. 23 in p. 7.
[16] Kantha and Ray, *op cit.*, p. 178.

Table 1-1

CII Membership 1991

Region	State	1989	1990	1991
Eastern Region	Andaman & Nicobar	1	1	1
	Assam	9	11	10
	Bihar	69	96	90
	Orissa	85	92	76
	West Bengal	287	300	286
	Subtotal	**451**	**500**	**463**
Northern Region	Chandigarh	10	11	10
	Delhi	168	176	188
	Haryana	82	92	91
	Himachal Predesh	17	20	20
	Jammu & Kashmir	7	7	6
	Punjab	41	43	53
	Rajasthan	26	33	34
	Uttar Predesh	111	119	121
	Subtotal	**462**	**501**	**523**
Southern Region	Andhra Pradesh	101	138	119
	Karnataka	208	226	214
	Kerala	71	68	76
	Tamil Nadu	365	417	444
	Subtotal	**745**	**849**	**853**
Western Region	Goa	15	16	14
	Gujarat	100	119	117
	Madhya Pradesh	59	58	58
	Maharashtra	517	547	529
	Subtotal	**691**	**740**	**728**
Total Membership		**2349**	**2590**	**2567**

Source: CII Annual Report 1991, p. 5.

CII's membership continued to increase steadily to 3,235 in 1995.[17] In 2008, it became India's representative business association with a direct membership of over 7,000 organizations from the private as well as public sectors, including Small and Medium Enterprises (SMEs) and MNCs, and an indirect membership of over 90,000 companies from around 362 national and regional sectoral associations.[18]

As regards the composition of its membership, earlier the organization had a membership of around 2,000 members of which nearly all were from the manufacturing sector, but by 2000, IT companies, financial services, and other services like consultancy accounted for 25 per cent of CII membership, while an enviable 76 per cent of all members belonged to SMEs.[19] The scope of CII membership widened further as it opened to any company or firm in India engaged in manufacturing activity, consultancy services, and the large variety of services provided by the services sector including banks, financial institutions, law firms, hospitals, travel/tourism, films, media, print and electronic, digital entertainment, advertising, publishing, fashion, etc.[20]

The organizational structure of the CII has also encountered visible growth. In 1991, the CII had 20 National Committees, 22 Industry Divisions, 40 Affiliated Associations, and 7 Affiliated Institutions encompassing almost all sectors of the industry.[21] Now, it has 60 offices in India, 8 overseas in Australia, Austria, China, France, Japan, Singapore, UK, USA and institutional partnerships with 271 counterpart organizations in 100 countries.[22]

Among many of its unique features, most significant one is its federal character. As

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[17] *CII AR* 1995, p. 10.
[18] CII online : http://cii.in/menu_content.php?menu_id=2 (Updated on : 25-01-2008)
[19] Kantha and Ray, p. 180.
[20] CII online, ibid. interestingly, already in 1995, out of 90 Associated members, 45 were from the Financial sector. See *CII AR* 1995, p. 10.
[21] *CII AR* 1991.
[22] CII online. ibid.

Table 1-1 show, CII has four regional organizations and its membership spans the entire Indian subcontinent without omitting any region. The CII's four regional organizations have continued to enhance their work and contribution in regional coordination, state-level reforms, industrial efficiency and competitiveness. Each region had "both uniqueness in its focus as well as shared approaches with each other and CII at the national level."[23] As pointed out by Dhruv Sawhney, the CII President, this "federal character" played an important role in "implementing policies and continuing proactive role."[24]

On the basis of this strong structure, the CII pursued their proactive role to create and sustain an environment conducive to Indian economic growth. For this, their main focus has concentrated on setting up a partnership with the Government of India. As pointed put by Tarun Das, the CII believed that partnership approach is the "core responsibility of an association like CII."[25] In fact, since economic reforms, the relationship between the government and industry has rapidly changed to work much more together than they ever did before. Given this situation, the CII's partnership approach was one of various features that attracted the attention of most scholars and the media. Sometimes its partnership approach was described as "lobby to gain their interest"[26] but, I disagree with this viewpoint because they missed the contribution of the partnership approach to prevent the economic reforms from getting derailed from its path despite political uncertainty. In some aspects, the major reason for CII's partnership approach can be seen as reflecting very change that the Indian economy itself had undergone since the 1980s. Economic reforms were not engineered by the government

[23] *CII AR* 1994, p. 5
[24] Dhruv Sawhney, President, CII, *CII AR* 1991, p. 2
[25] Tarun Das interview, *Rediff.com*, 8 April, 1998.
[26] See fn. 3 in this chapter.

alone. In other words, the need for and the nature of the CII's interaction with the government and vice-versa were an essential condition for the development and sustenance of economic reforms.

Chapter II

THE FIRST PHASE OF REFORM 1991-1996

1. Introduction

India adopted a strategy for development based on centralized planning post-independence. The idea of centralized planning had a good justification. For example, import restrictions were imposed to preserve the limited foreign exchange resources while industrial licensing was introduced to help the government allocate scarce resources towards meeting public goals. Similar was the case with control of capital issues, anti-monopoly legislation, foreign exchange regulations and reservations for small scale and public sector enterprises, among others.[1] Under these circumstances, however, it is also true that the industrial sector was highly controlled and regulated through the licensing mechanism. Accordingly, while the country achieved considerable progress in creating a sound and broad based industrial structure, its growth rate was modest.

Since the 1980s, there had been a feeling that Indian economy needs to be more liberalized for achieving a higher growth rate. As pointed out by P.N. Dhar, India, unlike some other developing countries and the reforming economies of the Central Europe and Russia, had started the process of reforms much before it was hit by the

[1] The rationale for planning was discussed and subsequently the All India Congress appointed National Planning Committee under the Chairmanship of Jawahar Lal Nehru in the late 1930s. Two alternative frames as presented in the Bombay Plan and the People's Plan were discussed nation-wide. The Bombay Plan was authored by leading industrialists of the day and the People's Plan represented the interests of labour. And, for a detailed discussion on the early debates on planning, see Aditya Mukherjee, *Imperialism, Nationalism and the Making of the Indian Capitalist Class*, Sage, New Delhi, 2002, Chapter 11.

financial crisis in 1991.[2] The first effort was reflected in the Industrial Policy Statement (IPS) of July 1980. Although the IPS had its origin to the earlier Industrial Policy Resolution (IPR) of 1956, its economic objectives were different from the IPR. Its basic two objectives were "optimum utilization of installed capacity" and "maximum production and achieving higher productivity."[3] The paradigm shift of economic thinking in the 1980s was seen as an impressive effort on the part of the government towards the business group. For instance, the former Director-General of CII, Tarun Das saw that the beginning of the industrial and economic policy of the 1990s came into being with the launching of the Seventh Five Year Plan in 1985 and he argued as follows:

> At least for the industrial economy, however, this crisis [in 1991] had little to do with liberalization. The need for liberalizing the industrial policy and giving private enterprises a leading role in shaping the economic destiny of the country was felt earlier than the 1991 reform. There was little disagreement on this issue. There was also hardly any disagreement that the public sector was in need of reform and, by the end of the 1980s, there was general agreement that it could not continue to be given the position of the commanding height, though it need not be dispensed with. The disagreement, if at all, had pertained to the role of foreign capital and the extent to which foreign enterprises should be allowed to participate. Even here, there was an agreement on the need to look afresh at the Foreign Direct Investment (FDI) policy and adopting a more flexible approach.[4]

However, although economic efforts of the 1980s were seen as a bold attempt or

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[2] See P.N.Dhar, 'An Interim Assessment of Economic Reforms in India', in Uma Kapila (ed) *Recent Development in Indian Economy Part-III: The Ongoing Economic Reforms*, Academic Foundation, New Delhi, 1994, p. 51. In this article, Dhar further suggested that India registered a growth rate of 5.6 per cent in the year of the crisis itself because the crisis was essentially financial in nature.

[3] Suresh D. Tendulkar and T.A. Bhavani, *Understanding Reforms: Post 1991 India*, Oxford University Press, New Delhi, 2007, p. 67. For understanding the socio-economic situation of the 1980s, see ibid.,Chapter 5.

[4] Tarun Das, 'Indusrty: From Regulation to Liberalization', in independent India, Hiranmay Karlekar (ed), Oxford University Press, New Delhi, 1998, pp. 173-174.

appraised as a "cornerstone" for the economic reforms in 1991[5], its effects were not enough for the rapid economic growth. The most radical shift towards economic liberalization was introduced in July, 1991.

On 4 July 1991, the government announced major changes in the trade policy and, after extensive consultation with the Indian business group, a more comprehensive statement on Trade Policy was issued on 13 August, 1991. In the meantime, on 24 July, 1991, a statement on Industrial Policy was announced. In its statement of Industrial Policy, the government had proposed a series of measures to unshackle industry from the myriad administrative and legal controls. These measures included: (a) reduction in the number of industries requiring compulsory licensing; (b) promotion of foreign investment; (c) automatic approval of foreign technology agreements; (d) public sector reform; and (e) amendments to the Monopoly and Restrictive Trade Practices Act, among others.[6] The changes in the industrial licensing regime have been accompanied by liberalization of trade and fiscal policies. Import licensing was replaced by the tradable Exim-Scrips and import of capital goods was allowed subject to certain conditions. The rupee was made convertible on the current account. Peak tariff rates had also been brought down substantially.[7]

However, even at the early stage, the process of economic reform had to meet unfavorable circumstances. Above all, the government had the handicap of being a minority government. Short of 10 MPs for a simple majority, the Congress (I) was faced with the choice of securing the tacit support of either of the two major opposition

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[5] For example, Rakesh Mohan, who served as Secretary of the Department of Economic Affairs, believes that the experience of enacting smaller reforms in the 1980s gave Rao's team the confidence to react swiftly with broader reforms like market-determined exchange rates, liberalization of interest rates, reductions in tariffs, and a dismantling of the License Raj.; For understanding the timing of reforms, See Tendulakr and Bhavani, *op cit.*, p. 83.

[6] For brief summary of the new industrial policy of 1991, See *Economic Survey 1990-1991*, pp. 80-83.

[7] For understanding of new trade policy of 1991, See, ibid. pp. 70-74.

groupings in Parliament: The National Front-Left combine of 126 MPs, or the BJP-Shiv Sena with 121 MPs.[8] Given this situation, in the political arena, efforts of the Congress (I) to reach a consensus in the implementation of the reform process were marred by both intra-party and inter-party conflicts in the course of time.

Within the ruling party, leaders with strong power bases in their own states, like Maharashtra's Sharad Pawar and Madhya Pradesh's Arjun Singh, were considered to be early challengers for leadership, while growing anxieties over the shape of the new economy were bringing together working alliances of politicians, businessmen, and bureaucrats to stultify the reform thereby provoking another governmental crisis.[9] At the same time, to neutralize the opposition, especially that of M.L. Fotedar who opposed the industrial policy within the Cabinet on grounds that it broke with Nehru, Rao appointed him to an informal committee of ministers.[10]

On the other side, the government faced tremendous opposition regarding the character of reforms from the left parties. While the orthodox left was describing economic reforms as "desperate remedies" or "great surrender,"[11] the left parties held agitations and conventions in defense of economic sovereignty and organized resistance to what they called the "IMF-dictated" reform package as an alternative path to meet the crisis and stagnation in the Indian economy.[12] However, the opposition groupings, the

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[8] For more details, see *India Toady*, 31 July, 1991. p. 36; For understanding the background of 1991 Reforms, See Tendulkar and Bhavani, ibid.

[9] K. Shankar Bajpai, 'India in 1991: New Beginnings', Survey of Asia in 1991: Part II. (February 1992), *Asian Survey*, Vol. 32, No. 2, p. 212.

[10] See *India Today*, 15 August, 1991. p. 22.

[11] For understanding about leftist-view scholars, See *Frontline*, Vol 8 No 15. 20 July – 2 August 1991, pp. 16-27. This economic special included the interview with Prabhat Patnaik, K.N. Raj, Asim Dasgupta (West Bengal's Finance Mister), A. Vaidyanathan and I.S. Gulati; See also, ibid. pp. 108 - 120. Ashok Mitra (former finance minister of West bengal), C.T. Kurien, Amiya Kumar Bagchi and Arun Gosh.

[12] For a brief summary on the opposition, for example, the Janata Dal and BJP, See *India Today*, 31 July 1991, p. 32. It also commented briefly on the Trade Union's view; and some other media, such as *Frontline*, argued that "Businessmen have enormous ability to adjust their programmes to suit a given government policy. The trouble with the recent governments was that seldom did they have a mind worth

National Front left parties and the BJP, were in no position to change the shift towards economic liberalization. They were too weak to provide an alternative government.[13] Simultaneously, at the edge of almost fiscal emergency, all criticism of the new economic policy was disregarded unaffectedly. On the other hand, Finance Minister, Manmohan Singh emphasized that the nation's elite had to forget their ideological hangovers because India had no viable option except to open its door to the West as well as Asia.[14] He further argued that "India needs to create a market economy with 'strategic controls'". However, this meant that the government would retain some controls not pushing for laissez faire.[15]

Along with these debates on economic reforms in the political arena, we need to remember the fact that in a democratic society like India, policy is established on the basis of public opinions. In other words, it means that the success or failure of a particular policy depends on the response of various affected by it.[16] So every approach on economic matters and relevant economic analyses need to be understood context-specifically.

As mentioned already, there have been several studies to show responses of Indian businessmen to the reform processes or the change of relationship between the government and the business group. I would disagree with some of the arguments. For example, while economic reform processes were in progress based on a partnership

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articulating, at least on matters affecting business." See *Frontline*, 27 April 1991. p. 44.

[13] This view was found in Francine R. Frankel, *India's political Economy 1947-2004*, p. 590; *India Today*, 31 July 1991, 'Congress (I): Sitting Pretty, For Now', pp. 36-37. It said that "The biggest factor working in the Congress(I)'s favor is that no political party, not even the BJP wants to face another election."; see also, interview of West Bengal chief minister Jyoti Basu, in *India Today*, 15 August 1991. p. 42. Basu said "we do not know the policies of this minority government.....that none of us want elections right now."

[14] This speech was quoted from an interview to the *New York Times*. See, "No time for ideological hangovers: Monmohan", *Hindustan Times*, 10 July 1991.

[15] *India Today*, 31 July 1991, p. 25.

[16] Similar suggestions see Bimal Jalan, *India's Economic Policy*, p. 202 and Baldev Raj Nayar. *Globalization and Nationalism*, p. 186.

between the Government of India and the business group, often this partnership was interpreted merely as a business groups' lobby or a pro-business action of Indian government. Accordingly, in many cases, it has been supposed that there were no oppositions between the two.[17] However, while partnership, based on mutual cooperation and responsibility, between the Government of India and the business group has been a key factor in the sustenance of economic reform processes till today, this cooperation was possible only by the ability to resolve democratically considerable differences from time to time. At least in the case of India, opposition was a condition for achieving a good and sustainable reform.

The main objective of this chapter will be to examine the Indian business groups' responses to the economic reforms during 1991-1996. During this period the Government of India had been comparatively stable under Congress rule. At the same time, there had been the most active interaction between CII and the Government of India. In the first section, the CII's general responses to the economic reforms, immediately after their commencement, will be examined. There had been some doubt among the CII membership at the earlier stage of reform about the government's sincerity. However, as soon as reform process had begun, the CII had endeavored to meet the needs of the times. They tried to establish a sense of consensus among business groups as well as state-level governments. This effort was an important contribution in making economic reform plant its roots deeply in India despite the prevalence of inter- and intra-party conflict.

In the second section, the businessmen who were opposed to reform will be

[17] For example, Pranab Bardhan argued that the lack of serious opposition to reforms has sometimes been interpreted as evidence of no substantive reforms having taken place, because reforms are not supposed to be painless. Pranab Bardhan, ' The political Economy of Reforms in India', in Rakesh Mohan (ed), *Facet of the Indian Economy,* New Delhi, Oxford University Press, 2002, p. 126.

discussed. In 1993, the so-called *Bombay Club* emerged under the slogan of a level playing field. Although the Bombay Club had disappeared soon after it faced criticism from the Indian media and the pro-reformists academic arena, their slogan of a level playing field has appeared regularly even till today. In this context, the background to the emergence of Bombay Club will be discussed.

In the last section, I will discuss about the controversy on foreign Multinational Companies (MNCs) in 1996. This controversy was ignited by Tarun Das, former CII Director-General and was also criticized by the media as an anti-reformist voice. However, it also showed: how the Indian business group reacted to foreign capital investment in India. The political and social background of this controversy also will be clearly delineated.

2. Indian Business Group's Response

2a. CII's Preparation for the New Economic Policy

Already in 1990, CEI expressed their concerns that the most urgent matter that the Indian industry faced was to remove economic stagnation and promote economic development. As suggested by the CEI President, J.P. Chowdhary, in April 1990, it was a "time that politics moved a little bit into the backseat, economics moves into the driver's seat."[18] Interestingly, in many aspects, his suggestion may be seen as a draft for the CII's responses to the economic reforms since 1991. First, he saw the creation of

[18] Address of J.P. Chowdhary, President, CEI. 'India's Economic Strategy for the 90s', 18 April 1990. CII Library. p. 3.

employment through a healthy process of economic development as the central issue to be addressed and resolved.[19] Second, he viewed that global integration does not mean giving up self-reliance. To him, both can happen together and both must happen together.[20] Third, he emphasized that India's economic strategy must be related to the investment policy in the development of India's plentiful natural resources. In this regard, he gave his support "to access investments by the private sector and even by foreign enterprises."[21] Fourth, he emphasized on extending pressures of competition to include external and international competition, i.e., delicensing alongside import competition. He added that the only support for Indian industry by the government was to be the supply of essential inputs of products at near international prices and ready availability, that is off the shelf delivery.[22] In addition to this, he cautiously stated that Indian industry "must steadily move away from the concept of a command economy."[23]

However, the Indian economy was still showing a downward slope. Most importantly, growth in industrial production during 1990-91 had declined marginally to 8.4 per cent from 8.6 per cent in 1989-90. According to the CEI's *Business Outlook Survey*, covering 232 companies both in the public and private sector estimated a bleak outlook for the engineering industry up to the end of September, 1991. In addition to the general business outlook, other important indicators relating to the economy and industry also showed a downward trend. Accordingly, there were concerns, among CEI members, that the sectors most likely to be affected were electronics, computers, alloy steels, auto components, automobiles and some sections of the consumer durables

[19] Ibid.
[20] Ibid.
[21] Ibid., p. 7.
[22] Ibid., p. 8.
[23] Ibid., p. 12.

industry. Besides, castings and forgings and the secondary steel sector, which were not only dependent on the import of raw material but were also main suppliers of components to some of the above sectors, were considered to be affected.[24] A large number of those items were key commodities of CEI membership companies.

Given this situation, the need for a new economic policy was rising up and the CEI began to express its views on it in its summit theme. When the seventeenth CEI Annual Session and National Conference were held on 26 April, 1991 in New Delhi, the theme of the National Conference had been "The Challenge of a Free Economy."[25] In the meantime, in July 1991, the economic policy change was initiated.

2b. CII's Responses at the Early Stage of Economic Reform

Although the CII might have anticipated that the new economic policy would be different from the previous one of the 1980s, when they faced it, they found it rather difficult to acclimatise themselves to the new environment. Particularly, they felt that the pace of reform process was too rapid and radical. Dhruv M. Sawhney, CII President, said that "the new government decided on more than the Association had asked for."[26] In addition to this situation, the tragic assassination of Rajiv Gandhi and the general elections affected India across the board at that time. The internal disorder affected CII without exception. Later, Sawhney said that, recalling the time when he took over as President in April 1991, he had "no idea of turmoil." He added that the "CII just had to

[24] Interview with Dhruv Sawhney, CEI President, *Frontline*, 6-19 July, 1991. p. 101.

[25] *CII Annual Report* (hereafter CII AR) 1991, p. 25

[26] See Kantha and Ray, *op cit.*, p. 171.

be *proactive.*"[27]

On 24 July 1991, both the budget and the statement on Industrial Policy were announced. On the whole, there were few things in the budget which forced the Indian business group to take a pessimistic view of the ongoing economic plans. On the other hand, the posture of the Government seemed to be quite pro-business. The economic policy package was variously seen as pragmatic, bold, or even as one which takes the country on the path of becoming a global player. For example, F. A. Mehta, business economist and the Director of Tatas, said that 24 July will go down in the industrial history of India as a "momentous day".[28]

In some respects, however, the budget had some factors not favorable to CEI. CEI's apprehension was revealed when CEI Economic Affairs Committee met under the Chairmanship of Sanjiv Goenka on 31 July in New Delhi. In the meeting, the industrial policy and the central Budget were mainly discussed. On the industrial policy, concerns and suggestions were focused on the matter of deregulation. CEI was concerned regarding how further deregulation would be allowed for industries requiring compulsory licenses. On central Budget and fiscal policy, CEI expressed their apprehension that without any firm commitment by government to cut capital expenditure, deficits may not be reduced. They were on the horns of a dilemma. The government departments and public sector undertakings were major buyers of most items of heavy engineering plants, earth moving machineries and steel and coal equipments. If the capital expenditure was lower in real terms, this could lead to a slowdown in demand for these items of equipment. In the meeting, CEI further argued

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[27] Speech of Dhruv M Sawhney, CII President, 16 May 1992, at the Inaugural Session of the National Conference in New Delhi, "Dialogue for Economic Growth", p. 2 (CII Library)

[28] Cited in *Frontline*, 17-30 August 1991. p. 88.

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that the reduction in depreciation rate from 33.33 per cent to 25 per cent would severely jeopardize Indian industry and the investment planning would go awry, while raising the rate of interest at that juncture would also come down heavily on industry.[29] In fact, this meeting was a preliminary negotiation among CEI members for the CEI National Council meeting to be held in the following month.

The CEI National Council, the apex policy-making body of the Confederation, met and deliberated on the policy announcements of the Government of India, in New Delhi on 5 August under the chairmanship of Dhruv M Sawhney, CEI President. The highlight of the meeting was the dialogue with government bureaucrats like Montek Singh Ahluwalia, Commerce Secretary; Suresh Mathur, Secretary, Ministry of Industry; Rakesh Mohan, Economic Advisor, Ministry of Industry; and Jairam Ramesh, officer on Special Duty, Prime Minister's office, on the new Trade, Industrial and Fiscal policies. In the meeting, CEI expressed their apprehension on the budget. Some of the concerns expressed were:[30]

(a) Government's move in curbing non-plan expenditure was not adequate.
(b) Expenditure on infrastructure should be maintained and expanded.
(c) Cut in depreciation rate would hit investments.
(d) Management of change was critical both by industry and Govt. Transitional period would require many clarifications to keep production going.
(f) No instruments to promote savings.
(g) Raw material and intermediates continue to attract high rates of duty.
(h) The cost of credit had not received attention.
(i) Project exports did not feature at all for policy support.
(j) Proper utilization of the National Renewal Fund was important.
(k) Privatization of Financial institutions - CEI to push.

[29] *CEI News*, 2 September 1991.
[30] *CEI News*, Special Issue, August 1991, p. 2.

The lists of concerns were not quite different from the discussion of CEI Economic Affairs Committee in July 1991. Contrary to expectations, their concerns had been expressed in quite a roundabout manner. We can interpret CEI's reaction in two ways. On the one hand, they saw the economic compulsion that Indian was facing at the time. On the other hand, as Sawhney said,[31] the CEI saw the need to be proactive in highlighting issues of their concern but in dialogue with government officials. Those issues were:[32]

(a) Only efficient units would be able to absorb the pressure and survive.
(b) There would be liberalization to promote investment abroad, if globalization was to be promoted.
(c) The release of foreign exchange would continue to pose a problem for the next 12 months.
(d) List of licensed Sectors would be reviewed and reduced in course of time.
(e) Dialogue was on with State Governments on implementation at state level.
(f) Problems of SSI regarding registrar would be studied.
(g) The policies were – evolution and continuation of the process, started in 1985.
(h) Industry was not prepared for such radical change in the New Economic Policy.
(i) Industry must view problems from the National perspectives.
(j) Industry must concentrate on structural changes/reforms.
(k) Industry should not lose these opportunities after having got liberalization.
(l) CEI should cease asking for exemptions and concessions.
(m) Tariff Commission would replace the BICP and it was to look into anti dumping activities.
(n) Regional development needed to be given special attention.

From the issues raised above, we find that, although they had different viewpoints

[31] See fn 27 in this chapter.
[32] *CEI News*, Special Issue, August 1991.

about economic reforms, yet the government and the business groups endeavored to arrive at a consensus between them. Both the government and the CEI had admitted that the economic reforms in 1991 were an extension of the earlier regime. On the other hand, we find that, even at the start of reform, there had been a concern about promoting investment abroad. Also, we see that there was a positive attitude towards decentralization, as (e) and (n) show.

On the whole, the CEI National Council observed that the new industrial policy was a big step towards a free environment, competition and globalization. Particularly, deregulation was most welcome by the Confederation. CEI President, Dhruv Sawhney strongly advocated a continuation of deregulation and liberalization by the government, extending beyond trade, industrial, small scale industry and fiscal policies. On the other hand, Sawhney, together with J.J. Irani, Vice President, CEI, was making a statement after internal consultations in CEI at state, regional and national levels, concluding with the same meeting. He presented an agenda to carry forward deregulation covering trade, industrial competition, monetary and fiscal policies, as well as industry's actions and initiatives. This immediate agenda outlined by the CEI President and Vice President, by and large included trade, industry, fiscal and monetary policy.[33]

Although the Confederation actively participated in the reform process suggesting proposals for further strengthening of the economy,[34] and gave approval to a new economic policy as suggested by the government, by way of contrast, the CEI did not seem to have a concrete goal to meet rapid economic reform process. Given this situation, the CEI's first task was to spread the message of the economic reforms among their members. This effort targeted not only CEI members but, also the Indian political

[33] For more details, see *CEI News*, Vol. 6. No. 12, 2 September 1991. pp.1 and 17.
[34] See, *CEI News*, Vol. 6. No. 13, 23 September 1991.

arena.

2c. Building Consensus

As an apex industrial body, the CEI realized the need for national appreciation and support towards this unprecedented government action. Accordingly, the most important task ahead seemed to be to build a sense of consensus among Indian industry as well as the Indian political arena. In fact, behind this effort, there lay the CEI's anxiety about the uncertainty of the government's sincerity to sustain reform process since, each change of government at the national level had meant a change in economic policy. Given this situation, none of the sectors could be confident that there would be continuity with regard to deregulation, foreign investment and globalization of the Indian economy.

The CEI had focused on various issues related to industrial development in the Centre and the States. As a strategy to achieve this, it was decided that the CEI would step up in effort to build consensus on economic growth policies and procedures with various ministries of government, political parties, national and regional MPs, MLAs, party office bearers and government officials. Particularly, interaction with the state governments was the main focus of CEI headquarter as well as its regional offices. In 1991, for example, all four CEI regional offices emphasized the importance of interaction with the Members of Parliament.[35] In many aspects, these efforts were the first of its kind and a large number of MPs attended these interactions. In 1992, CII

[35] See *CII AR* 1991, pp. 6-7.

added three other initiatives to the dialogue for economic growth – with the Media, the Academia and Trade Unions.[36]

The first such meeting was held with MPs from West Bengal on 5 August 1991, at Banga Bhavan in New Delhi. Twenty five MPs attended this meeting. D.K. Gupta, chairman, CEI eastern region made a brief presentation on the central issues concerning fiscal, trade and industrial policies of the government. While he mentioned that a number of suggestions made by CEI were accepted by the government, he expressed that the government had to pay more attention to the issue of policy change. On the state front, Gupta suggested the need for improvement in infrastructure in order to promote the environment for investments. Particular mention was made of the necessity for improvement in the efficiency level in the field of power, roads and communication. Through these meetings, the CEI believed that it would be possible to convince both the government and those who legislate about the need for quick action to make India's economy efficient and vibrant.[37] The meetings with MPs of states continued during the year of 1991. According to the *CII Annual Report 1991*, the CEI had meetings with MPs of eleven states. The first one with West Bengal MPs in August followed by Maharashtra, Gujarat, Madhya Pradesh, Karnataka, Tamil Nadu, Andhra Pradesh, Kerala, Haryana, Rajasthan, and Uttar Pradesh.[38]

On 31 August 1991, CEI had an informal meeting with P.V. Narasimha Rao, the Prime Minister of India. The CEI delegation led by Dhruv Sawhney, President, CEI was composed of its seven senior members: Dhruv M Sawhney, president, CEI; J J Irani, vice president, CEI; Rahul Bajaj, past president CEI; D K Gupta, chairman, CEI

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[36] See *CII AR* 1992. p. 4.
[37] *CEI News*, 'CEI's Economic Agenda; Meeting with MPs of West Bengal', Special Issue, August 1991.
[38] *CII AR* 1991. p. 26.

(Eastern Region); Brijmohan Lall, past president CEI; M V Subbiah, past president CEI and Tarun Das, director general CEI.[39] The various issues arising in the meeting included industrial relations, trade, industrial and fiscal policy, public sector as well as debureaucratization and a timeframe for the economic reform. Among others, the main subject was consensus building, particularly, at the political level. In the meeting, CEI delegations informed the Prime Minister about their initiative with the MPs from West Bengal while the meetings with Maharastra, Gujarat, Madhya Pradesh and other states were still in the pipeline. With regard to the need for consensus building at the level of bureaucracy, CEI proposed that 50 joint secretaries of government may be allocated to industry for 2 years to help them get a first-hand experience of industrial operations and management.[40]

The CEI's effort for building consensus was also carried out by the Committee of Affiliated Associations and Divisions (CAAD), chaired by Jamshed Irani, Vice President. CAAD had regular interactions with senior officials of the government and informally shared their views on: (1) the reform process initiated by the government, (2) formulation of the budget documentation, (3) hurdles to expansion or setting up of business, (4) reduction of a number of procedural matters, (5) trade policy, and (6) custom duty, among others.[41]

In addition to various forms of meetings in the political arena, CEI started a dialogue with industry all over the country in order to spread the message and create awareness. They thought that this was necessary for a positive and constructive feedback to the government. For this, CEI conveyed the details of policy change quickly

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[39] *CEI News*, Special Issue, September 1991.
[40] Ibid.
[41] *CII AR* 1991, p. 10.

to their members through a number of relevant datasheets, newsletters, monthly statistical bulletins as well as taxation and finance news. Their objective to disseminate information to member companies was reaffirmed repeatedly. CEI's endeavor to spread the messages of economic reform continued and assumed more advanced form. For example, in 1996, CII used the media to disseminate the reform message to the ordinary people as well. The soap entitled 'Made in India' containing thirteen episodes was broadcast on the national network. Each episode was based on spot reporting, research and analysis and interviews, and covered topics like employment, subsidies, competition, taxation and reforms among others.[42]

The CEI's proactive role was once again remarkably reflected in the Prime Minister or Commerce Minister's visits abroad since 1991. Although, already in the 1980s, the forerunner of CEI, AIEI members joined Rajiv Gandhi's visit to Moscow as the first industry association,[43] a phase of the early 1990s showed more important developments in the relationship between the government and the business groups. It was in early September that the apex bodies namely, FICCI, Assocham and CEI joined the Prime Minister, P. V. Narasimha Rao's, visit to Germany as a delegation. This had been the first time for the apex industrial bodies to do so as a single body. This was followed by a business visit to Singapore in October to support an investment seminar that was organized by the Government of India.[44] In November, a joint-delegation of business group was once again together in Caracas at the last G-15 Meeting. On the other hand, within the country, the apex bodies for the first time came together and jointly hosted the Federal Minister for Economics, of Germany, J. W. Moelleman on 19

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[42] *CII AR* 1995, p. 10.
[43] For details, see Kantha and Ray, *op cit.*, p. 160.
[44] *CEI News*, Special Issue, 19 November, 1991.

November.[45]

In fact, even while CII had kept their supportive and proactive position to the reform process, often there emerged concerns about continuity of the government's policy. For example, in January 1992, CII President,[46] Dhruv Sawhney in an interview to the media said: "as far as I am concerned, I will not invest big money right now but will prefer to wait and watch like the foreigners. What will happen if the government is not able to carry out its reforms? Nothing."[47] However, where the character of the market was changing from a seller's market to a buyer's market, CII's focus was turning to internal reform which emphasized on the competitiveness of Indian industry.

2d. Facing Competition

In effect, 'competition' was not a new issue among CII members. Compared to the previous period, "the pressure of competition expanded to include external and international competition" since the economic reforms of 1991.[48] However, in some aspects, Indian business sector was caught in a dilemma. When the government abolished the threshold asset limit on Monopolies and Restrictive Trade Practices (MRTP) firms, Indian companies, particularly big business houses, were unable to contain their delight. On the other hand, when the Foreign Exchange Regulation Act (FERA) raised its limit of 40 per cent to 51 per cent, they became anxious as

[45] *CII AR* 1991, pp. 8. and 19; CII News, Special Issue, January 1992.
[46] From 1 January 1992, CEI changed its name as CII.
[47] *India Today*, 31 January 1992. p. 122.
[48] See fn. 22 in this chapter.

multinationals were allowed easy entry, at times even with 100 per cent ownership.[49] Under these circumstances, the Indian business was forced to contemplate about competitiveness.

The CII's sensitiveness to the issues of competitiveness was revealed in various ways. Firstly, emphasis on competitiveness can be found from the CII's annual theme itself for 1991-92: "Industry Action for Free and Competitive Economy."[50] Dhruv Sawhney stressed on the importance of competitiveness in his presidential message saying:

> Competition is a fact of life, Restructuring on a very extensive scale is ahead. Growth is yet to be regained but it will come in time. New forces have been unleashed for industry to struggle and strive for Efficiency and Competitiveness. There is no turning back.[51]

Besides, CII set up a series of fourteen National Task Forces (NTF) during 1991-92. The objective of the NTFs was to focus on specific, key issues and to bring out a strategy, a detailed plan, and a set of proposals which could be implemented in each area.[52] Interestingly, among fourteen NTFs, division of 'Competition Policy' was formed under the chairmanship of Suresh Krishna who was the president of CEI. In many aspects, it was at this juncture that competitiveness of Indian industry became the most important slogan of CII.

Some key areas CII focused on to achieve competitiveness were: quality standardization, technology, energy, environment management and corporate

[49] For details about the amendment of FERA and MRTP Act, see *Economic Survey 1991*, p. 82
[50] *CII AR*, 1991. p. 2.
[51] *CII AR* 1991, p. 3.
[52] Ibid., p. 4.

governance, etc. Besides, CII's move towards Total Quality Management (TQM) was one of its most remarkable efforts.[53] The TQM, inaugurated on 1 January, 1988, focused on quality at the global level. In fact, in the pre-reform period, most Indian companies did not seem interested in matters of quality. In some aspects, it was understandable because under a protected environment with little competition, many companies would not have had the chance to recognize their lack in efficiency and the imperative to change. Under such circumstances, there had been only one Indian company which had achieved ISO 9000 certification.[54] However, in 1991 as two more Indian companies achieved ISO 9000 certification,[55] Indian companies' interest in quality also grew. Accordingly, membership of the TQM division increased to 146 in 1991 from 80 in 1990.[56] This number further increased during the year of 1992 as 82 new members were admitted to the TQM fold. With an increase of 56 per cent, total membership strength of TQM division was 228 as on December, 1992.[57] Along with the TQM, an important event in this regard was the organization of National Quality Awareness Campaign, jointly by the GOI and the industry. In April, 1992, it was inaugurated by P. Chidambaram, the Commerce Minister at the time as Quality Month by hoisting the Quality Flag at CII Headquarters. During the Quality Month, more than 400 companies participated in various activities.[58] Besides TQM, CII had also launched

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[53] Kantha and Ray argued that CII's TQM was a "landmark in the history of the quality movement in India." See, Kantha and Ray, *op cit*, p. 223.

[54] It was the Sundaram Fasteners whose chairman was Suresh Krishna. As mentioned above, Suresh Krishna was President of CEI and also Chairman of Division of Competition Policy among fourteen National Task Forces.

[55] The two companies were Kirloskar Brothers, Kirloskarwadi and Kirloskar Commins, Pune. CII AR 1991, p. 23.

[56] Ibid.

[57] *CII AR* 1992, p. 19. Later in February 1996, the foundation stone of the TQM Institute was laid in Bangalore by the Finance Minister Manmohan Sigh and the Chief Minister of Karnataka, H.D. Deve Gowda. See *CII AR* 1995. p. 2.

[58] *CII AR* 1992, p. 19.

the Total Productive Maintenance (TPM) and Total Cost Management (TCM) movements to enhance industrial competitiveness.

Meanwhile, the Indian business sector saw the new year in. At the beginning of the 1992, the economic situation did not seem encouraging. Chidambaram admitted that "the economy was in the grip of stagnation."[59] He added that "industry had to satisfy domestic demand before thinking of exporting."[60] However, the CII seemed to have a positive view of the economic situation. These views were reflected in *37th Business Outlook Survey* done by CII. The survey related to the actual performance of Indian Industry during October to March 1991-1992. The survey which covered 235 companies in the public and private sectors projected a positive business outlook for the period April to September 1992. For example, regarding the rate of growth, 47 per cent of the respondents expected the industrial growth rate to be above 10 per cent, 37 per cent of the respondents expected it between 0-5 percent, while 15 per cent expected it between 5-10 per cent during the year 1992-93.[61]

In relation to the small scale industrial sector, the CII forecasted a positive outlook in contrast with the period of 1991. According to the *7th Business Outlook Survey* which had covered 243 CII small scale units, for the period October, 1992 to September, 1993 the small scale industry expected general business trends to improve by 37 per cent as compared to 25 per cent of 1991. While 49 per cent of the respondents expected the value of the output to pick up, 23 per cent did not foresee any change.[62]

In sum, during 1991-92, the CII's view on the national economic situation seemed to be mixed. As J. J. Irani effectively stated, to CII, the past year[1991] brought about

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59 *India Today*, 31 January 1992. p. 121.
60 Ibid.
61 *CII Communique*, August 1992. p. 1.
62 Ibid., p. 3.

great trauma and yet it was also true that CII "witnessed India taking major steps forward to turnaround the economy and move towards long-term growth."[63] However, it seemed that not all Indian businessmen were proactive to build a national consensus and support the economic reform process. In 1993, when the so-called *Bombay Club* emerged with demand for a level playing field on the eve of the state election in 1993, this aspect became a visible voice. In the following section, the emergence of the Bombay Club and various sectoral responses to them will be examined. In fact, demand for a 'level playing field' was not a new issue even in CII. But this meeting as a summit of leading industrialists significantly affected Indian industry possibly until recent time.[64]

3. Emergence of the Bombay Club

3a. Emergence of Bombay Club and Its Demand for a level playing field

The year of 1993 began with the aftermath of the Ayodhya incident. It had been widely believed that the year's industrial growth would slacken. Some media groups expressed that one of the most unfortunate casualties of Ayodhya had been the economic reforms.[65] What was reassuring, however, was that both the government and industry

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[63] *CII AR* 1992, p. 3.

[64] One internet news article revealed that recent FDI policies for retail sector and insurance sector were very similar to that of the Bombay Club. See, 'The Bombay Club is alive', *Business Standard* Online, November, 08, 2006; and Prime Minister Manmohan Singh criticized Bombay Club's concerns by saying that "Some of the concerns were products of old mindsets, some of them were ignorance of our own capabilities," cited in PM's speech at the India Economic Summit, New Delhi, November 29, 2005.

[65] *India Today*, 31 January 1991. p. 13.

started changing their ways of operation. While the government, despite backtracking on a variety of issues like subsidy cuts, was trying to find some moves which would help the reform process going, industry actively supported it. As pointed by S.L. Rao, it was the time that there was a host of negatives, but on the whole a lot had been achieved.[66]

In the meantime, there emerged one group of leading industrialists, popularly known as Bombay Club. It was on 22 September, 1993, that ten of India's prominent industrial leaders first met in the Belvedre Room at Oberoi Hotel in Bombay. This meeting seemed to be a summit of Indian industrial leaders. Along with FICCI and Assocham members, the prominent spokesmen of the Bombay Club included senior officials of CII. The attendants were L.M. Thapar, Hari Shankar Singhania, Rahul Bajaj, Arvind Mafatlal, Keshub Mahindra, Jamshyd Godrej, B.K.Modi, Bharat Ram, and M.V. Arunachalam. According to *Frontline* (19 November 1993), attendants were chosen from a list of companies with promoter stakes of less than 20 per cent. Other prominent industrialists such as Ratan Tata and Aditya Birla were invited but they did not attend the meeting. On the other hand Ambanis and Ruias of the Essar group seemed to have not been invited.[67]

On 1 October in New Delhi, at a press conference, L. M. Thapar revealed what the meeting had discussed. He represented Bombay Club's view as saying that "Indian industrialists felt very vulnerable as they were unable to expand industries and modernize quickly to meet the challenges of international competition."[68] The major complaints of the Bombay Club were bad infrastructure, inadequate levels of operating

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[66] *India Today,* 15 January 1991. p. 100.
[67] For more details, see *Frontline*, 'Growing nervous: Indian industry and liberalisation', 19 November 1993. p. 108.
[68] Ibid.

capital, high rates of taxation and a wasteful public sector which had dulled the domestic competition. Accordingly, they argued that the government should have begun with internal reforms and then invited the MNCs. In other words, they viewed that economic reforms had proceeded but they had not been given a level playing field compared to foreign companies. That is, what they wanted was time and support to cope with foreign competition on equal terms.

In some aspects, the Bombay Club's argument seemed to have persuasive power. For example, in case of import tariffs, while lowering of import duties had helped bring down import costs for the industry, untouched excise duties in many cases had led to imports becoming cheaper than domestic products. Accordingly, the capital goods industry was facing a severe demand-recession as far cheaper second-hand machinery was being imported. Given this situation, both the government and Indian business were caught in a dilemma since the industrial sector criticized the government for giving foreign firms significant benefits over Indian counterparts, any cuts in excise duty meant a loss in government's revenues.[69]

On the other hand, the emergence of Bombay Club could be seen as linkage with the economic situation at the beginning of the year. There were merger and acquisition (M&A) of Indian companies by foreign MNCs. Indian business witnessed Romesh Chauhan, the Parle chief, surrendered about a 70 per cent share of the soft drinks market to Coca-Cola, at a price estimated to have been $60 million.[70] Also, razor-blade kings, the Malhotras, were also on their way to handing over their stranglehold over the razor blade market to the British multinational, Gillette. The fear was that such strategic alliances with foreign partners would ultimately threaten the very survival of the Indian

[69] *India Today*, 15 November 1993, p. 149.
[70] Ibid., pp. 146-147.

partner.[71]

In effect, the Bombay Club was not the first occasion when a section of Indian industry expressed reservations about economic liberalization. Already on 12 January 1991, five days after FERA had been amended through an ordinance, the expert committee on company affairs of the Assocham recommended that the government be requested to undo the relaxation of the rigors of the 1973 Act and restore the status quo ante.[72] However, the occasion highlighted only the partial reservations of a section of Indian industry, not a questioning of the total direction of economic liberalization.

The first of the Bombay Club's demands for a level playing field was found in Rahul Bajaj's expression in August 1991. Although he did not explicitly state the clause of a level playing field, he certainly implied it. He said that he was willing to become more internationally competitive while bringing in foreign collaboration, "we will get specialized technicians from all over the world, and *then* compete."[73] In 1992, this view materialized when Dhruv M Sawhney, President of CII stated at the inaugural session of the CII national conference:

> We welcome competition as a policy and a philosophy but ask for a level playing field for Indian Industry by removing policy distortions which make inputs costlier than finished products. Capital Goods and their raw materials and certain chemicals are just examples.[74]

[71] *India Today*, 15 November 1993, p. 147.; for understanding the situation about M&A of Indian companies by foreign companies at that time, see C.P. Chandrasekhar, 'Invited invasion: 'Levelling' the playing field', *Frontline*, 5 November 1993. pp. 101- 03.

[72] *Frontline*, 19 November, 1993, p. 108.

[73] *India Today*, 15 August, 1991. p. 28. emphasis mine.

[74] Address of Shri Dhruv M Sawhney President, CII at the Inaugural Session of the National Conference "Dialogue for Economic Growth" on 16 May 1992 in New Delhi. p. 5.; Mentioning on level playing field appeared again in the CII publication on May 1993, See, *CII Communique*, 'CII calls for a Level Playing Field for Exporters', May 1993. p. 13.

In 1993, the demand for a level playing field began to appear more frequently. Firstly, in May, CII Southern Region called for a level playing field for exporters.[75] More interestingly, in July 1993, two months before the Bombay Club's meeting in Bombay, one of the CII's internal committee expressed their concerns about a level playing field. On 21 July in New Delhi, the second meeting of the Capital Goods Committee of CII was held under chairmanship of S. K. Bijlani. At the meeting, CII members expressed concern about continued neglect of the domestic capital goods industry by the Ministry of Finance. Then, the CII held a press briefing on 30 July where Bijlani made a slide presentation on the capital goods industry, its growth, problems, constraints, and recommendations of CII for providing a level playing field.[76]

In sum, it can be seen that the Bombay Club's demand on a level playing field was caused by two reasons. Firstly, it was an expression of cumulative complaints on unsolved demands since 1991. Secondly, it was also true that the concerns about M&A of Indian companies by foreign MNCs intensified their tension. Besides this mixed background, elections in four politically important northern states were in the offing. For the Bombay Club, the timing was appropriate and they chose to hold the meeting on the eve of state elections.[77] Although their demands were interpreted variously by diverse commentators, as pointed out by K. K. Modi, elder brother of the Bombay Club participant B.K. Modi, it can be summarized effectively: "they did not want protection, but foreign investors should not find it easier than they do."[78]

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[75] For details, see *CII Communique*, May 1993, p. 13.
[76] For more details, see *CII Communique*, July 1993, Vol.1 No. 5. p. 7
[77] *Frontline*, 19 November 1993. p. 110.
[78] *International Herald Tribune* Online, 7 February 1994. Article can be found at <http://www.iht.com/articles/1994/02/07/bbod.php>

3b. Reactions from the Government and the CII

The Bombay Club's meeting and their demand seemed to be sudden for the government because the economic reform process was vibrantly on going and the Indian business group seemed to be satisfied with it. For example, when the 1993 Union Budget was announced, industrialists expressed rather euphoric emotion. At that time, Tarun Das, CII Director-General, stated that if the government keeps up with a steady process of reform, the long-term outlook for industry will improve further.[79] Under these circumstances, the government seemed surprised as to why the industrialists had woken up only at that point to the reality of discrimination against indigenous manufacturers of capital goods. This occurred due to the government's consideration that the Union Budget 1992-93 indicated sufficiently the shape of things to come.

However, the government seemed to want to solve this controversy as soon as possible. Soon after facing the Bombay Club's demand, the government had immediately announced that Indian companies could hold up to 75 per cent of their own equity, as opposed to the earlier 40 per cent.[80] This had been a long-standing demand of the Indian business group, as foreigners were allowed to hold up to 51 per cent of a company's equity. Regarding their stance on unfair import duties, Montek Singh Ahluwalia replied that the government had a will to correct them[import duties] as soon as they can. However, it seemed that the government's stand point did not completely sympathize with the Bombay Club's opinion. Refuting their argument as saying, "what is the value of a brand-name which exists merely because of non-competitiveness?,"[81]

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[79] *India Today*, 31 March 1993. p. 100.
[80] *India Today*, 15 November 1993. p. 155
[81] Ibid.

Montek Singh Ahluwalia assured that the government will bring all duties down. He also added that "all excise duties" will be "balanced by an equivalent countervailing duty so as to create a level playing field."[82]

In the meantime, the government had again met the CII's complaints about capital goods sector. In a post-Budget memorandum to the government, the CII estimated that domestic manufactures of capital goods were at a price disadvantage of 30 to 50 per cent viś-a-viś their foreign counterparts.[83] The answer of the government was not given for quite some time. It was given on 29 March 1994 at New Delhi, when M. R. Sivaram, Secretary, Revenue addressed at a post-Budget meeting organized by CII. Commenting on the industry's demand for level playing field, he stated that "usually in a competitive market place, there is no level playing field, instead, the government would try to create a 'fair playing field' for industry to compete in."[84] Although he used the word 'fair playing field', it was understood that the government would be supportive and generous towards the Indian business group.

On the other hand, the CII's response was supportive from the beginning. After all several members of Bombay Club were in the leadership of CII. In fact, CII did not comment on Bombay Club's demand for a level playing field officially with the media. However, one short article entitled "Supporting Policies" which had appeared in *CII Communique* in September 1993 revealed that the CII was supporting the Bombay Club. Interestingly, this article was published almost at the same time as the Bombay Club meeting in Bombay. In this article, CII expressed their support for the Bombay Club as

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[82] Ibid.

[83] This was particularly so because the process of reduction of customs duties had brought about a situation where the rates of duty on raw materials and component were in some cases higher than those applicable to finished goods. See *Frontline*, 19 November 1993. p. 109.

[84] *CII Communique*, March/April 1994. p. 7.

follows:

> Recession is the breeding ground for protectionism. It is not surprising, therefore, that besieged businessmen in the recession-hit Indian capital goods industry have been petitioning, praying and protesting to the government against speedy external liberalization. However, it is, reassuring to hear from the spokesmen of the Confederation of Indian Industry that they are not seeking a return to the ancient regime of protectionism and excessive governmental regulation. Rather, they would like to invite governmental support for domestic industry to enable it to take on global competition. What is crucial, in their view, is the proper "sequencing" of reform and not its reversal or even a slowing down. The word "sequencing" is used to suggest that external liberalization must follow greater internal liberalisation and not accompany it.[85]

This article, citing South Korea as their model, ended up emphasizing on government intervention for a more selective integration with the global economy, as follows:

> ...it is necessary to put in place in India such supportive policies[government intervention], while pursuing the agenda for economic liberalization, so that India can build anew on a pre-existing foundation, without destroying too much of the edifice.[86]

It is not clear as to whether there was an internal meeting in the CII headquarters before the Bombay Club's meeting. However, clearly it may be said that CII, as a whole, wanted the government to do something for industry.

By way of contrast, the Indian media had mixed responses. For instance, *India Today* seemed to incline towards Indian businessmen. It pointed out that India still

[85] *CII Communique,* Vol. 2 No. 8, September 1993, p. 1
[86] Ibid.

remained a high-cost economy, so the need is "to level the playing field as quickly as possible."[87] On contrary, *Frontline* derisively criticized the Bombay Club commenting on the fact that their argument could not be a representation of all Indian industry.[88] In other words, their meeting was seen as a summit of industrial leaders so it was considered as mere one-sided opinion.

On the whole, the mood of criticism had been predominant. Accordingly, the Bombay Club's emergence seemed to have apparently failed. As Kesub Mahindra, one of the first members of the Bombay Club admitted that the "Bombay Club should have talked to the media openly instead of shutting them out totally, if then they could[might] have handled the controversy better."[89] However, more importantly the Bombay Club's emergence could not be ignored from then onwards. This is apparent as they have been mentioned in the addresses of several national leaders. Recently, Prime Minister, Manmohan Singh, officially criticized them twice. On 29 November, 2005, at the India Economic summit in New Delhi, recalling the concerns expressed by the Bombay Club, Manmohan Singh had stated that "some of the concerns were products of old mindsets, some of them were ignorance of our own capabilities."[90] In the following year, his speech inaugurating the Asia Society's 16th Asian Corporate Conference on 18 March , 2006 in Mumbai had outlined that "gone are the days of the Bombay Club."[91] More recently, eminent economist Surjit Bhalla once again reiterated that "their[Bombay

[87] *India Today*, 15 November 1993. p. 155.

[88] For example, see 'Growing nervous', *Frontline*, 19 November 1993. pp. 108-110.

[89] *Outlook* Online, 'Competition Among The States Will Take Care Of Most Of The Minor Problems', 24 April 1996.

[90] Full text of Prime Minister Manmohan Singh's speech at the India Economic summit is available on the websire: <http://pmindia.nic.in/lspeech.asp?id=231>

[91] The full text of Prime Minister Manmohan Singh's speech inaugurating the Asia Society's 16th Asian Corporate Conference on Saturday, 18 March 2006 in Mumbai is available on the website: <http://209.85.175.104/search?q=cache:IFBTwAR-OCsJ:202.54.124.133/money/2006/mar/18asoc.htm+manmohan+singh+bombay+club&hl=ko&ct=clnk&cd=2&gl=kr>

Club] intent and purpose was to fix the economy and prices for their own good, rather than the good of the nation, or the good of the *aam aurat*."[92]

4. CII Centenary Year 1995

At the beginning of 1995, Union budget for 1995-96 was the most delightful news for the CII. On 15 March, the then Finance Minister, Manmohan Singh, suggested that the Indian industry will step forward into the world market by slashing peak import tariffs to 50 per cent fro the previous 65 per cent, further removing the anomalies in the duty structure for capital goods, intermediaries, and raw materials.[93] Although CII was disappointed that the corporate tax rate had not been lowered and the surcharge on corporate tax still persisted,[94] they had generally welcomed the budget. Particularly, a major rationalization for the CII was about duties on capital goods, with 80 per cent of capital goods, components and parts being brought down to a single rate of 25 per cent. Besides, CII President Subodh Bhargava welcomed the continuation of the economic reforms, as reflected in the wide ranging cuts in customs and excise duties.[95]

On the other hand, the year of 1995 was a special to CII since, it marked the zenith of the CII's centenary year. During the year, CII paid particular attention to the global agenda. The CII's commitment in this regard materialized when its first Partnership Summit was held in Mumbai. Its main objective was to create winning partnerships on

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[92] See *Business Standard* Online, 'Bombay Club Sonia', 17 February 2007.
[93] *Business Standard*, 16 March 1995.
[94] *Times of India*, 16 March 1995. For understanding CII's response to Union Budget 199-96, See also *CII Communique*, March/April 1995. Vol.4 No.2. pp. 1-2.
[95] Ibid.

an international level.[96] Consequently, the CII Partnership Summit has been held each year in a different city. As Kantha and Ray pointed out, it enables the city to showcase itself and market its investment opportunities.[97] Apart from the Partnership Summit, in 1995, CII had also set up four Centres of Excellence. The activities of the Calcutta centre had already started in that year.[98] The consolidated aim of these Centres of Excellence was also to enhance competitiveness and efficiency in order to make Indian companies world-class business corporates.[99] These efforts reflected Indian business' awareness that Indian industry had to go a long way before it could term itself as internationally competitive.

The high point was the CII's centenary celebration held in Calcutta on 4-6 January 1995. Rahul Bajaj presided over this summit. From this summit, the CII had achieved many things. According to Bajaj, the Centenary Celebration "put the limelight on West Bengal as a state which no longer wanted to be ignored by domestic or foreign investors." Secondly, through the summit, "CII was able to forge many partnerships, particularly with the Government of Singapore and the Singapore Manufacturers Associations."[100] In the matter of foreign investment, however, the CII came across as cautious. The chairman of the CII centenary celebration, Bajaj still supported the middle path in automatic approval for foreign investment which was restricted to the level of 51 per cent, arguing as follows:

> India has a right to see what it most appropriate in its overall interest and while following the process of liberalization without wavering, we may have to keep, in our

[96] *CII AR* 1995, p. 2.
[97] Kantha and Ray, *op cit.*, p. 195.
[98] *CII AR* 1995, p. 2
[99] Kantha and Ray, ibid., p. 238
[100] *Business Standard*, 14 January 1995.

> Prime Minister's words, to the middle path, keeping in mind our national interests and various political and economic considerations.[101]

The CII members had continued to maintain divergent opinions on the subject till the end of the year. The major concern was that - what was introduced as a measure to attract foreign direct investment for encouraging healthy competition and introduction of new technology became instruments in the provision of more and more concessions to MNCs, at times even more than the domestic industry. Once again after 1993, the matter of foreign investment was becoming a controversial issue among CII members, and finally, the nature of MNCs' entry into India had become a subject of serious debate in the following year.

5. Controversy on MNCs in 1996

In India, there had been three major complaints against MNCs: that they don't meet employment or export obligations despite smooth sailing of procedures; that they concentrate more on marketing skills than quality and on buying marketshares with the strong dollar than fair competition; and lastly they repatriate profits but, reinvest very little.[102] Accordingly, diverse industrial associations and several commentators had expressed their views on MNCs suggesting various proposals on this subject.[103] Their perceptions were justly different and sometimes raised controversies.

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[101] Ibid.

[102] *Outlook* Online, 'Baby and the Bathwater', April 13, 1998.

[103] For example, Jairam Ramesh pointed out that for successful joint ventures between Indian and foreign companies, trust is most important matter. See Jairam Ramesh, 'Joint ventures out of joint', *Business Standard*, 23 February 1995.

The most vigorous controversy about MNCs was stirred when the Director-General of CII, Tarun Das, gave an interview to a prominent financial daily *Economic Times* where he sharply attacked the behavior and activities of foreign multinationals in India.[104] In fact, one week before Das's interview to the *Economic Times*, there was an internal debate upon this issue at a brainstorming session of the CII. . In his paper, Das argued that although the domestic industry wanted MNCs to contribute to India's development, there was discomfort with their one-way-street dominance and control while bringing in outdated and obsolete technology. The undesirable features of MNCs' operations in India as listed comprehensively by Tarun Das are as follows:[105]

(a) They have a sales approach and no interest in manufacturing. This approach reflects a reluctance to invest in India even while they want access to local markets through minimum production in India and maximum production back at home. This entails continued import of components.
(b) They focus on the short-term rather than long-term.
(c) They bring in outdated technology and their investments are limited to second-hand machinery.
(d) They enter on a 50:50 basis and then quickly seek majority control.
(e) Despite having a joint venture with a local partner, they often set up a 100 per cent subsidiary.
(f) MNCs use expatriate managers and CEOs rather than Indian managers.[106]
(g) MNC investment is limited essentially to the supply of second-hand plant and machinery

[104] *Economic Times*, 20 March 1996. Fore a more elaborate presentation See Tarun Das (1996) 'MNCs: India Strategy Needs Rethink' (Typescript; New Delhi: CII); See also *Mainstream*, 30 March 1996. p.6; interestingly, full text of his article can be also read from official website of Bharatiya Janata Party (BJP). The URL is http://www.bjp.org/major/swadeshi-4.html.

[105] See Tarun Das, 'MNCs: India Strategy Needs Rethink', (Typescript; New Delhi: CII), 1996.

[106] Das' criticism of MNCs using expatriate managers and CEOs rather than competent Indian management is relevant taking into account the recent incident of the British transnational BAT attempting, though unsuccessfully, to ease out two senior and highly professional Indian managers from ITC, a joint venture in which BAT had substantial but a minority share. BAT openly canvassed against the highly professional Indian managers, but failed to oust them owing to the stand of the Indian financial institutions, which had high stakes in the equity.

(h) They have a cowboy approach: a single MNC often tied up with different Indian companies for different product lines. In such cases, they land in India, hastily choose a partner, make a mistake, and want to break the relationship.

When the media reported on it, Tarun Das' paper received wide coverage in the Indian media and had generated a debate on whether Indian industry was already tired of economic liberalization and looked for some kind of protection against competition from MNCs. Although on the very next day of the brain-storming session, President of CII, Rajive Kaul, came out with a statement, clarifying that the controversial paper of Tarun Das on MNCs strategy "essentially put forward suggestions to strengthen the flow of foreign investment and joint venture between MNCs and Indian partners in the long run,"[107] it had not removed the sting of the attack.

This was the first time that the MNCs were berated by Indian industrial organizations. As stated above, although the Bombay Club also expressed their concerns about foreign companies, it was not an attack on MNCs themselves but, seeking a level playing field for Indian industry from the Government of India.[108] Das's criticism of MNCs had certainly caused a clear divide between the association's Indian and MNC members. MNC members in the CII complained that any issue relating to MNCs needed to be discussed in detail and debated properly in open fora instead of releasing statements without consulting members who would be affected by such statements. One of the MNC members of CII, TNCCEO expressed discomfort, saying that either there was a communication gap or the CII was simply not interested in MNC membership.[109]

[107] *Chasque.net*, 'India: Apex Trade Body Attacks TNCs', 29 March 1996.
[108] See Jayati Ghosh, "Entry of MNCs: Change in the CII's stand", *Frontline*, 19 April 1996. pp. 98-99.
[109] For more details, see *Outlook* Online, 'The Great CII Divide', 10 April 1996. *Outlook* described Das's expressing discomfort as 'carefully-planned outburst'. ibid.

On the other hand, senior officials of CII expressed their support for Das. For instance, former CII President, Subodh Bhargava, and FICCI Secretary-General, Amit Mitra, on a television programme, had raised and highlighted the fact that they had intended to hold bilateral discussions between Indian and foreign businessmen and it must not be interpreted as an appeal to the government to intervene. He added that the CII favored foreign investment and simply wanted better long-term business relationships between Indian and foreign businessmen, and this required improved behaviour from both.[110] President of CII, Rajive Kaul also supported to extinguish the flame of controversy. He insisted that Das' statement had nothing to do with politics. He added that it only stated some concerns and strategies for MNCs on a long-term basis.[111]

As the controversy intensified, the situation seemed to evade a resolution. On one hand, the CII faced media critics. Several commentators put forward the view that the open expression of views by Tarun Das was intended to initiate a debate on the eve of the elections. For example, *Outlook* accused the CII of mixing business and politics; and asserted that the CII was pressurizing the Congress Party to take a fresh look at its MNCs policy if it returned to power. They interpreted the CII's intentions as asking for some form of protection against MNCs. They also criticized it because any wrong signal sparked off by the CII would result in a setback to foreign direct investment.[112] Within the CII, there also emerged negative opinions on the matter of timing. Noted member of CII, Arun Bharat Ram said that the timing for raising the MNC issue was not the most opportune. He suggested that if the CII had wanted to start a debate on

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[110] For more details, see *Times of India*, 'Towards a foreign investment policy', 31 March 1996.

[111] *Outlook* Online, 'The Ghost of the Bombay Club', 10 April 1996.

[112] Ibid.

MNCs, the CII should have waited till the elections were over.[113]

To make matters worse, this presumption seemed to be reinforced by the CII's subsequent invitation to the former BJP President and *Swadeshi* hardliner, Murli Manohar Joshi to the CII annual general meeting in April. On 27 March, the CII delegation led by its President, Rajive Kaul, invited Murli Manohar Joshi to attend the CII's annual general meeting in mid-April. The intention behind this invitation was variously interpreted. The *Outlook* analyzed it as intended to strengthen the hands of the Bharatiya Janata party (BJP) because of its *Swadeshi* agenda.[114] As we shall see, in the following chapter, at the time, the BJP had been extremely opposed to the presence of MNCs in the consumer goods sector. Concomitantly, a BJP organ, Swadeshi Jagaran Manch (SJM) was leading popular agitation against the entry into India of Kentucky Fried Chicken fast food shops across the country and Pepsi Foods muscling into manufacture.

The CII annual general meeting was held in New Delhi on 16-17 April, 1996. The meeting was held despite controversies raised by Tarun Das. Rather, it seemed to be a meeting for a pre-election campaign. From most political parties, politicians tried to persuade Indian businessmen. The participants from political parties included Pranab Mukherjee of the Congress(I), Atal Behari Vajpayee of the Bharatiya Janata Party (BJP), and Harkrishan Singh Surjeet of the Communist Party of India (Marxist), among others. The worry about the controversy on MNCs came from the incumbent government. Particularly, the government seemed to be worried about the CII's statement would affect the inflow of FDI. Union Commerce Minister P. Chidambaram in an interview to *Outlook* softened the position and stated, "my impression is that they[CII] want MNCs

[113] Ibid.
[114] *Outlook* Online, 'Mind Your Business', 1 May 1996.

to be more cooperative and have greater understanding of their counterparts in India particularly as most of the flows are by way of joint ventures."[115]

In the mean time, CII members had tried to retrieve the CII's image as a pro-liberalization entity. While the CII's President of the Western Region, Ajit Gulabchand, argued that "the liberalization process can't be skewed in any direction; it has to be uniform and omni-directional,"[116] The President of CII, Shekar Datta, delineated the 'National Agenda 1996-97' on 1 May, 1996. A major part of the agenda devoted to issues were not strictly economic, and also suggested as to what the new government should do in the first hundred days of being in office. According to the CII's agenda, the new governments should pay attention to key sectors, including public sector reforms, electoral reforms and financial reforms among others. Datta revealed hope to work closely with the government in all sectors, the CII theme for the year: "Enduring alliances-sustainable growth."[117]

Although most critics had quietened down before long,[118] both the emergence of the Bombay Club and the controversy around the MNCs allowed one question to persist, that is, were foreign direct investments or foreign investments by MNCs really threatening to Indian business groups? In the following section, the foreign capital inflows during 1991-1996 will be examined.

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[115] *Outlook* Online, "Why Raise this Bogey", 10 April 1996.
[116] *Outlook* Online, "The Ghost of the Bombay Club," 10 April 1996.
[117] For full details of National Agenda 1996-97, see *CII Communique*, May 1996; See also *Outlook* Online, 'Ambitious Agenda', 15 May 1996.
[118] See, for example, *Outlook*, 'a Long Overdue Debate', May 15, 1996. In this article, one business strategy consultant named Subash Agrwal sharply criticized industry chambers, including CII, FICCI and Assocham, saying "Industry chambers are neither pro nor anti-reform, neither progressive nor protectionist. They can be both, depending on the issue."

6. Foreign Capital Investment during 1991-1996

As illustrated above, during the period 1991-96, there were two controversies which related to the CII. However, in many aspects, the CII's concerns about foreign investment seemed to be somewhat overstated. Although the New Industrial Policy (NIP) announced on 24 July, 1991 showed much more liberal attitude towards foreign direct investment (FDI) than in earlier post-independence India, the actual amount and impact of foreign capital inflow during this period was not strong enough to threaten Indian business sector.

During the 1990s, there was rapid increase in the inflow of foreign capital into developing countries. India was not an exception. Since 1992, following the implementation of trade and investment policy, the inflow of foreign capital increased sharply. It must be noted, however, that it was comparatively less than in other developing countries. For example, the peak level of capital inflow was 3.5 per cent of total GDP in India during 1993 to 1994, while the peak levels of capital inflows were above 20 per cent in Malaysia, 13 per cent in Thailand, 10 per cent in Singapore and Philippines.[119] As compared to China, as the Table 2-1 shows, the economic situation seemed clearer. During 1995, while China received 11 per cent of the world FDI inflows, India received only 0.6 per cent of it. Even during the year 2002, FDI inflows to China were about 53,000 million dollars while, for India, they were a mere 3,000 million dollars. China received about 8 per cent of the world FDI inflows while India received about 0.5 per cent of the inflows.

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[119] For details on capital inflows in India since economic reform, see Indrani Chacraborty, 'Capital Inflows during the Post-Liberalization Period', *Economic and Political Weekly*, 14 January 2006.

Table 2-1

FDI Inflows 1990-2002

(Millions of Dollars)

	1990	1995	2000	2001	2002
World	208,664 (100)	333,818 (100)	1,392,957 (100)	823,825 (100)	651,188 (100)
Developed Economies	171076 (81.99)	204116 (61.14)	1120528 (80.44)	589379 (71.54)	460334 (70.69)
Developing Economies	36948 (17.71)	114891 (34.42)	246057 (17.66)	209431 (25.42)	162145 (24.90)
China	3487 (1.67)	35849 (10.74)	40772 (2.93)	46846 (5.69)	52700 (8.09)
India	237 (0.11)	2151 (0.64)	2319 (0.17)	3403 (0.41)	3449 (0.53)

Note: Figures in the brackets refers to percentage share of the world inflows.

Source: World Investment Report, UNCTAD 2003.

Table 2-2

Foreign Direct Investment

Year	Numbers of Approvals	Amount (Approved)	Actual Inflow (Rs crore)	Per Cent Share
1991	289	739	351	47.7
1992	692	5,256	675	13.1
1993	785	11,189	1,786	16.1
1994	1,062	13,590	3,009	22.1
1995	1,355	37,489	6,720	18.7
1996	1,559	39,453	8,431	21.4
1997	1,665	57,149	12,085	21.1
1998	989	25,103	8,433	33.8
Total	**8,396**	**1,89,968**	**41,490**	**21.7**

Source: *Economic Survey*, 1998-1999. p. 87 and p. 103.

Table 2-3

Sector-wise FDI Approved from August 1991 to September 1998

(as percentage of total)

Sector	Amount of FDI Approved (Rs crore)	Percentage Share
Core & Infrastructure	101,002	57.9
Capital goods & mach.	16,862	9.7
Consumer goods	23,161	13.2
Miscellaneous Industries	16,267	9.3
Services	17,190	9.9
Strategic goods	0	0
Total	**174,482**	**100**

Source: *Economic Survey*, 1998-1999. p. 103.

Besides, it must be noted that although a large number of proposals were submitted to the Reserve Bank of India, as seen in Table 2-2, hardly 20 per cent of approved FDI had actually materialized. Especially, during 1992-93, the actual inflow of FDI was lowest as compared to the rest of the period. On the other hand, foreign competition, especially MNCs, was not new to Indian business. According to the Industrial Licensing Policy Inquiry Committee, there were 112 companies even in 1966. Among them, 48 companies were either foreign branches or Indian subsidiaries of foreign companies.[120]

By way of contrast, we need to focus on the positive contribution of FDI to Indian

[120] See P. S. Palande, *Coping with Liberaisation*, New Delhi, 2000. p. 152.

industry. Although FDI inflows into India were comparably smaller than other developing countries, a large part of foreign direct investment was critical for Indian economy. As Table 2-3 shows, only 13 per cent of FDI was in consumer goods and a bulk of the rest were for core and infrastructure, capital goods and services. Against this background, Indian business group's criticism on the volatile character of foreign investment[121] and the argument that FDI was not interest of the country was questioned.[122]

In 1995, it is interesting to note that the CII itself had suggested that the MNCs had expanded employment opportunities in India. According to a CII Survey, employment growth in MNCs during the period 1990-95 had been of the order of 3.84 per cent with direct employment growing at nearly 9 per cent annum.[123] This aspect may be deciphered, from the fact that the Government of Indian expected even in 1991, "FDI [would] play[ed] a role in improving the standards of technology and management"[124]as well as employment. There have been many others who approved of this view.[125]

[121] Indrani Chakraborty argued that in the period following financial liberalisation in India, foreign direct investment and external commercial borrowing were not "volatile". Also, she argued that, because of the policy of foreign exchange market intervention by the Reserve Bank of India, volatility of the real exchange rate was prevented. For details, see Indrani Chakraborty , 'Capital Inflows during the Post-Liberalisation Period', *Economic and Political Weekly,* 14 January 2006.

[122] For example, even in 1996, Industrial Development Bank of India Chairman S H Khan stated that most important need for India was a savings rate of at least 30 per cent to provide resources for the current rapid industrial growth. On overseas funds sourcing, he emphasized on "foreign direct investment." See, *Business Standard*, 12 January 1996.

[123] *Economic Times*, 20 May 1995.

[124] *Economic Survey* 1991-92 Part I, p. 23.

[125] For example, in 1998, Gurcharan Das argued that joint ventures represented a window of opportunity to absorb technology and management practices and to upgrade their own managers', and their workers' skills. See Gurcharan Das 'Strategic Response of Indian business to the economic reforms' in Ashok Desai (ed) *Economic Reforms: the Next Step* Volume 1, published by Rajiv Gandhi Institute for Contemporary Studies, p. 54.

7. Concluding Remark

During the period 1991-96, there had been drastic changes in the Indian economy. Although the impact of economic reform on economic growth was not fully felt till mid-1995,[126] the economic reform process was now an irreversible issue in India. While Indian business was actively supporting the reform process, the government also showed their vigorous will to keep their faith with industry. Besides this, through diverse media, various opinions were being rearticulated to support the economic reform process.[127] Under these circumstances, India's economic reform process seemed to be going all right despite slowdown appearing occasionally.

The responses of the Indian business group to the reform process were expressed in various ways. Above all, major concerns were focused on the matter of continuity and pace of the reform process. In fact, these two factors seemed to be the most important prerequisites for success of economic reform. On continuity, from the beginning, the government and the CII tried to keep it with in the partnership approach.[128] Being in strong partnership, relatively slow appearance of the impact of reform was an understandable matter for both of them. More importantly, this partnership approach prevented economic reform from being derailed despite its slowness. So, in 1994, Prime Minister Narasimha Rao stated that, in his address to a joint meeting of the United States Congress, "the most impressive aspect of India's

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[126] Finance secretary Montek Singh Ahluwalia admitted that the full impact of economic reforms and restructuring was yet to be reflected on the growth rate. *Busniess Standard*, 6 May 1995.

[127] For example, Hannan Ezekiel, 'Merits Of Liberalisation', in *Times of India*, 23 December 1994; Jairam Ramesh, 'Why reforms are irreversible', *Business Standard*, 9 March, 1995.

[128] See the section about "building consensus" in this chapter.

economic reform program was the 'smoothness' with which the transition from a closed, protected economy to an open, export-oriented economy has occurred."[129]

Mixed views regarding the pace of economic reforms were expressed and sometimes it led to controversies. In fact, twice the controversy on foreign investment raised by several seniors of CII were also related with the issue of pace. To put it more concretely, it can be said that those controversies were caused by different perceptions on the pace of reform between the government and the CII. As mentioned above, reform process seemed to be relatively slow for the Government of India. On the contrary, it seemed to have been too rapid and wide for the CII. Besides this, as Nagesh Kumar pointed out, the New Industrial Policy (NIP) announced on July 24, 1991 accorded a much more liberal attitude to foreign direct investment (FDI) than ever in post-independence India.[130] Accordingly, it was natural that the CII paid more attention to the matter of foreign investment.

In this regard, it is important to remember that India was the first developing country to adopt a development strategy through democratic means. This strategy was supported by a strong national consensus.[131] The controversies raised by the CII provided a good opportunity for both the government and industry to think about the future direction of economic reform and arrive at a consensus.

More attention needs to be given to the effort on internal reforms by the CII in order to undertake an exercise of reforming their organization, policies and approach

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[129] Cited from the address by P.V. Narasimha Rao to A Joint Meeting of the United States Congress on 18 May 1994. The full text of address can be found at <http://www.indianembassy.org/indusrel/india_us/rao_congress_May_18_1994.htm>

[130] Nagesh Kumar, 'Economic Reforms and Their Macro-Economic Impact', Economic and Political Weekly, 4 March 2000, p. 804.

[131] For a detailed discussion, see Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India since Independence*, New Delhi: Penguin, 2007. pp. 442-444.

in alignment with the new economic policy changes. These efforts became broad or more concrete during the period 1997-99, as will be outlined in the following chapter.

Chapter III

THE CRISIS YEARS 1997-1999

1. Indian Business during the First Half of 1997

After the defeat of the Congress Party in the 1996 elections, the United Front (hereafter UF) coalition government came to power on 1 June, 1996. The UF government consisted of thirteen major regional parties and the Left Front of the communist parties. At that time, because of its complex constituency, many observers expressed concerns about the future direction of the economic reforms. However, contrary to their apprehension, even before assuming office, the UF showed vigorous commitment to sustain the economic reform process. This commitment materialized through the document called A Common Approach to Major Policy Matters and a Minimum Programme, popularly known as the CMP. The CMP was released by then Prime Minister, Deve Gowda on 4 June, 1996. It declared that the government will follow economic policies that will promote growth with social justice and lead to a sense of self-reliance.[1] On the UF government's efforts to sustain the economic reform process, one financial daily gave unstinted praise: "continuity is the hallmark of the United Front government's economic policy, as enumerated in the Front's Common Minimum Programme."[2]

The CMP was reflected in the Budget of 1996-97 which followed seven broad

[1] For details of the CMP. See United Front, *A Common Approach to Major Policy Matters and a Minimum Programme.* 1996, New Delhi: CII.
[2] *The Economic Times*, 6 June 1996.

objectives: (1) To remain steadfast on the course of economic reforms and liberalization aimed at accelerating economic growth; (2) To address the concerns of the poor and provide them with basic minimum services in a time-bound manner; (3) To ensure broad-based growth in agriculture, industry and services to achieve high employment; (4) To ensure fiscal prudence and macro-economic stability; (5) To enhance investment, especially in the infrastructure sectors; (6) To strengthen key interventions to promote human development; and (7) To ensure viability in the balance of payments through strong export performance and larger foreign investment flows.[3] The first budget of the UF government seemed quite obviously to focus on continuity with the earlier regime.

Approaching 1997, the UF government openly expressed their support for the domestic corporate sectors and assured a level playing field. For instance, at the CII Partnership Summit held in Calcutta in January, 1997, the then Prime Minister, Deve Gowda, expressed his government will actively support the domestic industry as saying:

> While foreign capital can play the role of a catalyst, the main thrust has to be provided by our domestic industry. It is our intention that Governmental policy should support Indian entrepreneurs and to enable them to grow.[4]

Another good economic policy initiative for Indian business was the Budget of 1997-98. When Finance Minister, P. Chidambaram, unveiled it on 28 February 1997, it was hailed as historic and a watershed by the media and business. Above all, Indian business welcomed the positive steps taken by the government in its policy of tax cuts. In his budget, Chidambaram slashed the maximum rate of income tax to 30 per cent,

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[3] Budget 1996-97 Speech (Part A) of P. Chidambaram, Minister of Finance on 27 July, 1996. This speech can be found at <indiabudget.nic.in/bspeech/bs199697.pdf>

[4] *CII Communique*, Vol 6 No. 1. January 1997.

reduced the corporate tax to 35 per cent and cut the average level of tariffs to 25 per cent.[5] In May, the newly elected President of CII, N. Kumar, said that "the results of greater availability and the tax cuts introduced by the government have to become visible soon" and "investment would go up and there would be growth in industry."[6]

Under the positive support of the government, the CII expressed confidence in Indian industry's ability to overcome the economic slowdown. At the CII national conference and annual session held on 21-22 April, under the theme of Can India Raise its Growth Rate to 8% GDP: What are the Imperatives?, political leaders, senior secretaries to the government of India, and leading industrialists deliberated the following issues: are administrative hurdles going to block high growth?; will infrastructure hold back India achieving 8% growth?; is Indian industry confident of its competitive ability?; and can the Public Sector be restructured for growth?[7]

These discussions further materialized in May when N. Kumar and Rajesh Shah, Vice President of CII, presented a thirteen-point economic agenda for achieving an 8 per cent growth in GDP. The agenda included the setting up of a coordination group between the different regulatory authorities to evolve norms and standards which were transparent and consistent. Another point in the agenda was that Indian companies be allowed to access foreign private equity funds. Also, N. Kumar called for greater freedom, space and autonomy to the public sector. In this context, he welcomed the government initiative in relation to the Navaratnas - the nine PSUs which were doing well and had high profitability. Referring to food and agriculture, Kumar expressed concern at the growing population and the lack of a long-term outlook on the food front.

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[5] Budget 1997-98 Speech (Part A) of P. Chidambaram, Minister of Finance on 28 February, 1997. This speech can be found at <indiabudget.nic.in/bspeech/bs199798.pdf>

[6] *Indian Express* Online, 'CII chief forecasts revival of industry's fortunes,' 9 May 1997.

[7] *CII AR* 1997, p. 7.

To counter this, the CII had emphasized on an integrated approach to food and agriculture with a focus on higher yields, alongside storage and cold chain infrastructure. Above all, the CII emphasized that a new impetus was needed in the export area to spur the economy forward. Accordingly, N. Kumar called for an expansion of India's export market base as well as an expansion in the export product base.[8] With regard to this issue, Kumar emphasized on the "many markets abroad not only in the neighboring SAARC countries but also in the ASEAN region, in the Indian ocean rim region, USA, Europe and Japan."[9]

Along with the thirteen-point economic agenda, the CII announced four new internal committees; social development council, competitiveness council, global networking council, and infrastructure council. In many aspects, these new internal committees seemed to focus on the industrial development with a long-term view. More importantly, these committees would be headed by several preeminent seniors of the CII. To put it more concretely, the CII's social development council would be headed by Jamshyd Irani, Managing Director, Tata Steel, while the CII competitiveness council would be led by Suresh Krishna, Chairman, Sundaram Fasteners. Rahul Bajaj, Chairman and Managing Director, Bajaj Auto, would head the global networking council of the chamber and K. N. Shenoy, Executive Chairman, Asea Brown Boveri (ABB), would be in charge of the infrastructure council.[10]

The CII's long-term view was reflected once again when Tarun Das mentioned India's future direction of economic growth. He seemed to pay more attention to the

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[8] For the full text of the CII's 13-point economic agenda, see *CII Communique*, Vol6. No.5 May 1997, p. 1. In the same volume, CII put "Representation to GOI" subtitled as "competition at par" for domestic capital goods manufacturers catering to the fertilizer industry. See, p. 13.

[9] *Indian Express* Online, 9 May 1997.

[10] *CII AR* 1997, p. 10.

matter of continuity and stability of the economic reform process with a more flexible approach rather than focusing on the pace of the reforms. Das asserted that that "India will never be an Asian tiger like some of the countries that belong to the Association of Southeast Asian Nations (ASEAN), but will continue to be a lumbering elephant in terms of its economy."[11]

On the whole, the CII's proactive and supportive attitude towards the government was not swaying even when the dream budget for 1997-98 later turned into a nightmare budget. Rather, the CII admitted that "the government has done everything to buoy the economy in its Budget and afterwards in the credit policy" and they calmed themselves saying "but the results of these are not forthcoming [yet]."[12] The CII believed that [still] "opportunities were waiting to be explored behind locked doors, so all the more the important thing was to find the key."[13]

In the mean time, the unexpected Asian financial crisis which was spreading in Southeast Asia as well as Russia and Brazil came about. Indian business had to respond to this.

2. Asian Financial Crisis and the Indian Economy

2a. Introduction

The Asian financial crisis had started with the currency crises of Thailand in mid-

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[11] *India Abroad*, 'Nation called an economic elephant', May 30, 1997.
[12] *Outlook* Online, 'The Rip Van Winkle effect', 6 August, 1997.
[13] *CII AR* 1997, p. 1.

May, 1997 and within a very short period, the spillover effect was spreading not just in Southeast Asia but elsewhere also such as Russia and Brazil. Thailand *Bhat* and Philippin *Peso* came under renewed pressure in late June and early July, 1997. The bhat had lost around 16 per cent against the US dollar in a single day on 2 July, 1997. This unleashed a flurry of speculative activity in other ASEAN countries. For instance, the Korean *Won*, which was relatively stable until mid-October 1997, had depreciated sharply since then. The countries most severely affected by the Asian crisis were Thailand, South Korea, Indonesia, and Malaysia. Hong Kong and Philippines were also affected but, less severely.[14]

From the beginning, although India did not seem to have discernible adverse effects, it didn't mean that the Government of India and the Indian business did not pay attention to the Asian crisis. Quite obviously, it was "India's first experience of this kind of a phenomenon in the wake of the Asian crisis."[15]

During the second half of the year, the Indian rupee showed a somewhat unstable position. It experienced a minor speculative attack in the third week of August and the pressure on the exchange rate continued till September 8. Between 19 August and 8 September, the rupee had depreciated against the US dollar by 2.7 per cent from Rs.35.71 on 19 August to Rs.36.69 on 8 September 1997. Thereafter, the rupee-dollar rate showed a tendency to appreciate. In November, 1997 and onwards, the rupee came under renewed downward pressure.[16] However, fortunately, the net investment from foreign institutional investors did not seem to react sharply in India to exchange rate

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[14] For understanding the origins of Asian crisis, see *Business Standard* Online, 'The Origins of the Asian crisis', 17 January 1998; *Economic Survey* 1997-98, Box 6.3 'East Asian Currency Crisis', in p. 93; also Rakesh Gupta and Parikshit K. Basu, 'Have we learnt anything from the Asian crisis?: Looking at the crisis from the perspective of India', *Delhi Business Review*, Vol. 8 No. 1 (January-June 2007).

[15] *Business Standard* Online, 'Bimal Jalan on East Asian Crisis, RBI and the Indian rupee', 20 July 2007.

[16] *India Economic News*, Vol. IX, No.2, February 1998, p. 2.

fluctuations. As a study conducted by the Securities and Exchange Board of India (SEBI) showed that there was no strong correlation between exchange rate movements and net FII investment in India.[17]

Given this situation, the Government of India showed a strong will to protect home industries from foreign investment. At the CII national conference to commemorate 50 years of Independence at New Delhi on 16 August, 1997, the then Prime Minister, I.K. Gujral, asserted that there will be no take over of any Indian Industry by foreign investors. Guaranteeing a level playing field for the Indian Industries with foreign players, he assured the former would get all the benefits of paternity and would not be allowed to face unfair competition as saying:

> Outsiders are welcome but not to take over; not to drown you, foreign investment will be welcomed only in sectors where we want investment. Our policies will not make you non-competitive. We will not protect you but it won't be that any body can come and throw you out.[18]

Making a direct reference to the Bombay Club and its demand for a level playing field, the Prime Minister added: "the country must strike a golden mean between opening up the economy to foreign investors and providing level playing field for the domestic entrepreneur."[19]

In October, 1997, once again, addressing the 77th annual general meeting of the Assocham in New Delhi, Prime Minister Gujral had said that he had taken serious note of the resolution of the Bombay Club to protest against foreign capital and seek a level

[17] *Business Standard* Online, 'FII inflows steady despite SE Asian crisis: SEBI', 27 October 1997.

[18] *CII Communique* Vol. 6 No. 8, August 1997, p. 1.

[19] Ibid.

playing field for domestic industry. On this, the Director-General of CII, Tarun Das, expressed his satisfaction with the Prime Minister's statement that "the Prime Minister was very positive and very supportive."[20] Das interpreted the statement as a promise for more support to domestic industry.

2b. The CII's response

At the earlier stage of the Asian crisis, the CII strongly stressed on the government's protection to domestic industries. In August, 1997, Rahul Bajaj once again expressed his demand for a level playing field. He emphasized the fact that national interests and pride must be a priority and argued:

> Nowadays, we are constantly reminded about the interests of the consumers. No one can argue against this. Companies that do not satisfy their customers will not survive. However, we must keep in mind national interests and national pride. In the past, in certain countries, including India, these were sometimes taken to the extreme. Nowadays, it appears as if these are being forgotten completely.[21]

As time went on, this mood became stronger. In November 1997, Tarun Das delivered his influential message on foreign investment and the necessity of protection was delivered to CII members through the *CII Communique*. In the article entitled as "The Equation of Eight P's: A New Economic Deception for India", he strongly argued that "what India needs to do is to manage *its own* globalisation process, while resisting

[20] Business Standard Online, 'Gujral stops short of ratifying Bombay Club agenda', 30 October 1997.
[21] *Frontline*, Vol. 14, No. 16, 9-22 August 1997.

unreasonable and aggressive external pressures."[22] To begin with, he pointed out that "the reform process should not be confused with only the liberalization of foreign investment or imports."[23] Arguing that "foreign investment is never the engine of development," he made his point clear as follows:

> Foreign investment is therefore part of the solution, not all of it. And foreign investment, plus foreign consulting must thus be sees as providing the essential additionality of resources to what must remain essentially a domestic effort.[24]

Subsequently, he cited the good case of there being a balance of openness with protection in the East Asian and Southeast Asian economic success stories of globalization. At the same time, he was aware that Thailand, the place of origin of the Asian Crisis, failed to keep a balance of openness with protection. Das said that "the opening up of the Indian economy, compounded by the influx of foreign capital and foreign companies, is going to generate an asymmetrical situation."[25] Accordingly, he focused on the matter of protection. He argued that "protection goes hand in hand with competition and also with building domestic economic and technological strength and competitiveness."[26] He made this point clearer as follows:

> Protection has to be phased out as the economy develops and as domestic institutions and markets stabilise. A Balance must be maintained to achieve sequenced liberalisation which will serve both domestic and international agenda. Protection must therefore be seen as a real part of the globalisation and development process and

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[22] Tarun Das, "The Equation of Eight P's: A New Economic Deception for India', *CII Communique*, Vol 6 No 11, November 1997, p. 11. emphasis mine

[23] Ibid. and see also Tarun Das interview, *Economic Reform Today*, No.3, 1997. p. 24.

[24] Ibid.

[25] Ibid., p.12.

[26] Ibid.

> there should be no apology for including it in the dialogue of globalisation. And, it is no one's interests, anywhere in the world, to seek instability, uncertainty and disruption of a country or its economy through a speed of reform which outpaces domestic capability on a variety of fronts. India also needs to define and implement its own protection policy and not be apologetic or defensive.[27]

The concerns about the Asian crisis carried forward to the following year. The Asian crisis dominated in the proceedings at the CII Partnership Summit between 8-10 January, 1998 in Chennai. The theme of the Chennai summit, which was attended by approximately 1500 delegations including about 250 people from outside India, was Networking Global Partnerships aimed at helping Indian businessmen to enter into agreements with those outside India. In his inaugural address, the Prime Minister, I.K. Gujral, asserted the need for caution and prudence, probably prompted by the East Asian crisis. Indian businessmen also showed a keen interest in the East Asian developments for two reasons. Firstly, Indian industry and trade have been trying to get a foothold in the Eastern economies that were proliferating till a few months ago. The participants wanted to know what went wrong with the countries that had successfully implemented trade and industrial reforms through the 1990s. Secondly, Indian business seemed to be worried about the immediate danger posed to Indian exports by the sharp drop in the value of East Asian currencies. They also appeared keen to learn about the effects of being integrated in the global economy.[28]

Along with this general apprehension, the more important concern had been laid in the export sector. The substantial devaluations of a number of ASEAN countries were

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[27] Ibid.

[28] CII Partnership Summit was dealt in details in *CII AR* 1997, p. 8; *CII Communique*, Vol 7, No. 1 January 1998, and some media also carried an item about it, See *Frontline* Online, 'Reforms and lessons', 24 January – 6 February 1998 and *Outlook* Online, 'Three-Piece Symphony', 19 January 1998.

considered to be of great significance to the exporting countries. Although its impact was not likely to be significant for India, the Indian business sector was certainly worrying about how to succeed in the export sector.

At the end of January 1998, CII revealed the result of a study on the economic crisis in East and Southeast Asia as well as its impact on Indian economy. The study showed the true state of the crisis and its impact on Indian industry. It said that the Asian crisis would have an adverse impact on the export of textiles, leather goods, and jewellery. Particularly, it forecasted that Indian exporters to the member-countries of ASEAN, which account for 7 per cent of the country's exports, would register a sharp fall. The CII study, however, revealed that direct impact of the Asian crisis on the Indian economy was not likely to be severe. It pointed out that the Indian economy was not too integrated with the economies of ASEAN regions. Secondly, neither Indian companies nor South-East Asian companies were integrated in the stock markets. Besides, the Indian economy was dependent on the domestic market unlike other ASEAN countries.[29]

In addition, it must be noted that India was less vulnerable relative to its position in 1991 and to most East Asian countries. Between 1991-92 to 1996-97, the deficit on the current account of balance of payments averaged about 1.1 per cent annum and it was estimated to be about 1.5 per cent in 1997-98. India's external debt also declined from about 26 per cent of GDP at the end of 1996-97 to about 24 per cent at the end of

[29] *Business Standard* Online, 'S-E Asian crisis to melt Indian exports: CII', 24 January 1998. The CII study also suggested various reasons for the currency crisis in the Asian region. The several significant reasons suggested that: (a) there was a mismatch between savings and investment; (b) financial sector liberalization was conducted in the absence of an adequate regulatory authority which resulted in sub-optimal lending by the financial sector; (c) the real estate market crashed leading to a high incidence of bad debts in the banking sector; (d) and there was a mismatch between GDP growth and the balance of payments in South-East Asian countries.

September, 1997. Short-term external debt as a proportion of total external debt was only 7.3 per cent at the end of March 1997 which had declined to 6.3 per cent at the end of September.[30]

Besides, the Government of India's economic policy also played an important role in minimizing the impact of the Asian crisis. Firstly, the Indian government had followed a flexible, but sound, exchange rate policy as apparent from the Reserve Bank of India's policy of allowing the rupee to depreciate to a level consistent with India's economic fundamentals and maintaining India's competitiveness abroad but, countering speculative pressures through a mix of market and policy interventions.[31] Secondly, the cautious approach towards the capital account convertibility (CAC) adopted by India had helped. The rupee was made convertible on the current of the balance of payments in August 1994. The CAC implied the right to transact in financial assets with foreign assets with foreign countries without restrictions. Although the rupee was not fully convertible on the capital account, the convertibility existed in certain constituent elements of the capital account mainly relating to foreign investment.[32]

However, despite the positive mood on the economic front, Indian politics seemed unstable. Finally, in December, 1997, the UF government, which had governed India for 18months, had collapsed. India was now ushering in the new Bharatiya Janata Party (BJP)-led coalition government.

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[30] *Economic Survey* 1997-98, p. 93.

[31] *Business Standard* Online, 'Bimal Jalan on East Asian Crisis, RBI and the Indian rupee', 20 July 2007.

[32] This cautious approach towards Capital Account Convertibility continued after facing Asian crisis. See *Economic Survey* 1997-98, Box.6.2 'Recommendations of the Committee on Capital Account Convertibility' in p. 91

3. Indian Business under the BJP-led Coalition Government

3a. The Advent of the BJP-led Coalition Government and the CII's Response

In fact, even under the UF government, one of the CII members openly expressed their support for the BJP. In November, 1997, one of senior member who had also been the mouthpiece of the Bombay Club, Rahul Bajaj, on a television talk show 'Ra-ba-ru' slotted for telecast on EL-TV, had expressed that he was not averse to the idea of the BJP forming the following government. His support for the BJP seemed to have originated in his hope that "any stable government of a single party will be better than a coalition of 14 parties."[33] Although, at the time, no other opinions had emerged from CII members like that of Bajaj, in January 1998, CII's choice of a new government became clear.

It was at the CII Partnership Summit held at Chennai in 8-10 January, 1998, that Indian businessmen expressed the upbeat mood which was partly due to the perception that the BJP party would be coming to power with an absolute majority and the country will have a stable government for five years. One financial daily *Business Standard* described the situation aptly: "most Indian businessmen feel since all the political formations have been tried, the BJP deserved a chance."[34] It added that the "BJP's Swadeshi slogan has brought it closer to a section of Indian businessmen who have experienced stiff competition from multinational companies."[35]

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[33] *Economic Times* Online, 'Rahul Bajaj votes for saffron brigade', 15 November 1997.

[34] *Business Standard* Online 'industry sways to BJPs swadeshi mantra', 15 January 1998; for details of CII Partnership Summit 1998, see *CII Communique*, Vol 7 No 1, January 1998; *Outlook* Online, 'Three-Piece Symphony', 19 January 1998; and also *Frontline*, 'Reforms and Lessons', Vol 15 No 2, January 24 – February 6, 1998.

[35] *Business Standard* Online. ibid.

Political leaders were invited by leaders of Indian industry to the CII summit. The coming general elections and the agenda of various political parties constituted a major item on the summit's agenda. The United Front was represented by the Union Industry Minister, Murasoli Maran, the BJP by its former Finance Minister, Jaswant Singh, and the Congress by former Congress Working Committee member, Rajesh Pilot.

The economic agendas of each party were unanimous with regard to the irreversibility of the economic reforms. Interestingly, they showed disagreement over its pace and foreign investment. Particularly, the UF government and the BJP revealed significantly different outlooks on the matter of foreign investment. While the UF government expressed a favorable feeling towards foreign investment, BJP was persistent with the party's economic agenda, *Swadeshi*.

Although, Murasoli Maran gave the hint that he supported a level playing field, his statement stressed on the importance of foreign investment:

> Time has come for us to realize that attracting foreign capital does not mean that we are losing our sovereignty. FDI so far accounts for only 2.4 per cent of total investment and even if it touches 10 per cent, nothing will happen to our economic freedom...*I do not make fake distinctions between potato chips and computer chips. We accept any chips that provide jobs and help our economy.* The biggest French fries project was approved not for other states but for West Bengal.[36]

Further, describing MNCs as "evil with deep pockets and who would pack up and translocate their plant elsewhere depending purely on profitability," Maran conceded: "But we must realize that they are necessary evils as they bring in investment, technology, management systems and cutting-edge understanding of the market

[36] *Outlook* Online, *op. cit.* emphasis mine

forces."[37] He reminded industrialists that Indian companies had 600 joint ventures abroad, with a market capitalization of $ 15 billion. This was to imply that protection in India might have a backlash abroad.

In a situation where political uncertainty and concerns about a spillover of the Asian financial crisis had added to a mood of economic gloom, Maran's speech did not seem to have any appeal for CII members. In January, 1998, when Rahul Bajaj once again expressed his support for the BJP by saying: "If the BJP comes to power, it will be much batter for Indian businessmen. They are as pro-liberalization as I am, but the BJP's policy will prevent foreign majority control,"[38] it was seen as a confirmation of the CII's support for the BJP as the new government.

However, contrary to Indian businessmen's expectations of a stable government by a single party, India's twelfth general elections which were conducted in February and March, 1998 resulted in a new coalition government led by the BJP. It seemed that the Indian business was disappointed with the absence of a clear mandate to any political party. At the same time, they expressed hopes that the coalition government will not dilute the economic reform process. Shekar Datta, President of CII, expressed that Indian industry will have to find ways to cope with the new coalition government by saying: "I am not happy about coalition politics, but we will have to live with it."[39]

On the other hand, CII members seemed to cherish great expectations for the future of the BJP's Swadeshi agenda. Jamshyd Godrej was one of them. He said that the domestic industry needs a good policy framework, which included a level-playing field. He added that "the industry doesn't want sops or protection, but want policy framework

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[37] *Outlook* Online, ibid.

[38] *Outlook* Online, 'Saffronomics 98', 26 January 1998.

[39] *Indian Express* Online, 'Fractured poll verdict disappoints India Inc', 4 March 1998.

to rectify the bias against us which favors the foreign investors here."[40] These expectations were expressed more effectively by Vinayak Chatterjee as follows:

> We don't want a heavyweight boxer to batter a flyweight boxer in the ring. We are not expecting protection, but only a fair chance to prove ourselves.[41]

3b. BJP's Swadeshi Agenda and CII's View

The BJP had developed its own economic agenda since the economic reforms in early 1990s. The first outcome of its endeavor was an elaborate fifty four-page Economic Policy Statement in 1992. Since then, the BJP's economic proposals were embodied in the election manifesto of 1996 and 1998.[42] The point of BJP's thinking on economic policy may be summed up: "India must follow its own national agenda and the broad agenda will be guided by Swadeshi." In fact, Swadeshi might have been the favorite phrase among Indian people but, it was also true that it meant different things to different people. To some people, it meant throwing out MNCs while to others it meant keeping MNCs but, protecting domestic companies. According to Jagdish Shettigar, member of BJP National Executive Committee, "Swadeshi is nothing but economic nationalism."[43] In other words, it meant putting Indian interests first. Besides, the BJP emphasized on the importance of the interdependence of industry and agriculture in the national economy and gave a critical interest in small-scale industry. In this context, its

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[40] Ibid.
[41] Ibid.
[42] Nayar gave details about a development of BJP's Swadeshi agenda elaborately . see *Globalization and Nationalism*, p. 232-238.
[43] *Outlook* Online, 'Baby And The Bathwater', 13 April 1998,

economic agenda seemed to have been largely acceptable to its allies and even to the public. According to an opinion poll conducted by a weekly newsmagazine, *Outlook*, there was overwhelming support on the ground for Swadeshi policies, and there was an anti-MNCs sentiment. The opinion poll showed that 75 per cent of urban, educated Indians wanted the BJP-led coalition government. Only 16 per cent thought the government should not do this, and 9 per cent were undecided.[44]

The BJP thought that where the economic reforms went wrong was in throwing open the country to foreign investors without realizing that Indian entrepreneurs were not in a positive position to survive the competition. BJP viewed that in such a situation the foreign firms with their immense money power and trade leverages found themselves comfortably placed to swamp marketplaces and sway consumers and eventually, edge out local players. So, the BJP argued that what the new government plans to do is to carry internal liberalisation forward by creating a competitive environment at home and then external liberalization.[45] On the other hand, the BJP believed that the economic development in India had been and should continue to be financed primarily by a local capital, with foreign capital playing only the role of supplementing the national effort. In 1997, the BJP President, L. K. Advani, defined the BJP's Swadeshi agenda in a meeting with industry leaders. He said:

> It is the BJP's considered belief that foreign capital in the form of finance, technology or managerial expertise can at the most play a complementary and supplementary role. The main effort and the main mobilization of will and resources has to come from within.[46]

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[44] For more details, see *Business Standard* online, 17 April 1998; and *Outlook*, 13 April 1998 pp. 54-55.

[45] See the speech of then BJP President, L K Advani at the 69th Annual Session of the Federation of Indian Chambers of Commerce and Industry on 11 December 1996. Excerpts of his speech can be found in *The Telegraph* 19 February 1997.

[46] *Economic Times* Online, '8 % GDP growth not an end in itself: Advani', 22 April 1997.

At the CII national conference and annual session held at New Delhi in 28-29 April, Vajpayee unveiled a series of policy measures which his government would implement to take GDP growth to 7 per cent. He said that FDI would be welcome but, more so in infrastructure areas. He added that internal liberalization would be speeded up and a commission would be set up to review all the administrative rules which had governed industry and commerce.[47]

Against this background, immediately after the BJP came to power, the CII's demand for a level playing field became a slogan in its policy and budgetary recommendations to the government. In March, the CII announced the Agenda for the New Government. Through the thirty one-point agenda, the CII clearly expressed what they wanted from the new government. More importantly, they emphasized that the period before 2005 would be very crucial for India's policy makers, political leaders and industry. This view was connected to the issue of WTO. The CII described the importance of the seven-year period, 1998-2004, as follows:

> After 2005, there is nothing that can be done to promote the interest of the economy in a rule-bound multilateral trading system. The new Government must see the agenda in the background of imperatives before the economy during 1998-2004. If India loses this time the country will lose many opportunities forever and may not be able to take its position in the global economy. This point is extremely important.[48]

Besides, the CII suggested a list of priority agenda points for the first 75 days covering the period mid-March to end-May 1998. This list suggested many prior issues, including a level playing field, for the new government. The highlights out of the thirty

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[47] *CII AR* 1998, p. 6 and *CII Communique*, Vol. 7 No. 4, April 1998 and *Indian Express*, May 3, 1998

[48] *CII Communique*, Vol 7 No 3, March 1998, p. 1.

one agenda points were: (a) insurance sector, (b) exchange rate policy, (c) industrial policy and (d) Foreign Investment Promotion Board (FIPB). First, on insurance, the CII suggested that the new government must open up the insurance sector. They argued that this would provide competition as also garner the much needed long-term funds for the infrastructure sector. Second, the CII suggested that the RBI must continue to play a positive role with regard to the exchange rate so as to maintain international confidence in the rupee. Third, the CII argued that a new industrial policy should be announced, which includes and covers Merger & Acquisition and takeovers. Fourth, the CII suggested that FIPB should be abolished because it only deals with foreign investment. Instead, they suggested that a new board for investment should be set up to deal with both domestic and foreign investment.[49]

In April, 1998, the CII had listed sectors where the domestic industry was at a disadvantage as compared to foreign companies. The list, prepared by a CII team headed by Deputy Director-General, Manashi Roy, included areas such as sugar, newsprint, fertilizer, cement, and the oil and natural gas equipment. The CII's view was summed up at a press conference by former President, Jamshed Godrej. He said, "there should be no bias in the government policy. But, if at all any bias exists, it should be in favor of the Indian company."[50] Ahead of the 3rd Small Scale Summit on 27 April, 1998, the CII had once again said that the government must initiate corrective measures to provide a level playing field for the small scale sector in domestic industry. The CII gave examples of 35 items reserved for Small Scale Industries (SSIs) in relation to the import policy, which allowed those products to be freely imported by any trader or importer thus, undermining the domestic small scale industry. The CII emphasized that

[49] *CII Communique*, ibid. pp. 1-3.

[50] *Business Standard* Online, 'CII seeks level playing field for domestic industry', April 08 1998

the same 35 products were kept outside the ambit of domestic large scale manufacturers.[51]

As we saw in the previous section, even before the coming of BJP to power, the CII showed favorable feelings towards the BJP's Swadeshi agenda. However, it must be noted that the CII's sympathy for the Swadeshi agenda seemed to mainly focus on the matter of a level playing field. In April 1998, Tarun Das expressed his cautious approach to foreign investment once again. Emphasizing on the need of foreign investment, Das said: "but I want it with certain conditions for potato chips."[52] In another interview to *Outlook*, Das expressed once again his view on MNCs saying: "the ultimate beneficiaries of the lifting of the licence-permit raj have been the MNCs. Indian industry still reels under the plethora of rules, licences and regulations."[53] And he added that "it was what the Bombay Club tried to fight, but it was blacklisted right from birth as an MNC-basher."[54] More importantly, it should be noted that this did not mean closing down MNCs or barring foreign players but just demand a level playing field.

It may be noted that in the CII's attitude towards the BJP's economic agenda, there were concerns about an over-emphasis on Swadeshi agenda. These concerns highlighted how an extreme Swadeshi agenda would drive India towards anti-globalization. Particularly, it was against the extreme actions of the BJP's mentor, the RSS and sister organizations such as Swadeshi Jagran Manch (SJM). In fact, these two bodies had first

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[51] *Business Standard* Online, 'CII seeks level playing field for small units', 21 April 1998. Till then, The items that had been reserved for SSIs but, they were also freely importable under the import policy include razors; cricket and hockey balls; football, volleyball and basketball covers; wooden furniture and fixtures, wooden storage cupboards, rubber erasers, air compressors up to 5hp for spray painting repair shops, bench grinders up to 300 mm diameter, screw presses etc.

[52] Tarun Das interview, *Rediff.com*, 8 April 1998.

[53] *Outlook* Online, 'Baby and the Bathwater', 13 April 1998.

[54] Ibid.

signaled their opposition to globalization and FDI already in mid-1990s. In 1994, the RSS opposed opening India, particularly to foreign investment. Around that time, the SJM also opposed India's membership in the World Trade Organization (WTO). They argued that it would compromise the Swadeshi principle and expose Indian industries to unmanageable competition.[55]

In May 1998, the situation did not seem to be very different from the case in 1994. Faced with economic sanctions, imposed due to the nuclear tests, the CII found out that, at the time, devaluation of rupee was an immediately urgent matter. But, the RSS was influential on this issue outside the government. The CII leaders met them and tried to appraise them of the prevalent situation. Nevertheless, CII failed to make the government devaluate the rupee. At that time, Indian exports were undercut by competitors in Asia whose currencies had depreciated about 30 to 40 per cent as compared to 17 per cent for the Indian rupee.[56] Under these circumstances, for the first time, the CII had started off a new partnership with the Home Ministry to address law and order, and its impact on industrial activity.[57] In the same month, Rajesh Shah, expressed concerns about it at a press conference in Bombay immediately after he took over as CII president. He dismissed the Swadeshi Jagran Manch which is an organisation strongly opposed to the presence of MNCs in India. He asserted: "*Swadeshi* means that Indian companies should compete globally with foreign companies on equal terms. Foreign companies should not be discriminated against *vis-a-vis* the Indian companies."[58]

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[55] For details about the BJP and Sangh Parivar, see Francine R. Frankel, *India's Political Economy 1947-2004*, p. 727-739.
[56] Francine R. Frankel ed. *Doing Business in India*, Special Issue, Fall 1999, Vol. II No. 1 & 2, Center for the Advanced Study of India, University of Pennsylvania. pp. 29-30.
[57] Frankel, ibid. and *CII AR 1998*, p. 3.
[58] *Rediff.com*, 'CII opposes bias against foreign firms', 6 May 1998.

In the meantime, the economic reform processes were faced with an ambush. It was the economic sanctions imposed after the nuclear tests in May 1998.

3c. Nuclear Tests and Economic Sanctions

On 11 May 1998, the three nuclear tests were conducted by the BJP-led coalition government at Pokharan in the Thar Desert of Rajasthan. Two days later, on 13 May, two more devices were explored. The reactions of ordinary people had been very supportive towards the nuclear tests. According to a poll conducted by the *Times of India*, more than 90 per cent of the respondents had approved of the tests and more than 70 per cent revealed that they wanted India to make nuclear weapons.[59] The political parties also were united in welcoming the nuclear tests. The only segment of society which had voiced its opposition were the Communist parties and a few Left-aligned academics, intellectuals and writers. For example, an orthodox-left economist K. N. Raj argued that "the tests had earned India a bad name" and it "derailed our priorities."[60] He saw that the nuclear tests were essentially a repetition of what was achieved in 1974 with perhaps some small improvements. However, on the economic front, despite his criticism, he didn't worry about the economic aftermath of the tests, by arguing: "We are not dependent on food from abroad. We make most of our own machinery. We are not helpless. On the question of aid cutbacks, we have reached a stage in our development where we can mange without aid. All we need to do is continue increasing

[59] *Times of India*, 13 May 1998.
[60] See, K.N. Raj interview, *Rediff.com*, 26 May 1998.

faster our exports to earn more foreign exchange."[61]

India was now a declared nuclear power, but the consequences of the tests were not pleasing because of strong condemnations from Western nations and a possibility of economic sanctions from the USA and Japan. Many other countries, such as Canada, Sweden and Australia had cut back development aids, and threatened more severe action unless India now signed the Comprehensive Test Ban Treaty (CTBT). In contrast to the strong language and actions from Western powers, developing countries of South East Asia, Africa and Middle-East had either given no official reactions or at most had shown mild concerns over the India's nuclear test. Some of India's neighbors namely Bangladesh and Sri Lanka had reacted very mutely.[62]

The sanctions, as required by the Glenn Amendment of 1994, came into effect. Guidelines defining the scope of the sanctions were announced by the US government on 18 June, 1998. These were: (i) Termination or suspension of foreign assistance under the Foreign Assistance Act, with exceptions provided by US law (for example, humanitarian assistance, food, or other agricultural commodities); (ii) Termination of Foreign Military Sales under the Arms Export Control Act and revoking of licenses for the commercial sale of any item on the US Munitions List; (iii) Halting of any new commitments of US government credits and credit guarantees by US government entities such as EXIM and Oversea Private Investment Corporation (OPIC); (iv) Continue to urge postponement of non-basic human needs loans to India by the international financial institutions; (v) Suspension of most military-to-military programs, including certain on-going educational programs and official exchange visits; (vi) Prohibiting US banks from extending loans or credits to the government of India; (vii)

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[61] Ibid.
[62] *India Focus*, 'India Goes Nuclear', May 1998.

Denial of export of all dual use items controlled for nuclear or missile reasons. And the US added that on a case-by-case basis other transactions which do not support nuclear, missile, or inappropriate military activities will be considered.[63]

On the surface, the scope of the sanctions had been so defined as not to adversely affect humanitarian projects or hurt private business transactions. In fact, in India, even before the official announcement of sanction guidelines by the US government, there had been anticipations that the economic consequences of the nuclear tests would be modest, at least economically. Economic experts anticipated that trade between the two countries would be affected only to the extent that export of goods and transfer of technology relating to nuclear and defense activities were involved.[64] CII was one of them, as I will discuss in the following section.

Rather, the concerns about the economic aftermath of the tests came from the US side. According to a well-known US newspaper, *New York Times*, the US economic sanctions against India due to nuclear tests may have only a limited impact on the latter but a broad and lasting one on the American business interests.[65] It delivered the US industry groups' worry, quoting a senior fellow at the Institute of International Economics in Washington, "Unless there is a broad initiative among allies, the sanctions will end up hurting US, not India."[66] In fact, after the announcement of the sanctions there had been no slowing down in the pace of business activities by US companies in India. To give a few examples, in the seven weeks after the tests, oil exploration contracts were awarded to four US companies (Okland Oil Company, Samson International, Opesis Inc., Medallion Oil Company); a copper mining project awarded

63 *India Economic News*, Vol. IX No 5-6, May-June, 1998. p. 6.
64 *India Focus*, 'India Goes Nuclear,' May 1998.
65 Cited in *Rediff*, 'Sanctions will hit US firms harder,' 16 May 1998,
66 Ibid.

to Phelps Dodge; a software project by Oracle Corp. was approved by the state of Karnataka; American International Group announced that it would take a stake in Tata Airlines Ltd; a mining venture of Reliance Industries with North American Coal Corp. finalized and approval given to Ford Motor Co. to raise its stake in the joint venture with Mahindra.[67]

Despite the positive anticipation of the modest impact of the sanction, it could not be denied that Indian exports were falling. Exports during April-May 1998-99 fell by 7.54 per cent to touch $ 4,994 million against $ 5,401 million during Aril-May 1997-98. In contrast, imports saw 9.71 per cent jump to $ 6,850 million as compared to $ 6,243 million in the same period of the previous year.[68] Foreign exchange reserves (excluding gold and SDRs), were $ 25.98 billion at the end of 1997-98 (March 31, 1998). These reserves decreased by $410 million and stood at $25.57 billion at the end of May 1998.[69] These reserves again decreased by $1.99 billion and stood at $23.99 billion at the end of July 1998.[70] Foreign investment (especially foreign portfolio investment [FPI]) had already seen a considerable decline from $6,008 million (FPI $3,312 million) in 1996-97 to $5,025 million (FPI $1,828 million) in 1997-98. During April-December 1998-99, it fell from $4,253 million (FPI $1,742 million) in the comparable period in 1997-98 to $880 million (FPI $682 million).[71]

In this situation, the then Finance Minister, Yashwant Sinha, had to get the Indian economy out of its slowdown and overcome the decline in foreign aids and loans on the heels of looming concerns of economic sanctions. The main measure for this was the

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[67] See *India Economic News*, Vol. IX, No. 5-6, May-June 1998, p.6.
[68] *Indian Express*, July 12, 1998.
[69] *India Economic News*, Vol IX, No 7, July 1998, p. 3
[70] *India Economic News*, Vol IX, No 8, July 1998, p. 7.
[71] Nayar, *India's Globalization: Evaluating the Economic Consequences*, p. 241.

budget. The expectation was that Sinha would present a bold budget so that it would show the world that India meant business in the post-nuclear period. Unfortunately, the budget failed to deal head on with those issues, but certain proposals on import duties went into the unexpected direction due to a perceived political need to reward its Swadeshi business constituency.

3d. The Union Budget for 1998-1999

Before the budget announcement, Rajesh Shah, President of CII, expressed his opinion about the budget by arguing "the focus on the budget has to be on bringing back growth in the economy and taking it from 5.5 per cent of the GDP to 7 per cent and beyond."[72] He argued further that the need is "to bring higher levels of investment and demand into the economy to fuel higher growth."[73]

The Finance Minister, Yashwant Sinha, presented the $64.2 billion budget on 1 June, 1998 for the financial year 1998-99. The budget sharply increased public works spending to revive growth. The following major initiatives had been taken in the budget: (a) concrete steps to wind up terminally ill public enterprises; (a) scrapping the Urban Land Ceiling and Regulation Act; (c) ending public sector monopoly in insurance and a decision to give up the majority stake in Indian Airlines. Besides, another key objective of the budget was to supplement a higher rate of domestic savings with greater foreign investment.[74] On the other hand, the best alternative for Sinha seemed to attract foreign

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[72] Rajesh Shah, CII president, interview. *The Sunday Observer*, 24-30 May 1998.
[73] Ibid.
[74] For details about budget 1998-99, see Speech of Yashwant Sinha, Finance Minister, 1 June 1998. His speech can be found at <indiabudget.nic.in/ub1998-99/bs/speech.htm>

investment by clearing their projects in 90 days. For this, the government implemented a system whereby, an officer of the administrative ministry would be designated as a monitoring officer to help in the processing and implementation of the project in conjunction with Central and State authorities for every foreign investment proposal exceeding $25 million. This plan anticipated that "more MNCs would lobby harder to get the sanctions raised."[75]

Interestingly, the budget manifested a deeper sentiment that investment requirements needed to be placed to non-resident Indians (NRIs). The government believed that NRIs constituted a huge, untapped potential for India's development. The following steps have been proposed to increase NRI inflows into the country: (a) increase in the limits for purchase of shares in Indian companies in the secondary market from 1 to 5 per cent for individuals, and from 5 to 10 per cent in aggregate; (b) launch of a new India Millennium Scheme by the Unit Trust of India which will be open for subscription in dollars only by NRIs; (c) launch of a new Resurgent India Bond by the State Bank of India denominated in foreign currencies for subscription by NRIs.[76]

Soon after the budget announcement, however, the CII members expressed mixed responses in relation to it. For example, while Shekhar Datta, former President of CII described the budget as not bold enough, President Rajesh Shah stated that it would help in restoring the investor's confidence and lend the economy a status of a strategic value-adding partner in the region. He saw that an increased outlay on the infrastructure, plan outlay on energy, transportation, communication, housing, and roads would vastly improve the situation and get back the economy on a 7 per cent plus GDP. He emphasized that the main thrust of the budget was on infrastructure, especially of the

[75] *Rediff.com*, 'Sanctions force reworking of Union budget', 15 May 1998.

[76] *Economic Survey* 1998-99, pp. 91-92.

power, road and telecom sectors.[77]

However, initial euphoria among CII members over the budget had petered out. Interestingly, the trigger point was the non-modvatable additional 8 per cent countervailing duty on all imports. According to the Finance Minister, this was expected to neutralize the impact of sales tax, octroi and various other local levies paid by domestic industry and was not intended as a protectionist measure.[78] However, the CII as well as the domestic industry mainly in the manufacturing sector saw this provision as not creating a level playing field but, as having the opposite effect of encouraging imports of finished goods since trading companies were exempted. In other words, to manufacturers of items that were on the Open General License (OGL), it would be cheaper to import the items. At the same time, for many industrial sectors, the 8 per cent duty turned out to be 13 to 14 per cent on the final price of imported products.[79] On the morning of June, the CII presented several issues to the Finance Minister, Yashwant Sinha. Key issues included Special Additional Duty (SAD) and withholding tax. At the meeting, CII's demands on SAD from 8 to 4 per cent and the restoration of the exemption from withholding tax were accepted.[80] In the end, on 12 June, Sinha halved the newly introduced special customs duty to 4 per cent.[81]

However, in August, once again the SAD had become an issue, and CII demanded the withdrawal of the 4 per cent SAD on imports from the Finance Minister. This had again compelled the government to rollback the 8 per cent import duties. The budget

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[77] *Indian Express* Online, 'Corporates guarded welcome', 2 June 1998.

[78] *Business Standard* Online, '8% swadeshi duty slapped', 2 June 1998; see also *CII Communique* Vol 7, No, 6. 'Envisages Enabling Environmnet to Trigger Investment: N K Singh', p. 16.

[79] *Business Standard* Online, 'Swadeshi duty sore point with domestic industry,' 5 June 1998.

[80] *CII Communique*, 'Excerpt from the address by Mr Rajesh V Shah' at the National Seminar on 'The Central Budget 1998-99'. Vol 7 No 6, June 1998, p. 1.

[81] *Business Standard* Online, 'Govt cuts `swadeshi' duty to 4%', 13 June, 1998.

failed to satisfy both Indian industrialists and foreign investors alike. Tarun Das argued that "high import duties are no longer a solution to their viability and competitiveness."[82]

While the government was trying to show the world that Indian economy had been as usual in the post-nuclear period, the CII was trying to look towards the outside world. As one financial daily reported, "Even while the government is still offering to open a dialogue with the world to explain its stand on the five nuclear tests conducted last week, the Confederation of Indian Industry has already reached out to the world community on the issue."[83] Obviously, it was a forceful campaign to reassure that Indian business would carry on as usual.

3e. The CII's Proactive Role against Economic Sanctions

The CII's responses to the nuclear tests and economic sanctions were significantly proactive and supportive. In the beginning, when news about the Prime Minister's statement on the Pokhran explosions broke, the CII welcomed the government's decision to carry out tests. They also gave moral support to the government. Their voices were unanimous, as exemplified by Rahul Bajaj's statement:

> I am not aware of all the details. However, from what I have heard, I am very happy and proud. These steps, I am sure, are for peaceful purposes and to promote technological development. This would also help Indian industry. I sincerely hope this will not adversely affect the inflow of foreign capital and technology. If some

[82] *Business Standard* Online, 'CII for scrapping of swadeshi duty', 20 August, 1998.
[83] *Economic Times*, 'CII takes up cudgels for nuclear India abroad', 19 May 1998

countries have reservations about these steps, I am sure our government will be able to persuade them about our peaceful intention.[84]

While Anand Mahindra argued that military strength is an important factor behind a prominent role on the world stage, the President of CII, Rajesh Shah, once again emphasized that the test "was being done entirely for peaceful purposes."[85] The message that "the nuclear tests were dictated by India's security interests" was delivered to the members of the CII through the chamber's monthly news magazine, *CII Communique*.[86]

On the other hand, even before the sanctions guideline had been announced by the US government, the CII's perspectives on the impact of the sanctions were positive on the whole. Rajesh Shah believed that "the sanctions will not have a major impact on Indian industry or on the Indian economy" because he anticipated that "the sanctions will be related to government activities such as aid, certain financing of projects by the EXIM bank of the US or Oversea Private Investment Corporation." Shah argued that the impact, if any, may be checked in two ways: first, a dialogue with the US; and the other would be to find an alternative source of supply of products, services and financing.[87]

If there were any concerns among CII members, it was related to international credit rating agencies. After the nuclear tests, international credit rating agencies such as Moody's and Standard & Poor constantly downgraded India's credit status. Accordingly, the CII focused on the decline on India's credit rating which, in turn, increased the cost

[84] *Indian Express* Online, 'Industry reacts positively to N-test, shares steady', 12 May 1998.
[85] *Indian Express*, ibid.
[86] *CII Communique*, Vol. 7 No. 5 May 1998, p. 1.
[87] Rajesh Shah, CII president, interview, *The Sunday Observer*, 24-30 May 1998.

of overseas borrowings by Indian companies. Besides, the senior CII advisor, T. K. Bhaumik, pointed out that "downgrading of rating will not evoke any confidence anywhere and affect the sentiments of the FIIs."[88] However, he added that "the danger that this downgrading brings can be countered by continued economic reform and concerted strategy for high growth."[89]

Irrespective of the concerns about the impact of the sanctions, the initiative had been taken by the CII to contain the economic fallout of the nuclear tests and the consequent sanctions by focusing on the international community as well as by emphasizing that business must go on as before. More importantly, the CII concentrated on restoring the foreign investor's confidence. As the Senior Director of CII, Ajay Khanna, pointed out: the CII had "to do much more to bring it back and assert that there is nothing wrong with India."[90]

To begin with, the CII wrote to the heads of the G-8 countries' governments, including Tony Blair of the U.K., Jacques Chirac of France, and Romano Prodi of Italy; seeking their support in the maintenance of focus on economic relations and business partnership. The letter urged them to use their relationship with the government to maintain a cordial relationship between the two and retain the spotlight on mutual economic agenda. The CII has assured that it is making all efforts to do the same with the Indian government. They also sent letters to the chief executive officers of hundred Fortune 500 companies, such as Lehman Brothers and Chubbs, as well as industrial associations like the Confederation of British Industry, Confederation of French Industry and Services, USIBC, Asia Society, New York and National Association of

[88] T K Bhaumik, 'As I see it...', *CII Communique*, Vol. 7 No. 5, May 1998, p. 24.
[89] Ibid.
[90] *Outlook* Online, 'Clearing Post-Pokhran Blues', 8 June 1998.

Manufacturers (US). They were even sent to Harvard University and the Massachusetts Institutes of Technology. Internally, the CII was writing to its members, who had business interests in the US, in order to put pressure on the government there to take a softer line on India.[91]

On the other hand, the CII brought out a full-page advertisement in *The Financial Times* (16 May, 1998) across the world. The CII advertisement started by mentioning,

> Indian industry believes that these nuclear tests were carried out because of serious national security concerns, especially the nuclear environment in the region. CII also believes that India' s commitment to national security and its international obligations and sensibilities have to be balanced. This is accepted by Indian leadership political and industrial.[92]

According to Rajesh Shah, it was essentially targeted at the G-8 summit, which was underway in Birmingham at the time. The CII advertisement spelt out the huge business opportunities that existed in the country, besides reminding the international business community that India has the largest middle class in the world. The advertisement also sought to deliver the message that there is a consensus on economic reforms within the political system of the country. The CII also placed a two-page advertisement in *India Abroad* on 29 May, which had a large number of readers from the Indian community abroad, to enlist their help.[93]

As part of additional efforts to contain the adverse fallout of the tests, the CII had set up an expert advisory group headed by Jamshed Godrej, former President of CII to assist Indian and foreign companies. Also, a hotline had been set up to send messages

[91] *Business Standard* Online, 'CII woos Fortune 500 CEOs to fight US sanctions', 21 May 1998.
[92] Cited in *Economic Times* 'CII takes up cudgels for nuclear India abroad', 19 May 1998.
[93] *CII Communique*, Vol. 7 No. 5, May 1998, p. 5

across the world that the investment climate in India is extremely attractive. The expert advisory group comprised of captains of industries. They included Jamshyd N. Godrej, Managing Director, Godrej group; Anand Mahindra, Managing Director, Mahindra & Mahindra; Venu Srinivasan, CEO, Sundaram Clayton; and K.N. Shenoy, Chairman, ABB. The group had drawn up an sixteen-point action plan , which, apart from disseminating information, would centre around interaction with the governments of India and other countries, foreign banks, and foreign companies. Outside India, the group had taken up India's case with international rating agencies like Kofac in France, Hermes and KFW in Germany and a few others in the US, South Korea and Japan.[94] Meanwhile, the CII had sent overseas delegations to US, France, Japan, Australia, Africa, Ukraine, Russia, UK, Geneva and South Korea.[95]

More importantly, it must be noted that a major part of the CII's effort centred around trying to be based on constructive and helpful communications. This effort was more impressive when the BJP-led coalition government was considering the idea of the retaliatory measures against the US companies since, they could help reduce the rigor of US sanctions. At the time, between 29 June to 2 July, 1998, the President of CII, Rajesh Shah, was in Washington, accompanied by Director-General, Tarun Das, to exchange views on the situation with officials in the Clinton administration, representatives of international financial institutions, and American businessmen. When he heard the idea about retaliation against the US companies, he was opposed to it. Rather, he emphasized that it was imperative to stay in constant touch with US investors. He added that, for the

[94] *Outlook* Online, ibid.

[95] For more details about the CII delegations, See *CII Communique*, 'CII initiatives to counter sanctions: It's business as usual, assure global players', Vol. 7 No. 7, July 1998.

Government of India, vigorous commitment was needed to make India an attractive destination for foreign investors.[96]

In fact, at that time, Indian business did not need to respond to the economic sanctions aggressively since, US businessmen seemed to be more worried about the sanctions. For example, this seemed to be clear at the annual general meeting of the Indo-US Joint Business Council on 4 June, 1998. This meeting was attended by approximately two hundred and twenty-five participants representing US trade and industry, US Administration, and a FICCI delegation representing Indian industry. Interestingly, at the end of the day, a press conference was held and a *communique* was issued. In the *communique*, three significant observations had been made. First, the sanctions may impose severe constraints on the ability of the US companies to conduct business operations in India. Second, too often, business opportunities lost out due to sanctions simply flowing to other, more opportunistic competitors. Third, the government of the United States should continue to recognize the broader national interests that are engaged in India. This reflected that the US businessmen had long-term economic interest in India.[97]

Meanwhile, in August, 1998, the government of India also showed more proactive action by setting up two committees namely: a ten-member Economic Advisory Council and a twelve-member Council on Trade and Industry, which would be headed by the Prime Minister and have leading businessmen and economists as members. This initiative was formed in order to enhance awareness and to refashion policy instruments

[96] *CII Communique*, ibid.; and *Rediff.com*, ' CII chief, in Washington, says government should not retaliate against US companies', 1 July 1998.
[97] For details of the AGM, see *India Economic News*, Volume IX, Number 5-6, May-June 1998. p. 7

for achieving its desired economic goals and impart momentum to the growth process. Members of the Trade and Industry Council included Ratan Tata, Mukesh Ambani, Nusli Wadia, R.P. Goenka, Kumar Mangalam Birla, N.R. Narayana Murthy, Suresh Krishna, P.K. Mittal, and A.C. Muthiah. Interestingly, prominent industrilialist, Rahul Bajaj was not included.[98] On September 18, 1998, the council held its first meeting in New Delhi and had constituted six task forces to draw up action plans with the objective of putting the economy back into the 7 per cent GDP growth per annum orbit and to attain the long-lost export growth rate of 20 per cent per year during the coming three years. The creation of the council was significant as Dilip Thakore argued, it was "perhaps the first formal acknowledgement by any government in post-independence India that a government-industry partnership is necessary condition for economic growth and development."[99]

Against these proactive actions both by the government and Indian industry, there had appeared an indication of foreign institutional investors' coming back to India. FIIs, who pulled out nearly $416 million in May and June, 1998, had purchased shares over $ 20 million in July, 1998. According to a survey of CII, even though FIIs and Indian investors were still worried about recession in as many as 93 industrial sectors including steel, cement and capital goods reeled under negative or moderate growth rates during the first quarter of the current financial year, it was certainly a good indication.[100]

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[98] For details about the formation of two committees, see *India Economic News*, Vol IX, No 8, August 1998, p. 3.

[99] Dilip Thakore interview, *Rediff.com*, 'Emerging government-industry partnership is a good omen for economy,' 26 October 1998.

[100] *Indian Express* Online, 'FIIs back in Indian markets', 3 August 1998.

On 6 November, 1998, when the US government announced a partial lifting of economic sanctions against India, it seemed that the situation had become positive.[101] The CII reflected this by arguing that the lifting of the sanctions would affect India's credit rating. The relaxations included: (i) Restoration of US Export-Import Bank (EXIM), Overseas Private Investment Corporation (OPIC) and Trade and Development Agency (TDA) programs in India; (ii) Restoration of US bank lending to Government of India; and (iii) Restoration of the International Military Education and Training (IMET) Program for India.[102]

However, the Government of India and the CII were not fully satisfied with those relaxations because of the US decision to restrict and deny exports to as many as 200 Indian entities since, Washington was suspicious of possible dealings in sensitive nuclear and missile-related technology. Among those entities, there were the companies such as Godrej and Boyce, Larsen & Toubro, Kirloskar, and Walchandnagar Industries. On this issue, the Government of India and Indian industry joined hands to slam the US decision.[103] Although the US decision was not changed, it was clear that the atmosphere around India became positive, at least economically. In 11 March, 1999, at a meeting organized jointly by Indian Council for Research on International Economic Relations (ICRIER) and CII, President of CII, Rajesh Shah, asserted that economic sanctions had not worked especially in the case of India. He added that the sanctions had only a psychological effect rather than causing a loss of business.[104]

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[101] *Indian Express* Online, 'Industry hails US move', 8 November 1998.

[102] *India Economic News*, Vol IX No 11, November 1998, p. 1

[103] See *Indian Express*, November 15, 1998 and also *India Abroad*, 20 November 1998.

[104] *CII Communique*, 'Do Economic Sanctions Work?', Vol. 8 No. 3, March 1999, p. 6; see also Speech of K.C. Pant, Deputy Chairman, Planning Commission & Chairman, Task Force on Infrastructure. The

4. Towards a New Millennium

At the end of the century, the good news, at least economically, was the steady recovery of the Indian economy after nearly three years of depressed conditions. More importantly, this feel good factor appeared not just in the new economy such as software industry but, also the old economy of manufacturing sectors. Industrial growth had shown a firm recovery with a 6.2 per cent growth between April and December, 1999, as compared to 3.7 per cent in the corresponding period in 1998. Export also showed a strong recovery, having grown by 12.9 per cent in April-December, 1999 in terms of US dollars. The month of October, 1999 saw India's exports breaking the 32 months old record by registering a spectacular growth of 21.65 per cent in dollars. Particularly, software industry had shown a vigorous growth rate of over 50 per cent during the year. To add this, as against a negative foreign institutional investment (FII) inflow of $219 million in 1998, there had been a positive FII inflow in each of the months of 1999. The net FII investment between January and June, 1999 was $899 million. The cumulative net FII investment till June, 1999 had been $9.5 billion.[105]

The then Finance Minister, Yashwant Sinha, presented a $66.7 billion budget to the Parliament on February 27, 1999 for the financial year 1999-2000. Sinha did not mention the word 'Swadeshi' in his budget announcement. By way of contrast, his budget announcement focused on the broad approach of integration of the Indian economy with the world economy. The broad strategy of the Budget 1999-2000 was six-fold: (a) Begin a medium-term process of revenue and fiscal deficit reduction; (b) Undertake a major reform of indirect taxes; (c) Deepen and widen economic reforms in

speech can be found at <http://planningcommission.nic.in/aboutus/speech/dch03.htm>

105 *Economic Survey* 1999-2000, pp. 1-20; and *India Economic News*, Vol. XI No 1, January 2001.

all major sectors and accelerate internal liberalization; (d) Safeguard the economy from external shocks and revive exports; (e) Strengthen the knowledge-based industries; and (f) Revitalize and redirect public programs for human development, encompassing food security, health care, education, employment and shelter.[106] Besides, Sinha emphasized that it was time to seriously debate and decide on *second generation reforms* that needed to be put in place to make India economically strong and fully capable of competing successfully in the evolving world order.[107]

Contrary to the arena of economic recovery, the political situation had been very tumultuous. Under these circumstances, Indian industry repeatedly emphasized that political instability, uncertainty, and flux adversely affected sentiment, confidence as well as economic activities and growth of the country. Above all, they seemed to want early passing of the Finance Bill 1999. President of CII, Rajesh Shah, argued that "political parties will bring in enormous confidence by adopting the Finance Bill, thus ensuring stability of the economy and the economic polity because the Union Budget is the flagship event of country's economic calendar." [108] Many other industrial organizations also expressed similar sentiments that all political parties should arrive at a consensus over passage of the Finance Bill. However, on 17 April 1999, the BJP-led government lost its second largest member in coalition, the All India Anna Dravida Munnetra Kazhagam (AIADMK). Till then, Finance Bill and various other bills such as Insurance Regulatory Authority (IRA) Bill, FEMA (Foreign Exchange Management Act), and Money Laundering Bill had still not been passed into law.

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[106] For key features of the Union Budget 1999-2000, see <http://indiabudget.nic.in/ub1999-2000/bh/high.htm>

[107] Sinha mentioned on *second generation reforms* also at the CII National Conference and Aanual Session, *CII Communique*, Vol 8 No 4 April, 1999, p. 3.

[108] *Indian Express* Online, 'Industry, markets turn nervous', 18 April 1999; see also *Indian Express* Online, 'Indiaustry nervous over bills, economy', 15 April 1999

The CII national conference and annual session of 1999, under the theme of Preparing for the new millennium began with several CII senior members' aggressive criticisms on the ongoing political instability.[109] In this session, Rahul Bajaj had been re-elected as CII President twenty years after he had held this position for the first time. In this particular session, political parties expressed concerns about the country being pushed into three general elections in three years. The then Prime Minister, Atal Bihari Vajpayee, stated that the biggest victim of the power game had been the economy and India's image abroad. He emphasized on the fact that the economy's best friend was good governance and this needed stability. Despite being part of a caretaker government, he reaffirmed the consensus on economic reforms by supporting "growth, more growth and still more growth."[110] In this regard, he emphasized that he would push ahead with the agenda of accelerated internal liberalization and calibrated globalization. According to him, the unfinished agenda of reforms, would have five thrust areas: (1) elimination of red-tape (2) the benefit of reforms to those sectors which have so far been largely neglected, like agriculture, agro-processing industries, small-scale industries and the huge unorganized sector (3) further steps to continue encouraging foreign investments with transparency, stability, and continuity as well as fashion an appropriate strategy in relation to all WTO related issues (4) including Indian business to fulfill its social obligations to the fullest through good corporate governance, among others; and (5) tackling the many entrenched problems in education. He asked for an approach of active partnership with business. He stated:

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[109] *Indian Express* Online, 'Angry industry puts politicians on the mat', 29 April, 1999.

[110] It was general consensus at a meeting of three parties, Samajwadi Party, Janata Dal, and Congress (I) that the ongoing political instability in India must be resolved soon. However, interestingly, on economic strategy, Jaipal Reddy, Member of Parliament, Janata Dal argued that since India is too large and diverse, the economic decisions should be de-politicized. *CII Communique*, Vol 8 No 4 April, 1999, p. 2

> It is not enough that politics in India should be valuebased. It is equally important that business too should be based on certain basic values and principles that are rooted in Indian culture and are essential for good business in the long run.[111]

Despite political uncertainty, fortunately, the consensus on the reform process seemed to be strong. Against this background, the Indian industry was increasingly turning around to the sentiment that the economy would be stable. So, in May, 1999, the CII projected a healthy 6 per cent growth in GDP for 1999-2000. The CII had also estimated the industrial growth at 6 per cent, agriculture growth at 3 per cent, and the services sector growth at eight per cent. In addition, while the growth in imports had been projected to be 10 per cent, the CII had said that exports would witness a rebound and end the year posting about 5 per cent growth.[112] This confidence became stronger when the CII announced its *51th Business Outlook Survey* which related to the actual performance of the Indian industry during October-March 1998-99 and the forecast for April-September 1999.[113] About 38 per cent of the respondents to the survey were goods manufacturers, 32 per cent were manufacturers of capital goods, 12 per cent were manufacturers of consumer goods both durable and non-durable, while 10 per cent were manufacturers of basic goods, and 8 per cent other sector companies. According to the survey, only 22% of the 165 respondents spread across a spectrum of private and public industry groups were pessimistic about the general business conditions against 47% in the last survey conducted six months ago.[114]

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[111] See *CII Communique*, ibid.
[112] *Indian Express* Online, 'CII for ordinances route to clear Bills', 1 May 1999.
[113] *Indian Express* Online, 'Business Outlook improves, reveals CII survey', 8 May 1999.
[114] Ibid.

In the meantime, the elections returned the BJP-led National Democratic Alliance (NDA) back to power with an expanded majority that was likely to prove quite stable. As soon as the new government came into office, Rahul Bajaj presented a wide-ranging 'thirteen Priority Plan'[115] for the new government on 8 October, 1999. The plan reflected that India is in a hurry since it lost a lot of time.

On the other hand, more importantly, the CII expressed inflexible resolution for success of the second phase of reforms. The CII saw globalization as another inevitable matter for India and it felt that more concrete actions had to be taken by both industry as well as the government. The CII thought that "despite the impressive gains since 1991, India had basically remained at the first phase of reform."[116] The key focus was located on achieving a growth rate of 7 to 8 per cent per annum. This target was largely connected to the issue of mass poverty in India. At the same time, the CII emphasized that sustained annual growth of 7 to 8 per cent could not be achieved without higher sustained investment in infrastructure. This included not only physical infrastructure such as electricity, telecommunications, railway, and ports but, also social infrastructure such as primary, secondary, and vocational education; and health.[117] Accordingly, during the second half of the year, the CII had repeatedly emphasized on the issue of infrastructure.[118]

On physical infrastructure, in September 1999, the CII refocused on the message that lack of physical infrastructure is a problem that is faced by foreign and domestic investors alike. This was also an important issue to attract more FDI. In this situation,

[115] *CII Communique*, Vol 8 No 10, October 1999.
[116] *CII Communique*, ibid., p. 1
[117] CII's emphasis on physical and social infrastructure, see CII AR 1999, p. 3; *CII Communique*, ibid.
[118] Rahul Bajaj, CII president delivered importance of infrastructure sector in his president's message. CII AR 1999, p. 3.

the most important policy direction would be encouraging private investment, foreign or domestic, in infrastructure.[119] It was good news that the new NDA government also had a huge interest in the infrastructural sector. More important, Foreign Direct Investment in infrastructure was being especially encouraged by the government. For this reason, the Government had reviewed the existing guidelines for automatic approval of foreign equity for the infrastructural development. As a result, six infrastructure and core industries, namely, electricity generation, coal, steel, crude oil, and cement with a combined weight of 26.7 per cent in the Index of Industrial Production (IIP) had recorded an average growth rate of 8.2 per cent in April-December, 1999 compared to 2.8 per cent in April-December 1998.[120]

On social infrastructure, the CII considered that rapid economic growth is only the key to solve the problem. Rahul Bajaj made it clear at the 1999 India Economic Summit organized jointly by the World Economic Forum and CII from 5 to 7 December. The theme of the summit was 'India in the 21st Century: A Global Player'. At the press conference, Rahul Bajaj said that "unless a target of 7-8 per cent GDP was set, we would not be able to remove poverty and move towards being a prosperous nation."[121] The CII's concrete plans for the development of social infrastructure were further discussed at the CII Social Summit held between 13-14 December, 1999, in New Delhi. The Social Summit in December focused on three aspects of sustained development namely: 'Population Management', 'Primary Education' and 'Income Generation.'[122] At the summit, various opinions were suggested by government officials and CII members, among others. B.K. Jhawar, Chairman of CII National Committee on

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[119] *CII Communique*, Vol 8 No 9, September 1999, pp. 8-9.

[120] *Economic Survey* 1999-2000, p. 149

[121] *CII Communique*, Vol. 8 No. 12, December 1999, p. 6.

[122] See *CII Communique*, ibid., p. 1

Community Development suggested that tax rebates should be offered to industry for undertaking rural development. He also recommended that Indian industry set a target of complete workforce literacy by 2005. Mahudur Bajaj, Chairman of CII National Committee on Population emphasized that social development would lead to rising income, and in turn, to increased demand. At the end of the summit, J. J. Irani, CII Social Development and Community Affairs Councils made the broad recommendations that emerged out of the summit.[123]

5. Concluding Remark

For Indian industry, the period of 1997-99 was quite eventful in terms of economic growth as well as political uncertainty. Especially, during the first two years, Indian business witnessed a steady decline in growth, depressed investment and little stimulus for demand. In addition, Indian business faced both external and domestic factors which contributed towards negative growth in economy. These factors were the compounding aftermath of a financial crisis in Southeast and East Asia, and post-Pokhran economic sanctions in 1998. Besides, significant recessions in international markets were among major external factors.

However, more importantly, under any circumstances, the economic reform process continued. Even in the most turbulent year of 1998, a series of economic policy measures were introduced, such as Foreign Exchange Management Act (FEMA) and Prevention of Money Laundering Act (PMLA). Besides, the long overdue Company Act

[123] See *CII Communique*, ibid., p. 1

was also introduced in the same year. In 1999, despite political uncertainty, following the elections in September, the economic reform process was not changed as every major political party had participated in the government without any major change to the comprehensive economic reforms started in 1991.

These events brought about a sense of confidence and opportunity to reconsider current situation of Indian business by the CII. Especially, tiding over the Asian crisis and the economic sanctions imposed after nuclear tests, Indian business recognized that Indian economy was less vulnerable, both relative to 1991 and compared to most Asian countries. Simultaneously, Indian business paid more attention to the issues related to a sustained economic growth. Consequently, they had worked ceaselessly for policy formation, competitiveness building, global networking, and social development. The need for capital and to remain competitive had forced even the family-owned Indian companies to turn over their management to professionals thereby improving the domestic and international investors' standpoints on the issue.

Against this background, apart from the impressive growth of IT and software companies, particularly the manufacturing sector like cement and steel had turned the corner and registered impressive growth during April-November, 1999.[124] Even on the human development side, India had shown substantial progress. The average life expectancy had gone up from 50.3 years in 1970-75 to 62.3 years in 1995-2000. While the infant mortality rate (per thousand live births) declined from 127 in 1970 to 70 in 1999, the adult literacy rate improved from 34 to 56.5 per cent during the same period.[125]

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[124] *Economic Times*, 14 January 2000.
[125] See United Nations Development Programme (UNDP), *Human Development Report* 2001, Oxford Oxford University Press, New York, 2001.

Now, Indian business was looking at the outside world with confidence and global compositeness. It was seen as a matter of time for an age of Indian MNCs to emerge.

Chapter IV

THE ADVENT OF INDIAN MNCs

1. Introduction

The new millennium opened with wild optimism within Indian business. As pointed out by Tarun Das, Indian business seemed to be full of confidence in their ability to meet the future. Das said: "In 1990 confidence was at an all time low. In 2000 confidence is at an all time high. In 1990 we could never feel anything but depression, dejection and defeatism. In 2000, we feel confidence, more confidence and even more confidence."[1] Quite obviously, it was a very distinct mood compared to the previous years. As mentioned in the first chapter, when India initiated its economic reforms in the first half of the 1990s, Indian business expressed their concerns about sudden entry of the foreign MNCs and demanded a level playing field. Later, during the period 1997-99, they were busy themselves about breaking through the external economic slowdown. However, now Indian business seemed to be ready to enter the global economy by expanding their global capacity through various routes, such as merger and acquisition (M&A), outsourcing resource centers and manufacturing parts for global companies, among others.

Since 2000, India has shown a trajectory of unprecedented economic growth. The GDP growth rate has been average of 8 per cent during 2003-2006 and in case of the

[1] Tarun Das, 'How industry changed', *CII Communique*, Vol 9 No 5 May 2000, pp. 2-3.

year 2006-2007, it was 11.6 per cent.[2] More importantly, since 2000, India's economic footprints across the world have appeared more rapidly. Most distinguished phenomenon was that India has placed itself as a significant source of outward foreign capital in the world. According to the United Nations conference on Trade and Development (UNCTAD) report 2007, India's outward FDI was the second highest at US$ 20.4 billion after Brazil at US$ 28 billion. Significantly, while China's outward FDI rose by 32 per cent to US$ 16 billion in 2006, India's went up by almost four times.[3] It enhanced India's rank to 56 in 2006 from 80 in 1990 in the Outward Foreign Direct Investment (FDI) Performance Index.[4]

According to the report by Boston Consulting Group, among 100 new global companies in rapidly developing economies (RDES) like India, China, Brazil, and Russia, 21 of them were Indian MNCs while 44 companies were Chinese. Interestingly, while China's FDI outflows have been driven by the international expansion of State-owned enterprises encouraged by government policies, booming outflows from India have been dominated by privately owned companies, such as the Tata Group. To put it concretely, 40 of the 44 Chinese companies were state-owned, whereas 20 of the 21 Indian companies were privately owned – Oil and Natural Gas Corporation Videsh Ltd (OVL) being the sole exception. Industrial classification of the Indian company was composed of various elements, from automotive equipment to food and beverages.[5] As Nagesh Kumar argued, this phenomenon can be seen as

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[2] *Economic Survey* 2007-08, p. 182.
[3] UNCTAD, *World Investment Report 2007*, p. 44.
[4] Ibid., p. 220. See Annex table A.I.6.
[5] The Boston Consulting Group, *The New Global Challengers*, May 2006. p. 7, Exhibit 1: The RDE 100 Span Multiple Industries and Countries.

proper proof of the fact that Indian companies who "are able to differentiate their product and build their brand names in domestic markets would be better placed to tap the opportunities abroad than others."[6]

Against this background, this chapter will delineate the advent of the Indian MNCs. Firstly, in the following section, I will chalk out the trend and patterns of foreign investment by the Indian companies from the economic reforms of 1991 till date. In this particular section, the role of the government will be also discussed. Indian outward FDI grew up under the conducive policy environment created by a combination of economic, political and institutional factors. In the following section, the CII's standpoint on building Indian MNCs will be discussed. Interestingly, already in the mid-1990s, they expressed their desire for building Indian MNCs. However, during the period 1991-99, it was more important for Indian business to face the both internal and external barriers as mentioned in the first and second chapters respectively. Since 2000, however, the CII's view on building Indian MNCs became more concrete and realistic. For understanding their view, I will trace some programmes launched by the CII since 2000.

2. Foreign Investment by the Indian Companies

Historically, cross-border investments and acquisitions have appeared over the

[6] Nagesh Kumar, 'Emerging Multinationals: Trends, Patterns and Determinants of Outward Investment by Indian Enterprises', *Research information System for Developing Countries*, 29 December 2006 (Revised), p.9.

last few centuries. The first cross-border investments were conducted by the European colonial enterprises such as British and Dutch East India companies. However, those kinds of cross-border investments were not an exclusive right of western countries alone. For instance, even prior to Independence, there had existed vibrant national entrepreneurs and large companies in India namely: the Birla or the Tata group. Those Indian national companies already had sizeable global market shares during the 1940s.[7] After independence, the prototype of the Indian multinational appeared by as early as in the mid-1950s. For example, Aditya Vikram Brila established a textile mill in Ethiopia and during the 1960s, he expanded his industrial territory to Kenya, Uganda, Nigeria, Malaysia, Thailand, and Ceylon. Since then, Indian outward direct investments have increased steadily. However, despite pioneering investment activities during the early 1960s, the growth of the Indian FDI was not impressive until the mid-1970s.[8]

In the pre-1991 period, Indian outward FDI showed distinct features compared to the period of 1990s. As Table 4-1 shows, during the pre-1991 period, almost 86 per cent of Indian outward investment had concentrated in other developing countries, such as South-East and East Asian countries, and Africa.

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[7] See Aditya Mukherjee, *Imperialism, Nationalism and the Making of the Indian Capitalist Class 1920-1947*, New Delhi, 2002.

[8] J.P. Agarwal, 'Third World Multinationals and balance-of-payments effect on home countries: a case study of India', in Khushi M. Khan ed, *Multinationals of the South: New Actors in the International Economy*, London, 1986; and Jorgen Dige Pedersen, 'The second wave of Indian investments abroad', prepared for the FAU Conference: "Breaking New Ground? Development Research 2005-2015 and Beyond", Copenhagen, May 10-11, 2006.

Table 4-1

Geographical Distribution of Approvals of Outward FDI from India 1975-2001

(Million US $)

<table>
<tr><th colspan="2" rowspan="2">Region</th><th colspan="4">1975-1990</th><th colspan="4">1991-March 2001</th></tr>
<tr><th>No.</th><th>Equity</th><th>No. (% of total)</th><th>Equity (% of total)</th><th>No.</th><th>Equity</th><th>No. (% of total)</th><th>Equity (% of total)</th></tr>
<tr><td rowspan="7">Developing Countries</td><td>South-East & East Asia</td><td>67</td><td>80.79</td><td>29.26</td><td>36.32</td><td>379</td><td>399.35</td><td>14.79</td><td>9.37</td></tr>
<tr><td>South Asia</td><td>30</td><td>20.91</td><td>13.10</td><td>9.40</td><td>197</td><td>157.39</td><td>7.69</td><td>3.69</td></tr>
<tr><td>Africa</td><td>29</td><td>37.83</td><td>12.66</td><td>17.01</td><td>254</td><td>513.94</td><td>9.91</td><td>12.06</td></tr>
<tr><td>West Asia</td><td>19</td><td>21.54</td><td>8.30</td><td>9.68</td><td>185</td><td>376.5</td><td>7.22</td><td>8.83</td></tr>
<tr><td>Central Asia</td><td>4</td><td>23.2</td><td>1.75</td><td>10.43</td><td>49</td><td>50.99</td><td>1.91</td><td>1.20</td></tr>
<tr><td>Latin America & the Caribbean</td><td>2</td><td>0.58</td><td>0.87</td><td>0.26</td><td>36</td><td>180.6</td><td>1.41</td><td>4.24</td></tr>
<tr><td>Subtotal</td><td>165</td><td>191.52</td><td>72.05</td><td>86.09</td><td>1176</td><td>1719.82</td><td>45.90</td><td>40.35</td></tr>
<tr><td rowspan="3">Developed Countries</td><td>Western Europe</td><td>40</td><td>17.29</td><td>17.47</td><td>7.77</td><td>565</td><td>1450.2</td><td>22.05</td><td>34.02</td></tr>
<tr><td>North America</td><td>23</td><td>13.51</td><td>10.04</td><td>6.07</td><td>749</td><td>1029.52</td><td>29.23</td><td>24.15</td></tr>
<tr><td>Subtotal</td><td>64</td><td>30.89</td><td>27.95</td><td>13.89</td><td>1386</td><td>2542.6</td><td>54.10</td><td>59.65</td></tr>
<tr><td colspan="2">Total</td><td>229</td><td>222.46</td><td>100</td><td>100</td><td>2562</td><td>4262.52</td><td>100</td><td>100</td></tr>
</table>

Source: Nagesh Kumar, 'Emerging Multinationals: Trends, Patterns and Determinants of Outward Investment by Indian Enterprises', Research information System for Developing Countries, 29 December 2006 (Revised), p. 4.

Table 4-2

Sectoral Composition of Outward FDI Flows from India, 1975-2001

Sector	1975-1990				1991-March 2001			
	No.	Equity	No. (% of total)	Equity (% of total)	No.	Equity	No. (% of total)	Equity (% of total)
Extractive	3	4.04	1.30	1.82	7	61.14	0.27	1.43
Manufacturing	128	145.22	55.65	65.28	1236	1678.92	48.26	39.39
Services	99	73.2	43.04	32.911	1318	2522.17	51.46	59.17
Total	**230**	**222.45**	**100**	**100**	**2561**	**4262.23**	**100**	**100**

Recompose on the basis of the following source: Nagesh Kumar, 'Emerging Multinationals: Trends, Patterns and Determinants of Outward Investment by Indian Enterprises', Research information System for Developing Countries, 29 December 2006 (Revised), p. 5.

During this period, the Government of India had three main objectives for overseas investment: (1) to develop export promotion agencies; (2) to enable India to participate in the development activities of the co-developing countries and thereby become a partner in progress; and (3) to act as a catalyst for export promotion by projecting capacity to supply a wide range of capital goods and technical expertise.[9] However, before the economic reforms of the 1990s, due to the international stage, for instance, the Japanese FDI surge in the 1980s and Korean one in the 1990s; Indian companies' outward FDI did not become the focus of world economic attention.[10]

[9] Sumitra Chishti, 'Third World multinationals and trade expansion among the countries of the South', in Khushi M Khan ed, *op cit.* pp. 103-104.

[10] Christian Milelli, 'Outward expansion by Indian firms: the European route', Document de Travail Working Paper 2007-25, Universite Paris X Nanterre. p. 2.

The whole picture changed in the 1990s during which India initiated its economic reforms. The trend of Indian outward investment underwent a significant change in terms of geographical direction as well as sectoral composition. First of all, in the 1990s, the destination for the Indian outward FDI rapidly turned to the developed countries. As seen in the Table 4-1, nearly 60 per cent of outward FDI was going to developed countries. In terms of sectoral composition, the services sector became a major component of the flows. It accounted for nearly 60 per cent. (Table 4-2) This phenomenon can be explained since, during this period, Indian IT and pharmaceutical-related companies accessed the markets abroad more aggressively with their improved global competitiveness.

The steady increase of the outward FDI from India was connected with the contribution of the economic reforms which opened more outward focus to the Indian companies. For example, the rupee's exchange rate has been market determined and all current account transactions have been freed from controls. Against this backdrop, Indian companies have been able to invest abroad even though there was no full convertibility of the rupee as of yet. In addition to this, the extended economic slowdown, since 1996, had forced the pace of outward investment, particularly through M&A, since many Indian companies had not been able to sustain themselves in the difficult period.[11]

On the other hand, Indian companies themselves were drawing their ownership advantages from their accumulated production experience, cost effectiveness of their production processes, and other adaptations to imported technologies made with their

[11] P. S. Palande, *Coping with Liberalization*, New Delhi, 2000. p. 223.

technological effort, and some times with their ability to differentiate product.[12] They reworked their strategies to become globally competitive. Those strategies involved massive cost rationalisation, shedding of unprofitable businesses, initiatives to improve efficiencies in areas of operations, technology and product development and unlocking human resource capabilities to effect productivity improvements. So, in some aspects, while the outward FDI was steadily increasing, this period can be seen as the stage where Indian companies had realized how to gain global competitiveness.

Since the beginning of the new millennium, the outward FDI by Indian companies was increasing more rapidly, especially through mergers and acquisitions (M&A). Simultaneously, confidence among the Indian business groups appeared to have been very strong. According to the opinion poll of Indian CEOs, conducted by the CII and *Outlook* jointly, nearly 73 per cent of the respondents expected over fifty Indian MNCs in 2015, while only 16 per cent expected less than fifty Indian MNCs in 2015.[13] This result reveals important underlying message that Indian business believed in their competitiveness in the global market.

As seen in the Table 4-3, India's outward FDI exhibited a significant rise during the recent years from US $ 1.5 billion during 2003-04 to US $ 11 billion during 2006-07.[14] The rapid growth of outward FDI took India to fourteenth place in terms of outward FDI stock among developing countries already in 2003.[15] In 2006, for the first time, outward FDI exceeded inward inflow of foreign investment. More importantly,

[12] See Nagesh Kumar, 'Emerging Multinationals: Trends, Patterns and Determinants of Outward Investment by Indian Enterprises', Research information System for Developing Countries, 29 December 2006 (Revised).

[13] See CII-Outlook Opinion Poll, *Outlook*, 4 April, 2005.

[14] As much as US $ 2.3 billion, during the 2004-05 period, FDI flowed into India. This amount steadily increased to US $ 3.4 billion during 2005-06. See Reserve Bank of India, *Annual Report 2006-07*, Table 1.84, p. 95.

[15] UNCTAD, 2004, *'India's outward FDI. A giant awakening?'*, Geneva: UNCTAD/DITE/IIAB/2004/1.

this trend did not seem to be a temporary phenomenon. According to a report conducted by Assocham, outward investment in 2007-2008 from India was forecasted to be around US $ 15 billion.[16]

On the other hand, in terms of sectoral composition, non-financial services occupied the largest share of outward investments while the manufacturing sector had shown fluctuation.[17] This phenomenon was connected with the rapid growth of outward FDI in IT services, particularly through mergers and acquisitions.

Table 4-3

India's Direct Investment Abroad

(US $ million)

Industry	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007***
Manufacturing	893	1,068	2,933	1,913
Financial Services	1	7	159	21
Non-Financial services	456	283	881	7,382
Trading	113	181	361	613
Others	31	108	195	1079
Total	**1,494**	**1,647**	**4,529**	**11,008**

* Based on the latest reported revised data. Therefore, these may differ from the data earlier published as part of balance of payments.

Note: Data include equity and loan components

Source: Reserve Bank of India, Annual Report 2006-2007, Table 1.85 in p. 96.

16 Assocham, *A Report on FDI Outflow and role of manufacturing sector in the Mergers & Acquisitions front*, March 13, 2007. It can be found at < www.assocham.org/arb/aep/FDI-ouwards.doc>

17 Until the beginning of the new millennium, most Indian outward investments were in the manufacturing sector. See Reserve Bank of India, *Annual Report 2004-05*, p. 83.

Table 4-4

Overseas Acquisitions by Indian Multinationals

Year	Overseas Acquisitions	
	Number	**Value ($ million)**
2000	33	896
2001	23	188
2002	21	2536
2003	38	649
2004	44	2787
2005	135	3564
2006	177	7658
2007 (up to August)	123	32858
All Above Years	594	51136

Source: Jaya Prakash Pradhan, 'Trend and Patterns of Overseas Acquisitions by Indian Multinationals', ISID Woking Paper No: 2007/10 (October 2007), p. 5.

Interestingly, a considerable proportion of outward FDI from India has taken the form of mergers and acquisitions rather than greenfield investments. This was a distinguishing trend compared to the pre-1991 period because international involvement of Indian multinationals during the 1960s–1980s was usually represented by cross-border 'greenfield investments' for setting up either joint ventures or subsidiaries in foreign countries.[18]

[18] However, this trend is not only for India. As pointed out by the UNCTAD report, nowadays foreign direct investment (FDI) is more likely to flow in through cross-border mergers and acquisitions, not

Since the Tata group spent US $ 435 million to buy the British global brand Tetley Tea,[19] Indian companies have shown increasing interest in acquiring foreign companies to strengthen their position in overseas markets. As Table 4-4 shows, the number of overseas acquisition, except during the 2000-2002, has been rapidly increasing. It has grown from 38 in 2003 to 177 in 2006.

In terms of sectoral composition, overseas acquisitions by Indian companies have spread to various areas. According to the latest data from Reserve Bank of India, maximum mergers during 2006-07 were witnessed in the financial services (15 per cent of total), followed by chemicals (8 per cent), construction (5 per cent), and non-metallic mineral products and mining (3 per cent each). The acquisition activity was the largest in the communications sector (48 per cent of total), followed by chemicals (15 per cent), financial services (9 per cent), information technology (7 per cent) and mining (4 per cent).[20]

In terms of geographical distribution, although most of these overseas deals are happening in the US, Russia and the UK, some were also coming to ASEAN and lesser developed countries. For instance, there are 1441 Indian companies operating in Singapore, of which more than 450 are technology enterprises. Ranbaxy, a leading Indian pharmaceutical company, already has a plant in Thailand, Malaysia and Vietnam while Bajaj Motors is on its way to open a plant in Indonesia.[21] This phenomenon

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through greenfield projects.

[19] Tata's case was the first time that an Indian company had made a bid of that size. However, as pointed out by Swaminathan S Anklesaria Aiyar, all major Indian software companies were already MNCs. Quoting Aiyar, "All of them have branches abroad, all do most of their high-end work abroad using foreign employees, and then do the low-end work very cheaply in India. No foreign companies can match this. So, suddenly Indian companies look like world-beaters." See, Swaminathan S Anklesaria Aiyar, 'The Great Indian Takeover of America', *The Times of India*, March 19, 2000.

[20] Reserve Bank of India, *Annual Report 2006-07*, p. 28

[21] For more example, 'Indian Companies Going Global', 11 January 2006 see at http://www.opinionasia.org/node/30; UNCTAD, *World Investment Report* 2004 to 2007; Outlook, 'Doing a Magellan', 07 October 2002; Niladri Das, 'The emergence of Indian multinationals in the new global order',

reflects that Indian companies overcame geographic boundaries with their mix of business strategies. More importantly, there are many other Indian companies learning from the efforts and experiences of those pioneers. Now, it was "correct in saying that globalisation implies the takeover of Indian companies by MNCs, but wrong in implying that takeovers are a one-way street."[22]

The rising overseas acquisitions by Indian companies seemed to have been contributed by several supportive factors. Those factors were such as higher economic growth rate, rising foreign exchange reserve, increasing bilateral trade and investment treaties with foreign countries, among others. Above all, increasing liberalization of outward FDI policy by the government of India played an important role in Indian companies' investment abroad. This supportive policy was "not merely as a means of contending with capital inflows but also as a growing expression of competitiveness and entrepreneurial energy of Indian industry."[23]

3. The Role of the Government

Since the economic reforms in 1991, the role of the government has undergone a great change compared to the previous years. As pointed out by D.S. Brar, Chairman of the CII Committee on MNCs, "the government has played a facilitative role in the strategy of internationalization of the Indian corporate sector."[24] Above all, the

International Journal of Indian Culture and Business Management, Vol. 1 No. 1/2, 2007, pp. 142-145.

[22] Swaminathan S Anklesaria Aiyar, 'The Global Indian takeover', *The Times of India*, January 4, 2003.

[23] RBI, *Annual Report* 2003-04, p. 121.

[24] Silicon India web news, 'Globalization takes wing as India Inc thinks multinational', 25 December 2006. see <http://www.siliconindia.com/shownews/34448/5>; See also CII-CRISIL Report, 'Creating the Indian MNC', September 2006, p. 3.

government policy governing outward FDI has been an essential step in opening up outward expansion for the Indian companies. In fact, during the pre-1991, the government policy dealing with outward investments was rather restrictive and required outward investment by Indian companies only through capitalization of exports of machinery and know-how fees. However, this restrictive character of the government transformed to that of a facilitator since 1991.

The initial policy governing Indian outward investment originated from the recommendations of the Kalyan Banerji Committee Report in December, 1991. Following the recommendations of the Committee report on Indian Joint Ventures Abroad, Ministry of Commerce, Government of India, approved a liberalised policy in October 1992. Under the policy, cash remittance was allowed for the first time with restrictions on the total value. The total value was restricted to US $ 2 million with a cash component not exceeding US $ 0.5 million in a block of 3 years. The most pronounced part of this policy was that most investments overseas were allowed, also for the first time, through an 'automatic approval'.[25] Later in 1995, overseas investment-related work was transferred from the Ministry of Commerce to the RBI in order to provide a single window. Consequently, the Reserve Bank of India has taken charge of all proposals for the outward FDI.

On the other hand, alongside with the effort of the RBI, other organisations also joined to promote Indian companies to invest abroad. For instance, in April, 1999, the RBI approved that the Export-Import Bank of India (Exim Bank) provided rupee term loans towards equity contribution of Indian companies in overseas joint ventures or

[25] For more details about the Kalyan Banerji Committee, See CII-CRISIL Report, 'Creating the Indian MNC', September 2006, p. 26; and EXIM India, 'Developing Countries: Globalisation through Overseas Investment', January 2008.

wholly-owned subsidiaries abroad.[26] Following the approval, now EXIM Bank itself could provide comprehensive support to such Indian companies endeavouring to globalize their operations.[27]

Supportive guidelines were subsequently revised in the years 2000 and 2002 respectively. In 2000, the introduction of Foreign Exchange Management Act (FEMA) changed the entire perspective on foreign exchange. The limit for investment up to US$ 50 million, which was earlier available in a block of three years, was made available annually without any profitability condition. Companies were allowed to invest 100 per cent of the proceeds of their ADR/GDR issues for acquisitions of foreign companies and direct investments in Joint Ventures (JVs). In March 2002, automatic route was further liberalised wherein Indian parties investing in JVs outside India were permitted to invest an amount not exceeding US $ 100 million as against the earlier limit of US $ 50 million in a financial year. Furthermore, Indian companies in Special Economic Zones (SEZs) now could make overseas investments without the restriction of US $ 100 million.

However, during this period, despite supportive policy by the government, a more urgent matter for many Indian companies was to meet both internal and external barriers such as East Asian financial crisis, economic sanctions imposed after nuclear tests, among others. Indian business groups felt that Indian industry needed to upgrade its competence base in terms of R&D, quality, marketing, and so on. As pointed out by the then Union Minister of Commerce and Industry, Murasoli Maran, the "challenge before the country was to see how fast India could shift from inward focus on self sufficiency

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[26] For more details, See *Indian Express* Online, 'EXIM Bank to lend rupees for investment abroad', April 10. 1999.

[27] Already in August, 1998, the Exim Bank had introduced a lending programme for providing term loans to Indian companies to invest overseas. ibid.

to an 'outward focus' on integration with the world economy."[28]

The policy change for enhancing overseas investment had continued. In 2003, Indian individuals were permitted to invest in companies abroad while for mutual funds, the investment had been doubled to US $ 1 billion. They were also permitted to invest abroad in companies which are similarly listed on overseas stock exchanges and which have at least 10 per cent shareholding in a company listed on a recognized stock exchange in India. On the other hand, Indian companies were permitted to invest in companies abroad while those having branches and offices overseas have been permitted to acquire immovable property.[29]

In January 2004, the limit of US $ 100 million was removed and Indian companies were now permitted to invest abroad up to 100 per cent of their net worth on automatic approval. The government's supportive will was effectively expressed by the Prime Minister, as follows:

> Indian corporates will hereafter be freely permitted to make overseas investment up to 100 per cent of their net worth, whether through an overseas joint venture or a wholly owned subsidiary...The will enable Indian companies to take advantage of global opportunities and also to acquire technological and other skills for adoption in India.[30]

Rules and regulations regarding mergers and acquisitions (M&A) were relaxed and mostly took the automatic route. In addition to this, in 2005, the Reserve Bank of India, for the first time, allowed domestic banks to lend money to Indian companies for

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[28] *Indian Express* online, 'Maran for strong Indian MNCs', 15 November 1999.
[29] *The Hindu* Online, 'Govt, eases norms for investment abroad', 11 January 2003.
[30] See the inaugural speech of Prime Minister of India delivered at the second Pravasi Bharatiya Divas conference, 9 January 2004, New Delhi (http://pmindia.nic.in/speeches.htm).

acquisitions overseas. These policy changes had facilitated the boom in cross-border M&As as mentioned in the previous section. Further, in June 2007, the overseas investment limit for Indian companies was further enhanced from 200 per cent to 300 per cent of their net worth.[31] The policy change by the government is still in progress. According to *The Economic Times*, the RBI was likely to enhance the overseas direct investment limit for Indian companies as well individuals.[32]

Besides the policy changes mentioned above, there have been many other supportive measures by the government.[33] This can be interpreted as the Government of India's keenness on developing Indian MNCs and encouraging Indian domestic companies to invest abroad to achieve global competitiveness. However, it was "not the task of the government to help promote the *Made in India* mark but companies which have a vision."[34] The main role of the government was to help those business groups by enhancing the overseas investment friendly policies. The significant task had been the Indian business' responses. In the following section, I will discuss the CII's change of view on building Indian MNCs.

4. Development of the CII's view on building Indian MNCs

Even before the initiatives of economic reforms in 1991, the CII had expressed their strong will to build Indian MNCs. The CII's desire for building Indian MNCs was

[31] *RBI AR* 2006-07, p. 154.
[32] *Economic Times* Online, 'RBI may hike oversea direct investment limit for Indian firms & individuals', 24 March, 2008.
[33] For understanding more overseas investment policies by the government of India, see *CII-CRISIL Report*, 'Creating the Indian MNC', September 2006, pp. 26-30;
[34] *Outlook* Online, 'passage from India', 28 August, 2000.

found at the address of the then President of CEI, J.P. Chowadhary on 18 April, 1990. He argued that Indian industry "need to be clear about the objectives of building 10, 15, 20 Indian producers as global players and at least 10 Indian companies as global companies."[35] However, his argument had to be muted, given with the initiatives of economic reforms in 1991. Faced with sudden policy changes, adaptation to the new policies was priority for the Indian business groups. Moreover, the Indian business sector had to concentrate on the matter of pace and direction of economic reforms while communicating with the government.

The desire for Indian MNCs appeared again in April, 1994. At the CII plenary session, Jamshyd Godrej announced Indian industry and CII members' proposal to the government, in which he suggested "100 Indian MNCs by the year 2000."[36] This declaration had further developed at a meeting on 'Building 100 Indian MNCs' in September, 1994.[37] In this meeting, the issue that attracted attention had been the competitiveness of Indian industry. Jairam Ramesh, officer on Special Duty in the Planning Commission, emphasized that "competition was the only answer to building Indian MNCs."[38] He added that "a detailed competition policy blue prints at both macro and sectoral level is the need of the hour."[39] He outlined four basic policy changes: (1) competitive exchange rate (2) low inflation at home (3) fiscal balance, and (4) high investment rates.[40] On the other hand, President of CII, Subodh Bhargava suggested that what Indian industry needs is partnership, by arguing that "the Indian

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[35] Address of J.P. Chowdhary, CEI President, 18th April 1990, CII Library.

[36] Address of Jamshyd N Godrej, CII President, at the plenary Session with Manmohan Singh, Minister of Finance, 19, April 1994. CII Library.

[37] *CII Communique*, Vol 8 No 8, 'Indian Multi-national Corporations have to face up competiton for survival', August 1994, p. 3.

[38] Ibid.

[39] Ibid.

[40] Ibid.

industry was on the threshold of great opportunities and could become a strategic player if the synergies are channelised properly."[41] Although through this meeting, CII did not obtain visible results, obviously it was the first concrete action practiced by the CII with regard to discussion about the Indian MNCs.

In 17 August 1997, at the CII national conference on fifty years of Indian industry, Rahul Bajaj and Suresh Krishna urged the government to draft policies to promote Indian MNCs. This argument was not very different from the 1994 meeting on 'Building 100 Indian MNCs'. If any, their arguments seemed to be keen on presenting the agenda of the Bombay Club. Particularly, while stressing on technology import without giving up ownership and control of companies, Rahul Bajaj pointed out that "the government need to formulate policies which keep in mind the interests of Indian industry."[42] This mood had continued throughout 1997 and 1998, whereby Indian industry faced various economic barriers such as East Asian crisis, economic sanctions, among others. The similar opinion of Rahul Bajaj was expressed by Tarun Das in November, 1997. He argued that "what India need to do is manage its own globalization process, while resisting unreasonable and aggressive external pressure." He added, "the mistake is to equate globalization with foreign investment."[43] Tarun Das clearly expressed that the issue of 'protection'[44] was imperative for Indian industry. At this

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[41] Ibid.

[42] *CII Communique*, Vol 6 No 8, August 1997, p. 2; also see *Indian Express*, 'Swadeshi club calls for Indian MNCs', August 17, 1997.

[43] Tarun Das, 'the Equation of Eight P's: a New Economic Direction for India', *CII Communique*, Vol 6 No 11, November 1997, p. 11.

[44] Ibid., p. 12. However, it must be clear that, on the other side, there were some businessmen who wanted go abroad. For instance, D. S. Brar, President, Ranbaxy laboratories, was one of them. Delivering a lecture on "How to Build international Business" on 7 April, 1997, he had emphasized international business as the major focus area for growth [of Indian industry]. Particularly, he emphasis had been on real assets which were critical to sustainable internationalization were those of research, knowledge, innovation and brand equity. He added that building a brand was worth more than any other asset. See *CII Communique* Vol 6 no 4 April 1997, pp. 15-16.

time, a more urgent matter for the CII seemed to be – to meet the potential threats caused by the Asian financial crisis rather than talk about building Indian MNCs.

On the other hand, it was also true that passing the economic slowdown, Indian business groups became more confident. They realized that a company had to have a very strong domestic base to become global MNCs. Concomitantly, they thought that to achieve global size, Indian business needed to look at growth opportunities outside domestic borders.[45] In fact, the East Asian crisis offered advantages to some Indian industries because the share prices in those countries had fallen making it easier for Indian companies to acquire running companies. According to Palande, at least a dozen Indian business houses were moving quickly into Asia, shopping for markets, technology and plants. The Kumar Mangalam Birla Group, Reliance industries, Thapars, Mahindra & Mahindra, Godrej & Boyce, and many others were chalking out plans to seize these opportunities.[46]

At the end of the century, the CII was concerned about how Indian industry would shape up in the coming new millennium. At the Partnership Summit organized by the CII in January, 1999, many delegates argued that Indian industry had to adopt high world standards in the manufacturing processes. At the same time, most speakers expressed concern about slowing the pace of reforms which may lead to investments going elsewhere.[47] Soon after, at the CII national conference and annual session 28-29 April, 1999, in New Delhi, many issues were discussed under the theme of 'Preparing for the New Millennium'. Interestingly, among these many issues was a topic on Indian MNCs. Y. C. Deveswar, Chairman, ITC, spoke on 'Building an Indian MNCs', with a

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[45] Ashwani Gupta, 'Emergence of Indian Multinationals', *Technology Exports*, Vol 8, No. 3, September-October 2006, p. 6.
[46] Palande, *op cit.* p. 357.
[47] *CII Communique*, Vol 8, No 1, January 1999.

presentation on the experience of his organization.[48] Although his presentation was a very small part of the CII's annual meeting, it was the first time for the CII to choose the topic with regard to Indian MNCs.

While facing the irreversibility of globalization, one tool in racing competition was, interestingly seen as mergers and acquisitions (M&A). The CII considered M&A as a vital means to gain competitive advantage in a rapidly globalizing economy.[49] The CII saw that "the prime motives behind employing M&A as a strategic tool are restructuring to rectify the distortions of the licence raj, consolidation of small and fragmented players and focus of corporate efforts on globalizing operations."[50] However, at this time, this particular viewpoint was arguing for M&A between Indian companies rather than between Indian companies and foreign companies. Until then, Indian companies seemed to focus on domestic competitiveness in order to face global competition, for this purpose they had to emerge stronger in the domestic market.

In 2002, the CII took over supervisory authority over India Brand Equity Fund (IBEF). The IBEF was a joint initiative by the Ministry of Commerce and the Government of India. The aim of the IBEF was "to build and enhance equity for the Made in India brand in global markets and ensure parity between India's potential and its share of global trade in manufactured products and services."[51] It was a "blend of inward and outward looking strategies."[52] As Ashok Soota, President of CII, stated that it was time for India to "have the goal of emerging as one of the top 20 economies of the world."[53] Indian companies might not be multinationals yet but it was clear that

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[48] *CII Communique*, Vol 8, No 4, April 1999, p.2.
[49] See *CII Communique* Vol 8 No 8, August 1999, p. 3.
[50] Ibid.
[51] *CII AR* 2002, p. 21.
[52] Ibid.
[53] He stated this at the CII Partnership Summit 2002. see *CII AR* 2002, p. 49.

more and more members of Indian business groups could be close to getting there.

Going by some indicators, since 2003, a few Indian companies apparently had what it took to be global MNCs. The *CII Annual Report 2003* effectively outlined this as follows:

> Today, as the global economy tries to shake off a downturn, there are 16 Indian companies earning over Rs 1,000 crore through exports, 15 that net over Rs 500 crore from overseas and 150 that earn more than Rs 100 crore in foreign exchange. A recent issue of Forbes magazine has put 18 Indian companies among the best under US$ 1 billion companies. Add to that the 80 SEI CMM Level-5 software firms, 7 Deming Prize Winners, the lone Japan Quality Medal Awardee outside Japan and the 65 pharmaceutical plants approved by the US Federal Drug Administration. India inc has surely come into its own. However, more needs to be done. For one, we need better infrastructure.[54]

Against this backdrop, the CII concentrated their efforts on realizing their long-awaited ideal. At the national conference and annual session 2003, Anand Mahindra, President of CII, stated that "while the theme of CII's internal agenda would be competitiveness, the sub-theme would be Building Indian MNCS."[55] The ambitious theme of 'Competitiveness of India Inc: Building Indian MNCs'[56] was pursued staying in alignment with Prof Prahalad's lists for competitiveness. They were:[57] (1) The power of the domestic market (2) Organizing the unorganized sector (3) New approach to consumer access (4) Creating scale, both real and virtual (5) Leveraging the Indian advantage (6) Leapfrogging the West (7) Exploiting factor advantages and (8) Creating

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[54] *CII AR* 2003, p. 1.
[55] Ibid. p. 4
[56] *CII AR* 2003, p. 5
[57] Ibid.

a new game.[58] Under this theme, the CII set up the Indian MNCs Council under the chairmanship of D S Brar, CEO, Ranbaxy, to contribute towards promotion of building Indian MNCs.[59]

The CII's events of that year had vindicated the theme. The first initiative was organized by the CII Southern Region. CII Karnataka organized a national level conference on 8-9 August 2003 under the theme of 'Creating the Indian Multinational.' [60] This was in alignment with its national level theme of 'Competitiveness of India Inc: Building Indian MNCs.'[61] The aim of the conference was to provide an opportunity for Indian industry to learn from the experience of successful global companies. The conference discussed both internal parameters such as technology, leadership competencies, global outlook, and productivity; as well as challenges posed by the external business environment, such as infrastructure, economic policy, and corporate governance. Among other things, the CII discussed the aspects of international market entry strategy and understanding the incentives and impediments therein, creating MNC capabilities, through building global logistics and supply capabilities, and understanding the parameters on which to benchmark against international companies.[62]

The CII had continued to organize events to sustain the national theme. The other event which was structured on CII's national theme for the year was the 11th Quality Summit held at Bangalore in 4 and 6 November, 2003. Its theme was 'Building Indian

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[58] Including Indian MNCs Council, in 2003, the CII set up total ten new councils such as corporate governance, services, industrial relations, among others. *CII AR* 2003, p. 5.

[59] Ibid.

[60] *Hindu* Online, 'CII meet to deliberate on creating Indian MNCs', 4 August 2003.

[61] See fn. 58.

[62] *Business Line*, August 4, 2003.

MNCs: The Quality Way.'[63] Some of the questions discussed were: How can Indian industry build an Indian MNC through Quality? What are the strategic dimensions to becoming an MNC? How Indian industry have globally successful products from India?. The first day of the Summit started with reconfirming that there was enough talent and entrepreneurship in India. In the successive, continuing sessions, 15 various topics were presented.[64] On the whole, the summit highlighted the need for Indian companies to first become locally competitive, go for substantial exports and then become global. The CII's view on the path to become global was effectively summarized:

> the path to success starts with companies becoming best in class, then exporting significantly with India as base, setting up offices all over the world and finally, going global with manufacturing facilities all over the globe and recruiting people from different countries with different cultures.[65]

This kind of effort had not been limited in the events organized by the CII itself. During 23-25 November, 2003 at the Indian Economic Summit in New Delhi, the various insights on Indian MNCs were broadly discussed again. At the meeting, Indian business groups asked themselves what should be the focus of building Indian MNCs. For instance, Shiv V. Khemka, Executive Director, Sun Group, India, suggested four questions for discussion: (1) Should Indian companies look at becoming global given the size of the domestic market? (2) If companies are looking at going global, should they focus on emerging or developed markets? (3) Should companies adopt a sectoral global growth strategy? and (4) Should the definition of Indian multinational

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63 *CII Communique*, Vol 12 No 11, November 2003, p. 3.

64 All presentations were published as a report by the CII. For the full contents of the presentations, see CII, '11th Quality Summit Presentations', CII Library (Gurgaon)

65 *CII Communique*, Vol 12 No 11, November 2003, p. 3.

corporations (MNCs) be stretched to include companies managed by the sizeable Indian diaspora in many foreign markets?[66] At the same time, the Government of India also showed strong support towards Indian MNCs. Rajeeva R. Shah, Secretary, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry urged "Indian companies to aggressively look at global markets." Interestingly, he suggested "an acquisition-led strategy for growth coupled with an export-led strategy by setting up international subsidiaries" and concluded by stating that "Indian companies must actively think of higher levels of overseas direct investment to go global."[67] As the new Director-General, N. Srinivasan argued, now many business groups seemed to be quite confident that sooner or later India will have "at least 100 Indian companies that can be described as MNCs in the true sense of the term."[68]

If building brand India and seeking complementaries with global markets was a major focus of the CII during 2003-04; 2005 onwards, the CII efforts became stronger. The most interesting events launched by the CII in 2005 was 'India everywhere campaign'.[69] The aim of this campaign was to reach out to over 2000 global political leaders and business leaders. This campaign was built on three pillars, capturing the essence of the unique value proposition India offered to the world: (1) democracy; (2) free market; and (3) cultural delight.[70]

Since 2006, the Indian business sector has shown dynamic expansion in terms of M&A and outward FDI. Simultaneously, with economic expansion abroad, internally the CII had organized more events to propagate their strong sentiment in building Indian

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[66] World Economic Forum, *India Economic Summit Report 2003*, p. 21

[67] Ibid.

[68] N Srinivasan, Director-General of CII interview with *The Hindu*, See 'The age of Indian MNC has finally dawned'. March 11, 2004.

[69] *CII AR* 2005, p. 12.

[70] Ibid.

MNCs among their members, as also in the foreign countries. The scale and theme of the events became bolder and systematic compared to previous years. The responsibility of globalizing Indian business rests equally on the government, and regulatory bodies like the Reserve Bank of India and Indian business groups themselves. However, among others, the Indian business groups played "a key role in maintaining the highest standards of corporate governance and practices, promoting cross-cultural integration to support global operations, and in promoting a positive image of Indian companies in host nations overseas and across geographics."[71]

In 2006, the most significant event organized by the CII was the National Conference on 'Globalisation – Emerging Indian MNCs' on 6 October, 2006.[72] It was a joint programme of the CII and the Infosys. This programme was aimed at creating an "ecosystem that will enable aspiring Indian companies in the next ten years to accelerate their growth as successful next-generation billion dollar MNCs."[73] Most speakers had strong optimism in relation to the future of Indian MNCs. Arun Maira, Chairman, Boston Consulting Group, emphasized India's demographic advantage, by arguing that "by 2020 India will have a 47 million workforce and the Indian economy would have become the third largest in the world by 2050."[74] Also he referred to the result of the Boston Consulting Group report 2006, and pointed out that "international rating agencies and their models have to be reexamined as they had failed to reflect these realities."[75] S.K. Munjal, former President of CII paid attention to the entrepreneurship of Indian business. While arguing that Indian traders had lost their competitive edge

[71] Conference Proceedings, National Conference on 'Globalisation – Emerging Indian MNCs', October 6, 2006. p. This proceeding can be found at <http://www.indiaincgoingglobal.com/event/past_conf_oct_06_06.html>
[72] *CII AR* 2006, p. 44.
[73] *The Hindu* Online, 'Initiative to build billion dollar Indian MNCs, 07 October 2006.
[74] Conference Proceedings, ibid. pp. 1-2.
[75] Ibid. p. 4

during the two hundred and fifty years of subjugation under British rule, he stated that "we lost out competitive strength in this period but the DNA of enterprise exists in all us."[76]

Given this situation, as pointed by R Seshasayee, President of CII, it seemed that "history is being made in the way Indian industry is marking its presence globally."[77] This mood was expressed not only by the CII but, also many other economic experts. For instance, economic columnist, Swaminathan S Anklesaria Aiyar, expressed unstinted praise for the achievement of Indian business groups:

> The private sector has done more than expected. India's software industry is world class. Indian manufacturing has finally become competitive: exports have grown by over 30% annually for three years. Indian companies are making foreign acquisitions galore and becoming MNCs—Tata Steel, Bharat Forge, Tata Motors and Ranbaxy are a few examples...How, then, has India managed record economic growth in the recent years? *Because the private sector has taken on many traditional government roles, and saved the situation*.... In this manner, corporations have plugged the gap created by the public sector's failure in its traditional role.[78]

In many aspects, the year 2006 turned out to be a year on which Indian MNCs became a reality. Now, it seemed that the Indian MNCs became *fait accompli* among the Indian business groups and the foreign observers. What was left was to guide and promote those Indian MNCs to enhance their ability and share their experience in the global markets with Indian domestic industry. In this aspect, the year of 2007 showed pronounced efforts.

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[76] Ibid. p. 2
[77] R. Seshasayee, CII president, *CII AR* 2006, p. 2.
[78] Swaminathan S Anklesaria Aiyar, 'Government Failure, Private Sector rescue, 13 August 2006. (Emphasis added).

Recognizing the emergence of the Indian MNCs, the CII had launched two programmes, one was its first international conference on M&A in 30 January, 2007 in Mumbai and the other was the programme 'India Inc. Going Global' to create 'ecosystem' which can accelerate the creation of multinational corporation from India.[79] As we saw already, M&A has been considered as a significant tool for nurturing Indian companies. As former President of CII, Sunil Kant Munjal argued, the "M&A are one way to win the increasing war in business for talent acquisition, funds, market share, technology and innovation" for emerging Indian MNCs.[80]

Indian business has been looking at M&A as a significant national and international growth strategy. Particularly, they argued that "overseas acquisitions give Indian companies access to well-established brands, wider product portfolio and readymade distribution networks by accessing global markets, global manufacturing facilities and global operating synergies." The CII's first international conference on M&A was launched on the basis of this setting. In addition to this, at the conference, issues such as legal problems, cultural differences, financial issues, internal disturbances, and employee morale were discussed. The various opinions expressed by the speakers were enough to reveal the Indian business groups' view on M&A. Adi Godrej, Chairman, CII National Council on Corporate Governance and Regulatory Framework, praised the scintillating spirit and zeal of the Indian business groups in acquiring overseas assets. He suggested Indian global strategy in three points:[81] (1) building and leveraging success in the home market (2) accessing multiple foreign markets through exports and (3) building a multinational skill and adding local value in international

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[79] *CII Communique*, Volume 16 No 2 February 2007. p. 22.

[80] *CII Communique*, April 2007, p. 39.

[81] see *CII Communique*, Volume 16 No 2 February 2007 pp. 23.

markets. Besides, issues such as Building Brand India, skillful handling of post-merger issues, and collaboration rather than controlling as the adaptive model were discussed.[82] In some aspects, this conference can be seen as repetition of the previous events launched by the CII. However, on the other hand, it was also true that through the various events, not only the CII members but also ordinary people have actually started talking of Indian MNCs.

The following event was 'India Inc. Going Global' to create an 'ecosystem' in June, 2007. This programme was led by an initial set of companies, including Asian Paints, Bharat Forge, ICICI Bank, Infosys Technologies, Mahindra & Mahindra, McKinsey & Company, and Prof. Tarun Khanna. This core set aimed at acting as the governing body for running this programme, under the aegis of CII.[83]

The first meeting was held in Mumbai on 21 June, 2007. The aim of this programme was similar to the previous year's national conference on 'Globalisation – Emerging Indian MNCs'. However, at the time, the objectives of the programme expanded not only for CII members and global Indian companies but, also for emerging multinational corporations, strategic consulting firms, and knowledge partners in academia.[84] In its first event, K V Kamath, Vice-President, CII, referred to the growing presence of India Inc overseas and said that if the Indian entity had the 1/10th advantage which related to costs compared to counterparts in the west, then it would be win-win situation for Indian companies."[85] On the other hand, the website *www.indiaincgoingglobal.com* was launched by S. D. Shibulal, Co-founder and COO,

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[82] Ibid.

[83] *CII Communique*, July 2007 p. 4.

[84] For more details about the programme, see *The Economic Times*, 'CII forms group to guide Indian MNCs', 25 June 2007; and *Indian Express* Online, 'India Inc plans M&A push for aspiring Indian multinationals', 26 June 2007; and see <http://www.indiaincgoingglobal.com/programme/programme.html>

[85] *CII Communique*, Vol 16 No 7, July 2007, p. 4.

Infosys Technologies Ltd. He pointed out that the need was to "create an ecosystem where Indian companies can learn from each other's successes and how to avoid failures; [and] that will help them succeed faster."[86]

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[86] Ibid.

Chapter V

CONCLUDING REMARKS

There has been a dramatic change in the Indian economy, particularly since the economic reforms were initiated in July, 1991. This research placed emphasis on the question as to how Indian business responded to the reform process and what had been their role in it. I chose the Confederation of Indian Industry (CII), as a major representative of Indian business, for this study.

The CII actively supported the reform process, participating in the process of policy decision and the government showed its willingness to listen to the constructive proposals of the CII. On the other hand, the CII also realized that it would have to intensify its activities amidst increasing competitiveness by improving quality and services in a diverse range of areas.

However, not all CII members were satisfied with the whole reform process. Despite a close partnership approach between the government and the CII, controversies arose as stated already,[1] but it provided a good opportunity both for the government and the CII to think about the future direction of economic reforms and arrive at a consensus.

The CII adopted a dual strategy. On the one hand, the CII intensified its emphasis on comprehensive restructuring of Indian business itself, involving initiatives to improve efficiencies in areas of operations, technology and product development, global networking, and social development. As I have shown in chapter 2 and 3, the CII undertook several bold initiatives to help this process of restructuring.

[1] Refer to concluding remarks in Chapter 2.

On the other hand, the CII also participated, more actively, in the process of policy making trying to influence government while working with it. They asserted:

> Policy decision cannot afford to ignore Indian industry. We, therefore, actively interact with political parties and parliamentarians, communicating to them suggestions and proposals regarding the economy and also updating them about the status of industry. Thus offering Indian industry a channel to put across its view points to mould public policy.[2]

Although sometimes the CII expressed their concerns that economic reforms basically remained in the first phase,[3] quite clearly the overall feeling among CII leaders was clear – Indian business was on the rise and that the much-awaited potential for economic growth was slowly being realized.

This was reflected in the shift in Indian business position. From feeling the threat of MNCs and repeatedly demanding a level playing field Indian business was gaining more and more in self confidence. Since 2000, with accumulated confidence, Indian business had slowly but, firmly embarked on the global path, leading to the emergence of the new generation Indian MNCs. There were a large number of Indian companies with global mindsets. Accordingly, now the debate was not about 'Indian companies versus MNCs', but clearly 'efficient versus inefficient,' 'competitive versus uncompetitive' economic players.[4]

Significantly, as I have highlighted, Indian economic footprints across the world were dominated by privately owned companies while China's was driven by State-own companies. Quite obviously, it showed that Indian business had made major strides

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[2] *CII AR* 1997, p. 2.

[3] See fn. 116 in Chapter 3.

[4] Malini Goyal, 'Being India', *India Today* Online, 19 February 2001.

increasing their ability to expand their global capacity. With regard to this aspect, Kamal Nath, Minister of Commerce and Industry effectively stated: "This trend truly typifies the global aspirations of Indian companies, but more importantly, represents the capacity of Indian business to achieve global standards of competitiveness."[5]

On the other hand, we need to remember that behind the CII's gradual but certain economic advance, there had been remarkable and sustained support on the part of the Government of India as a "legitimate authority to set the rules of the game."[6] First, as a legitimate authority, despite the four different governments in the office, each government showed a certain level of commitment to sustain the reform process. As I have shown in chapter 3, even during the most eventful years of 1997-99, the economic reform processes were ceaselessly in progress.[7] Second, as a facilitator, the government carefully listened to the voice of Indian business and supported them to the extent possible. In this context, the CII has always been ready to communicate with the government. The CII's attitude expressed has been as follows:

> Problems and difficulties are part and parcel of every industry. Very often these cannot get resolved unless the government intervenes. This is where we step in. As the sopkesman of industry, we open the doors of the government to the concerns and ambitions of industry. Giving it a platform to voice its difficulties and ensuring that the issues are taken to their rightful completion.[8]

In conclusion, as pointed out by Baldev Raj Nayar, "[Indian] business is perhaps the only organized group which has lived under a sustained threat as a result of

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[5] See India Brand Equity Foundation, *Going Global: Indian Multinationals*, p. 5. This report can be found at <http://ibef.org/download/MNCs_EX_Summary.pdf>

[6] Nayar. ibid. p. 265.

[7] See pp. 99-100 in this dissertation.

[8] *CII AR* 1997, p. 11.

liberalization."[9] However, they did not shrink under these circumstances. Instead, they used it as an opportunity to take-off. More important, in this particular process, Indian business has been trying to build a national consensus based on constructive and helpful dialogue. In many aspects, Indian business has shown their ability to function in a democratic society. On the basis of this ability, they tried to influence the Government India for their own interest but not in a manner which would be seen as against national interest or popular interest. It is this which has perhaps helped in the growth of the influence of business in Indian society. This aspect I have not been able to fully develop in this thesis but it holds a lot of promise for the researcher.

[9] Nayar, ibid. p. 184.

(Appendix)

List of Presidents of CII: 1974-2008

Name	Association	Company	Year
K. V. Kamath	CII	ICICI Bank	2008-
Sunil Bharti Mittal	CII	Bharti Enterprises	2007-2008
R. Seshasayee	CII	Ashok Leyland Ltd.	2006-2007
Yogesh C. Deveshwar	CII	Bharat Nirman Council/ITC Ltd.	2005-2006
Sunil Kant Munjal	CII	Hero Corporate Service Ltd.	2004-2005
Anand G. Mahindra	CII	Mahindra & Mahindra Ltd.	2003-2004
Ashok Soota	CII	MindTree Consulting Pvt. Ltd.	2002-2003
Sanjiv Goenka	CII	RPG Enterprises Ltd.	2001-2002
Arun Bharat Ram	CII	SRF Ltd.	2000-2001
Rahul Bajaj	CII	Bajaj Auto Ltd.	1999-2000
Rajesh V. Shah	CII	Mukand Ltd.	1998-1999
N. Kumar	CII	The Sanmar Group	1997-1998
Shekhar Datta	CII	Lombardini India Pvt Ltd.	1996-1997
Rajive Kaul	CII	Nicco Corporation Ltd.	1995-1996
Subodh K. Bhargava	CII	Wartsila (India) Ltd.	1994-1995
Jamshyd N. Godrej	CII	Godrej & Boyce Manufacturing Company Ltd.	1993-1994
Jamshed J. Irani	CII	Tata Sons Ltd.	1992-1993
Dhruv M. Sawhney	CII	Triveni Engineering & Industries Ltd.	1991-1992
V. Srinivasan	CEI	W. S. Industries (India) Ltd.	1990-1991
J. P. Chowdhary	CEI	Titagarh Industries Ltd.	1989-1990
Brijmohan Lall Munjal	CEI	Hero Honda Motors Ltd.	1988-1989
Suresh Krishna	CEI	Sundram Fasteners Ltd.	1987-1988
K. N. Shenoy	AIEI/CEI	Sobis Software (I) Pvt. Ltd.	1986-1987
Ramesh Maheshwari	AIEI	Texmaco Ltd.	1985-1986
Gurpreet Singh	AIEI	Continental Device (India) Ltd.	1984-1985
M. V. Subbiah	AIEI	Murugappa Group	1983-1984
Vinod L. Doshi	AIEI	The Premier Ltd.	1982-1983
T. D. Sinha	AIEI	C/o Indian Aluminium Company Ltd.	1981-1982
Rahul Bajaj	AIEI	Bajaj Auto Ltd.	1979-1980
R. J. Shahaney	AIEI	Ashok Leyland Ltd.	1978-1979
S. Santhanam	AIEI	Super-Tech Battery Components Pvt. Ltd.	1977-1978
Faizulla A. A. Jasdanwalla	AIEI	Adamji Lookmanji & Co.	1976-1977
P. K. Nanda	AIEI	Vascular Concepts Group	1974-1975

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