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The Relationship between Business and Political Structure in India: A Descriptive Analysis

Chitra Acharya*, Soniya Joshi**

Abstract

Political leaders in a modern democracy have the authority and duty to design intricate economic regulatory frameworks within which various commercial and industrial sectors are to operate and be managed. The present study describes the relationship of businesses in India with political changes. The article examines the influence of business organisations in Indian politics. The normative and scholarly value of investigating the influence of business in Indian politics cannot be overstated. Inevitably, as the private sector spearheads India's rapid economic modernisation, there will be a shift in political power towards business interests. In a capitalist economy, business organisations play a significant role in the economy and have the right to take part in politics. The crucial relationship is found between them and discussed wisely in the present study. The paper also studies how the Government of India has initiated its inputs to uplift the business sector to accelerate economic growth and increase foreign reserve.

Keywords: Indian Politics, Business, Economy, Colonial State

Historical Background

After independence, the early British colonial state in India focused on collecting land revenues. However, after 1857, the late colonial state was more concerned with keeping the Indian market open for British manufactured goods. The government's main priority was maintaining peace and order, rather than fostering economic development. In spite of the British Empire's disregard for India's economy, the country saw a rise in the number of private industries in the late 19th and early 20th centuries. For example, the British-owned jute industry flourished in eastern India; Parsis, Marwaris, and others pioneered the textile industry in western India; Tata began steel production before World War I; and Indian industrialists began producing sugar, paper, glass, and even shipbuilding in the interwar years (Bagchi, 1972; Ray, 1979; Tomlinson, 1993). Although large private industries in India only accounted for 7-8 per cent of GDP prior to independence, a number of prominent Indian business houses such as Tata, Birla, Walchand, Dalmia, Shri Ram, Singhanias, and Thapar had already emerged.

Political engagement on the part of Indian business associations dates back to the first half of the 20th century (Low, 1988). After World War I, Indian business groups' relationships with Congress leaders warmed after initially seeking to collaborate with the colonial state. During World War I, for instance, the Indian industry thrived. However, it collapsed when British imports were allowed to resume. Then, Indian business leaders, particularly in the textile and steel industries, lobbied the colonial state aggressively for protection. After that, Mahatma Gandhi and other Congress Party members began advocating for policies that would provide aid to private Indian businesses. As a result, five different Indian business groups began funding the Congress through Gandhi's efforts as an intermediary. Some members of Congress on the left were understandably wary of these connections. Although the Congress and Indian business groups had begun their awkward dance long before World War II, it was exacerbated by the onset of the conflict (Markovits, 1985). Businesses in India eventually established a national chamber of commerce. When India's industrialists began to anticipate independence in 1943, they began working on the so-called Bombay Plan to influence the economic

* Assistant Professor, JNMP Govt. PG College, Phalodi, Rajasthan, India. Email: acharyachitra21@gmail.com
** Assistant Professor, Banasthali Vidyapeeth, Rajasthan, India. Email: joshisoniya22@gmail.com

policy. The government's preference for a state-led 'socialist' economy eventually aligned with the plan's key elements, which included planning, a mixed economy, protectionism, and public investment in heavy industry (Rothermund, 1986).

Introduction

In the last few decades, India's politics have shifted in a direction favourable to business. Instead of focusing on redistribution and socialism, the country now prioritises encouraging private sector growth. India's transformation has been relatively slow, occurring within the framework of democracy and without any dramatic regime change, in contrast to those in many other developing or communist countries. It has also led to the rise in domestic Indian capital, as opposed to foreign investment, in India's economy. The pro-business shift in India will likely have far-reaching effects on the political climate and daily lives of the people of the world's largest democracy. However, a democracy's credibility depends on many different people and organisations being able to reach underprivileged areas like those in India. Significant civic obligations weigh heavily on the Indian government. These duties extend far beyond the reduction of poverty itself, and include the provision of such things as healthcare, schools, and transportation networks. If the government focuses solely on private interests, it is more likely that its public duties will be neglected. It would be unfair to blame the country's current failures on the rising power of business, when the 'socialist' India of the past was hardly a successful agent of inclusive development. However, with more money in the government's coffers, it is easier to imagine interventions that will actually work to advance the public good. It should go without saying, but we will anyway, that India is not currently powerful enough to initiate such public actions. To even begin a journey in that direction, political leaders who prioritise broader goals over narrow collaboration with the economic elite will be needed in the future.

Literature Review

Regarding the first issue, some highly regarded liberal scholars have contended that business groups in democracies often wielded more influence than other interest groups. As a result, business organisations are treated as first class citizens, and they may eventually acquire so much influence that they can effectively veto legislation, which can be harmful to democracies (Dahl, 1975; Lindblom, 1977; Gilens). Hegemonic power is how some Marxist academics characterise the excessive influence of business groups in capitalist democracies. According to the hegemony theory, corporations not only wield unrivalled authority, but also contribute to a cultural climate in which authoritative business practises are accepted without question (Gramsci, 1971).

Modernising a political system stimulates the emergence of associations representing new values and interests. Modernisation helps create new forms of association based on new interaction patterns. First, it increases social differentiation by supplanting pre-industrial patterns of group identity, stratification, and primordial values. Second, it boosts organisational capacity by improving communication and bureaucratic forms. Finally, it questions previous authority patterns by making them seem less awesome (Kochanek, 2021).

According to Hu, Kui and Aulakh (2019), in developing economies, business groups were formed with state support to fill institutional gaps and/or promote economic growth. The effectiveness of this organisational form and its governance structures has been questioned, because business groups can cross-subsidise or pick winners. We argue that the state's approach to organisations and the political context of these interactions vary across countries, influencing business groups' resource allocation strategies and the superior performance of affiliated firms.

According to Zang et al. (2019), cognitive capital mediates business ties' effects on product innovation performance in China and India, while institutional support does so only in China. Political ties increase institutional support in India, and cognitive capital boosts product innovation performance more in India than China.

Beyond gauging the scope of business power, liberal and Marxist academics have debated whether or not capitalists have an effect on the functioning of democracies through direct participation in politics, or whether or not the system of capitalism itself places constraints on capitalist states. Many academics classify the latter as a structural or indirect form of power, in contrast to the former, which can be thought of as instrumental or direct power. The example of instrumental power is when businessmen invest in political campaigns to influence policy outcomes, lobby governments to influence decision-making in their favour, or even gain direct access to positions of power. It must consider the wishes of business interests if the economy is to be kept healthy and the politicians themselves preserved. The threat of capital flight is often enough to pressure governments to adopt pro-business policies, given the ease with which investors can move their investments to more favourable locations. It is likely that most academicians agree that the power of business can be exercised in either an instrumental or a structural fashion, despite disagreements as to which is more common or significant. These overarching factors will be revisited in later sections of this article.

Scholars have begun to examine the impact of business on politics in developing countries as well as advanced industrial democracies (Handley, 2008; Hundt, 2009; Schneider, 2004; Winters, 2011). Since the 1980s, the Indian government has adopted pro-business economic policies, making it an ideal developing country for such research. As a result, it should come as no surprise that academics studying Indian politics and society have reached different conclusions about the role of business organisations within the country's central government, and how that role is played. Business groups in 'socialist' India – say, prior to the 1980s – competed for influence with other powerful groups, such as the landed classes and the state elite, according to most scholars. However, some have argued that Indian capitalists exercised disproportionate power in the making of modern India (Chibber, 2003). There is a growing consensus among academics that business groups in India have gained significant, if not disproportionate, power since economic liberalisation (Kohli, 2012). This change in the power dynamic inevitably raises new questions, which are systematically explored in the essays collected here. In the past, between 1950 and 1980, for example, India had a socialist government, but it was never particularly pro-business. In the same vein, business interests have never had complete sway in this country. Somewhere in the middle of these two common misconceptions about the relationship of state-business and private business played a significant role in India's economy. Despite the government's dominance, private businesses played a significant role in India's economy. During this time period, the political and economic elite established a cooperative relationship that was at times warm and friendly, and at other times fraught with tension. Thus, it is useful to think of the early stages of state-business relations as being varied along multiple dimensions, including time, issue areas, and regional states within India.

The Political Business View

Politics and policy in India have gradually become more business-friendly over the past three to four decades. This shift began in 1980, was expanded in its second half, and then was changed and accelerated in the wake of fundamental policy shifts in 1991. With Narendra Modi currently serving as the Prime Minister of the country, it is hard to argue against the country's gradual but undeniable transition from a socialist political economy to one that places a premium on economic growth and corporate interests. We are already investigating the causes and effects of this shift. The state-wise commercial ties have been examined in this study. Here, the author depicts the overview of the economic and political area; subsequent sections focus on in-depth analysis of state-business relations. Politics were unsettled and economic growth was slow in 1980. During the Emergency, the government started shifting to the right on economic policy, and now favours growth over redistribution. It was important to increase and open the Indian economy to get foreign capital. Additionally, India had difficulty in obtaining foreign currency due to the rise in oil prices around the world. For instance, foreign exchange liquidity in the international economy dwindled following 1982, when the Mexican peso crisis came into existence. While it is true that a growth in the public sector in India would have politically fit, this option was becoming less suitable, as a larger proportion of public revenue was being used to buy political system. Further, it was mostly observed that the public sector in India was comparatively inefficient. India's own experience with the Green Revolution provided a potential alternative model, one in which state-producer cooperation facilitated faster rates of growth. Then, the government gradually abandoned its populist rhetoric in favour of courting Indian business groups in the hopes that they would spearhead efforts to increase India's GDP.

Alterations in practise mirrored the new rhetoric and emphasis. The Federation of Indian Chambers of Commerce and Industry (FICCI) is one of the most influential business organisations in India. They recently released a 'blueprint' for the country's economic development that outlined the main obstacles to private sector-led expansion. This diagnosis of what ailed India's growth was previously accepted, and policy changes ensued. The government then loosened regulations that had previously stifled large corporations, paving the way for them to expand into previously untapped markets. To encourage private financing of new investment, the government encouraged the growth of private equity markets. Militant workers were quelled. Some imports were liberalised, but this was done primarily to make it easier to acquire raw materials for expanding exports. Although the shift from *garibi hatao* towards a growth-first model of development was not proclaimed as a major change, a sense of continuity was maintained; and while the changes themselves were not particularly dramatic, they did mark the beginning of that shift. Important choices had already been made to abandon populism/socialism in favour of a growth-first approach. Now, it came down to figuring out which policies could actually be implemented and would have positive economic effects. The government severed all ideological ties to socialism, and began advocating efficiency, computer-led moderation, and partnerships with Indian business groups. Briefly, India's economy tried to integrate into the global market. Indian business groups had a lot to lose from increased foreign competition and investment, so they fought against the proposal and helped ensure its failure. Then, Rajiv Gandhi set his sights on boosting growth through public spending and the recruitment of private capital within India. Important policy shifts included reducing government interference in private Indian companies' economic operations. Tax cuts for corporations encouraged investment, while cuts for the middle class increased consumer spending. Some import barriers were relaxed, and the currency was devalued, to boost exports. The government at the time, in the firm belief that public sector investment generates growth, maintained a high rate of such investment, particularly in infrastructure. As the tax base shrank, this plan inevitably led to a debt crisis, which reached a head in 1991. The government adopted measures akin to an industrial policy in fields like information technology. Infosys and WIPRO both matured in this new pro-business climate made possible by direct government support for the information technology industry. During this time, India's economic growth accelerated significantly, and the country's government and business communities became increasingly friendly towards one another.

Following a severe financial crisis in 1991, the Indian government decided to greatly expand the country's trade and investment ties with the rest of the world. Changes in India's internal and external political context played a role in facilitating these significant policy shifts. The fall of the Soviet Union prompted India to realign its political and economic ties with the West. The country's impending membership in the World Trade Organisation necessitated deregulation of the trade sector. The crisis-resolving loan from the International Monetary Fund imposed the usual pressures of 'structural adjustment'. Indian policymakers sought access to foreign capital markets. In India, a crisis was brewing on the financial front and in the country's balance of payments. The domestic political climate had also changed by this point. The political landscape among India's business elite has shifted significantly.

FDI and Government Regulation

Entrepreneurs take risks by entering new markets and developing novel products. If the product has already been developed at home, the only unknown factor that multinational enterprises (MNEs) face is the size of the market in a foreign country. Classical theories of international business, such as Dunning's (1988), assume that the 'ownership' dimension is already achieved through the internalisation of proprietary assets. When a multinational corporation (MNC) decides to diversify into international markets, it faces a number of challenges, including the fact that it must select from among 189 different countries.

Even though most countries' investment regimes have become more liberal on net over the past 25 years, the ability of foreign firms to launch new operations in different countries varies greatly. World Bank statistics show, for instance, that while it takes about 52 days to start a business in India, it only takes about 5.6 days to do the same in the United States. As an additional example, a country may have conditional entry-focused regulations, such as China's explicit or implicit requirement of taking on a local partner, or India's requirement that an MNE source materials from local vendors. Since businesses will need to reorganise global supply chains, train local vendors in manufacturing best practises to ensure consistent input quality, and develop expensive regional adaptations of products and production processes to comply with these kinds of entry-focused regulations, they can significantly increase the cost of entry.

In the current scenario, Indian businesses are getting support, especially from the central government. Different types of schemes and initiatives are implemented by the government to enhance the industries and businesses in India. The Make in India initiative is a good example in this direction; it aids the manufacturing industries in India. In addition, the government is attempting a lot towards FDI in India. As the manufacturing industries get a push by supporting the government, it will increase employment and technology. So, it will boost the Indian economy in a positive manner.

Conclusion

It can be concluded from the above-mentioned political review with regards to business that the Indian government has become more business-friendly over the past three to four decades. Starting from 1985 to 1991, great fundamental policy changes have been initiated. While the present government, under the leadership of PM Narendra Modi, is currently making a slow but undeniable shift from a socialist political economy to one that places a premium on economic growth and corporate interests, this change has prompted us to begin looking into its origins and consequences. This research analysed the commercial ties between states. The author provides a broad overview of the region's economy and politics. It can be demonstrated that to attract foreign investment, India needed to expand and liberalise its economy on a global level. It is observed that structural power has the authority, stemming from the private sector's outsized role in the economy, as mentioned above. As such, it is recognised that business interests do not always use their clout in a transparent and methodical manner. The above discussion suggests that a more direct form of power use is accurately characterised as instrumental. The greater the private sector's share of India's GDP, the more entrenched the private sector's influence in the country's political economy. After liberalisation, India's structural power grew significantly. For starters, the private sector now plays a much larger role in the economy than it did in the past, especially when compared to the public sector. Second, as a result of economic liberalisation in India, money is now more mobile and can be invested in different areas. Politicians must now compete with one another to attract investments and satisfy the needs of businesses. There are a number of economically depressed but strategically significant states in India. These include the states of Uttar Pradesh (UP), Bihar, Madhya Pradesh (MP), and Odisha. The business world and industrial infrastructure in these states are still in their infancy. In these states, crony capitalism is the predominant form of cooperation between the business and political elites. It is not uncommon for the ruling elites of these states to lack any sense of public purpose. While on the surface their policies appear to be supportive of development, a closer look reveals that they actually serve to enrich a small group of elites at the expense of the general populace.

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