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Change of Industrial Strategies and Government-Business Relationsip in India*

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India has emerged as the Asia's new economic power. Many studies have applauded its significant economic development. Recently, however, Indian economy has also experienced sluggish growth and has faced pessimistic prediction. This paper will explore the reasons behind these divergent views by investigating India's industrial strategies and the structural characteristics of economic governance through an examination of the relationship between Indian government and businesses by firm type and industrial sector.

Keywords: Indian Industrial Developmental Strategy, Indian Economic Governance, Government and Business Relationship

1. INTRODUCTION

The emergence of India as Asia's new economic power has been universally assumed for sometime now. However, recently India has been charged with experiencing a "Hindu rate of growth," a term used by critics to compare the country's unexpectedly sluggish growth to the movement of a slothful elephant. This paper will explore the reasons behind these divergent views by investigating India's industrial developmental strategies and the structural characteristics of economic governance through an examination of the relationship between government and businesses in a macro perspective.

Many theories and models have explained the optimal roles of government and markets regarding economic growth over the past few decades. These studies have typically flourished within a wide spectrum from statism to liberalism. However, today's consensus opinion contends that drawing a dichotomy between these two contrasting ideologies is meaningless, and that engaging in a relevant discussion should clarify *which relationship between state and market is more appropriate* (Evans, 1995). In other words, it is more important to analyze how the structural characteristics of the relationships between government and firms—the two pivotal actors in economy—influence economic growth from contrasting perspectives.

After India gained independence from British rule, its nascent government undertook serious state-led industrialization efforts using the former Soviet Union's planned economy as its benchmark. Because of the structures of Indian government's industrial policies, Indian industrial activities became very passive and submissive. Under this socialist economy, India witnessed growing inefficiencies and corruption that brought about an economic crisis in the mid-1990s consequentially. To overcome this economic difficulty, the Indian government adopted a completely different economic approach based on neo-liberalism and New Public Management system. This large-scale economic reform used a free-market economy to

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reduce the scale of economic regulations substantially.

This dramatic structural transition shifted the path of economic policy and induced important changes in economic governance. Most of all, exclusive economic networks of intimate rent-seeking relationships have been changed into a cooperative structure that can generate positive synergistic effects. However, this seemingly favorable change could not have achieved what were expected, because of the path-dependent nature of rent-seeking relationships—the result of decentralized soft state with multilayered socio-cultural attributes. Indian bureaucrats and politicians have not prioritized inclusive economic growth but shown strong populist tendencies by implementing policies for favoring groups that seek their own political/economic benefits.

Thus, Indian policy cohesiveness and bureaucratic autonomy have been impaired and Indian government failed to pursue long-term economic strategies. In particular, its industrial policies have oscillated between redistribution-oriented socialism and market-oriented capitalism. Continuing uncertainty in policy direction has led to questions about the practicality of such policies whenever India's state-led economic growth loses its driving force or diverges from the original objective.

Based on this political economy perspective, this paper will review the development of Indian economic governance by tracing Indian government's industrial development strategies since its independence period. In particular, the paper will focus on what kind of relationship between state and market has been established in the context of India's economic system transition.

2. INDUSTRIAL DEVELOPMENT STRATEGIES BY FIRM TYPE

2.1. Industrial Development Strategies of Conglomerates

Institutionalization of Rent-Seeking Relationship under License-Raj System

Soon after achieving independence from British rule, India's government established the 'Mahalanobis model', which emphasized a state-planned economy founded on Nehruvian-socialism (Chakravarty, 1987). This model suggests that government regulations should be strengthened because a laissez-faire approach that leaves monopolistic conglomerates independent would exploit consumers and small business threatening the balance of social development to public interest. The Industry Development & Regulation Act and the Monopoly & Trade Restriction Act were enacted to facilitate this economic ideology. Through these acts, India instituted strict regulations on every aspect of conglomerate business activities in the name of protecting public interests from monopolistic economic activities. Under such state-dominated power disequilibrium, firms had little incentive to increase productivity or competitiveness. Instead, they focused on solidifying formal and informal relationships with the government by providing government officials with a diverse range of benefits (mostly political funds) in order to receive preferential treatment. Rent-seeking relationship became gradually institutionalized by so-called license-permit raj system. This made firms indulge in political lobby activities to maintain their monopolistic or oligopolistic benefits. In other words, industrial licensing system induced firms to spend time and energy on consolidating more complicated and multilayered rent-seeking relationships instead of strengthening its market competitiveness. Consequently, some of domestic conglomerates became powerful special interest groups that prioritized their interests over public interest. Their selfish economic activities combined with political interests, deepened the inefficiency of the country's economic system while weakening industrial competitiveness in general (Khanna and Yafeh, 2005).

In the meanwhile, the Indian National Congress (INC) which ruled for a considerable time since the national independence, was defeated by the Janata Party (JP) in the March 1977 elections. After experiencing an unexpected political defeat, Indira Gandhi, the party leader of the INC, sought to achieve broad economic reforms and industrial changes by emphasizing market-friendly components in order to recapture INC's position as the ruling party. These policy changes were generally viewed as a radical transformation; the *Times of India* commented that "India's policy priority has been completely changed from re-distribution to growth" (Ahluwalia, 2002).

However, these radical policy changes could not induce fundamental changes in the institutional system because they were not driven by a genuine economic reform-mindedness for system transformation but by Indira Gandhi's political motivation to reclaim power. In other words, she was desperate to gain political support and receive funds from firms to ensure political survival. Therefore, the pro-business strategy at this time intended to confer favors to firms that were dissatisfied with strict government regulations. This meant that the Indian government's economic reform efforts were inconsistent, making Indian government vulnerable to changing interests and demands from firms and other special interest groups. For example, the Indian government tried to open a domestic market, but encountered a strong backlash from its patrons. So it responded by returning to protectionism policy lest its business patrons' withdraw their support. The rent-seeking relationship had intensified around the industrial licensing system, which extended its sphere of influence to social welfare, health care, defense, and taxes, thus limiting the scope of large-scale economic reform. In this political environment, meanwhile, the INC leader Rajiv Gandhi, who had succeeded his mother, attempted an even more ambitious economic liberalization initiative. However, as he also faced strong opposition and policy resistance from various interest groups, his efforts were soon frustrated (Frankel, 2005).

Despite the limited scope and extent of India's industrial development strategies during this period, India did experience some positive economic growth and improved its industrial development strategy. For example, the government began to display favorable attitudes and form cooperative relationships with firms. This was in contrast to the former Indian government's industrial policy, which recognized firms only as objects that should be controlled and fully managed through aggressive and coercive anti-business policy initiatives. In other words, some partial policy modifications served as a momentum to change the established rent-seeking relationship in some degree and created a more flexible pro-business climate. Moreover, the gradual policy shift during this period mitigated the shock of rapid economic policy transition arising from India's unexpectedly economic crisis during the 1990s (Basu and Maertens, 2007; Nayar, 2002).

A Vitalized Business Community and the Shift to a Cooperative Relationship between Government and Firms

At the beginning of the 1990s, the limitations of India's socialist economic system were exposed in earnest. The Indian government could not respond quickly to a rapidly changing global economic environment so the nation suffered its worst economic crisis under the IMF bailout program. The World Bank subsequently pressured Indian government to change its state-led economic system pointing out the drawbacks of excessive economic regulations and federal deficits as a precondition for extending international loans. At the same time, a number of reformative Indian economists who had studied abroad in Western countries—including Manmohan Singh, Chidambaram, and Montek Singh—returned to India. They typically espoused a neoliberal economic ideology that asserted the importance of institutional change to achieve economic growth based on pro-capitalism perspective. The Indian government appointed them to high official positions, thereby laying out a cornerstone of large-scale, market-oriented economic reform (Kochanek, 1987). By embracing the ideology put forward by these reformers, the Indian government transformed the laws regulating monopolies and oligopolies into the New Competition Law. It was this law that facilitated the principles of market economy and free industrial competition by implementing a radical industrial deregulation policy and privatizing most government-owned enterprises as well (Chaudhuri, 2002).

At the same time, Indian domestic conglomerates also have been restructuring—changing from their traditional family management systems into more transparent professional management model. They have also attempted to discard traditional government-business relationships. Particularly, it is worth noting the critical role of the business community, including the Federation of India Chambers of Commerce and Industry (FICCI), Associated Chambers of Commerce and Industry of India (ASSOCHAM), and Confederation of Indian Industry (CII). These business communities played an important role in shaping government-business relationships in recent years. Although those business communities may differ in terms of background and purposes, scope and scale of members, and management and policy preferences, they are similar in the context of focusing mainly on establishing and maintaining development-oriented collaborative relationships between government and firms. Indeed, they often provide their member firms an opportunity to participate in the economic policy-making process to exchange a wide range of information within the industrial sector, thus creating more efficient and transparent policy agendas (Kong and Balatchandirane, 2004).

In addition, these business communities often conduct an arbitration of internal conflicts between firms. For example, CII established Associated Construction & Investment Company to arbitrate disputes between each sub-industrial section while facilitating the exchange of information between internal and external industrial sectors to coordinate diverging opinions. CII has also expanded its economic governance boundary by building cooperative partnerships with civic organizations, thus showing that it recognizes the importance of corporate social responsibility and moral obligations in sustaining economic development (Ghemawat and Khanna, 1998; Fisman and Khanna, 2004).

In this respect, the private interest government theory highlights the positive role of those business organizations that serve public interests by converting the collective interest, even though they are fundamentally motivated by private benefits. For instance, business communities can enhance the quality of public policy by facilitating an exchange of insightful information and practical knowledge. This exchange can contribute to an efficient policy decision-making process through cooperative networks while also mitigating any unfavorable outcomes from excessive state intervention (Streeck and Schmitter, 1985). To summarize, the current Indian business communities differ from those of the past in respect to the prioritized interests of individual firms. They have played a pivotal role in creating efficient economic governance that embraces governments, foreign firms, experts, civic organizations, and international organizations and so on.

Despite all the efforts to construct collaborative economic governance, however, while

Table 1. Industrial Development Strategies and Institutional Characteristics of Conglomerate Sector

Type	Post-independence–the 1970's	1980's	1990's	2000–present
Industrial Development Strategy	State-dorminant strategy Mahalanobis model & Nehruvian-socialism	Limited Pro-business strategy/ Open-door system	Pro-market Strategy/ Economic liberalization Reform	Inclusive growth strategy (balance of economic growth and social equity)
Governmental Regulation	Strict regulation/ (excessive and unnecessary interventions)	Partial deregulation within state-led strategy	High level of deregulation	Increasing regulations for social equity & redistribution
Government Attitudes Toward Firms	Firms as objects of control & supervision	Firms as objects of fraternity for political intention	Firms as objects of independent entities & cooperation	Firms as objects of interactive partnership
Government-Business Relationship	Coercive government/ Institutionalization of Rent-seeking relationship under license-raj system		Cooperative relationship through arbitrate business community & organization	

the rate of economic growth has increased as much as 8-10 percent, there has been no substantial increase in the real employment rate. India's industrial inequality has also escalated, resulting in a widening gap between firm types and industrial sector. Thus, it is not surprising that the United Progressive Alliance (UPA)—which recaptured its position as the ruling party in the 2009 elections—leads a coalition government that proposes modifying industrial policies to achieve a balance of economic growth and equity, two contrasting political economic ideologies, while somewhat sacrificing the speed of economic liberalization (Chibber, 2003). Based on this political interest, the Indian government has increased the industrial regulations on conglomerates again. This redistribution-oriented policy has created a dilemma for the Indian government and conglomerates. Most of conglomerates have criticized the industrial policy retreat of the UPA coalition government as the simple outcome of democratic populism (Mohan, 2010; Corbridge and Harriss, 2000). In these circumstances, India has been confronting a multifaceted discussion on the balance of economic growth and social equity by the terms of inclusive economic strategy.

2.2. Industrial Development Strategies of Small and Medium Enterprises (SMEs)

Protectionism of SMEs and Solidification of the Rent-Seeking Relationship

The Indian government has traditionally offered defensive policy tools and unconditional preferences for SMEs rather than strengthening their market competitiveness. In 1954, the Indian government enacted the Industrial Development and Regulation Act. This act was intended to protect the activities of small and medium-sized industries. Through the Factories

Act, the Indian government also implemented intentional policy gaps between conglomerates and small firms. This restricted the flow of human resources between industries and led to a separated labor market. In fact, India's protectionist policies for SMEs were only a symbol of aspiring to balance inter-industrial development based on a socialist economy perspective.

However, such protectionist inter-industry schism adversely impacted the growth of small firms and rather consolidated the grantor-beneficiary relationship between government and small firms further ultimately (Mazumdar, 1997). Moreover, it incurred even an unequal government distribution among SEMs. Some of them enjoyed the exclusive policy subsidies for a long time, while the other SEMs and new entrants that were not officially registered received no benefits from the government. This, not surprisingly, produced the disequilibrium between SEM beneficiaries. In the end, the unrelenting rent-seeking interests of government and SMEs hampered industrial modernization of SMEs sector and ultimately reduced their ability to compete in market (Das, 2008).

Reduction of Protective Policies and SMEs' Policy Resistance

Concomitant with the fully fledged economic reforms of the 1990s, there was an attempt for changes in the direction of SMEs policy as well. Small Business Council and Economic Advisory Board under the Prime Minister's office made an endeavor to reduce the scope of SMEs protectionist measures regardless of the opposition of vested interest SEMs groups and unfavorable opinion. Under the heated controversy, by the beginning of the 2000s, small firms autonomously began to recognize a need for reformative initiatives to sustain their development in the long term. Accordingly, in order to respond to their positive attitudes, the Indian government formulated market-oriented reform initiatives for the SEMs. For example, the government revised the Micro, Small and Medium Enterprise Development Act to minimize unnecessary state intervention and make necessary adjustments to the protectionist provisions in 2006. Also, many direct-aid policies and extended indirect policy initiatives

Table 2. Industrial Development Strategies and Institutional Characteristics of SMEs

Type	Post-independence–1980's	1990's	2000-present
Industrial Development Strategy	Strong protectionism based on socialist economy	Limited Pro-Market Strategy within protectionism-oriented strategy	Inclusive growth strategy for inter-industry equilibrium
Governmental Regulation	High level of protective regulation/policy subsidy & Top-down management	Downsizing of protection & partial deregulation within indirect policy assistance & protection	Increasing supportive regulations on SMEs' capability(different approach with protective regulation)
Government Attitudes Toward Firms	Firms as objects of protection & direct subsidy	Firms as objects of indirect policy support	Firms as objects of independent entities
Government-Business Relationship	Rent-seeking relationship under protectionism	Alleviation of rent-seeking relationship but still remained (SMEs' passive response to pro-market strategy)	Cooperative relationship More focusing on SMEs' friendly institutional environment

(e.g., infrastructure, information, and loans) were trimmed to facilitate innovative self-management. In 2009, the Prime Minster and 19 small-firms representatives met to negotiate moderate regulations. They mutually agreed to establish a special committee to coordinate SMEs policies on taxes, loans, insolvency/liquidation, marketing, labor, infrastructure, and technological development of SMEs.

Yet despite these positive changes, India's SEMs policies continue to be viewed as diversifying and balancing the integrity of an essentially industrial foundation. Above all, most small-medium enterprises in India expressed strong dissatisfaction at the downsizing of aid and still discredit their self-capabilities through economic liberalization. Indian SEMs still depend strongly on a national protectionism policy under the existed rent-seeking relationship thus proving that it is still hard to build up new path of cooperative relationships between government and SEMs (Morris and Basant, 2005; Pradhan, 2010).

3. INDUSTRIAL DEVELOPMENT STRATEGIES BY INDUSTRIAL SECTOR

3.1. Industrial Development Strategies in the Manufacturing Sector

Promoting manufacturing sector as strategic industry and Deepening Interest Conflicts

The Indian government has recently been concentrating on promoting a number of policies to restructure domestic industries. Because tertiary industry rather than manufacturing industry has been developed earlier, economic growth of labor-intensive and large-scale sectors has been limited. However, lack of domestic resources and technologies for the development of manufacturing sector has led the Indian government to actively pursue multinational enterprise investment, including large-scale foreign capital and human resources, to revitalize its infrastructures and optimize its industrial environments of manufacture industry.

A number of manufacturing-sector development projects have accordingly been implemented in 220 provinces across India. For more efficient policy implementation in manufacturing sector, the Indian central government has attempted to accelerate economic decentralization. In particular, its discretionary authority on the matter of land acquisition and the relocation of local residents have been transferred to state-local level governments. This has created not only more open economic governance structure but has also added more layers to the already convoluted interest conflicts surrounding the development of manufacturing industry (Bardhan, 2002; Hsieh and Klenow, 2009). In addition, it has intensified ideological confrontations over economic development, the environment, human rights, and other issues. Thus, the formation of cooperative relationships among the various economic actors—including multinational corporations/domestic firms, central/local governments, and local communities—has emerged as a significant policy agenda in fostering the manufacturing sector (Chhibber and Eldersveld, 2000; Chakraborty and Basu, 2002).

It should be noted that India traditionally is antagonistic toward foreign multinational enterprises, particularly in its local provinces, because of its historical colonial experience. For example, Indian local villages have uniquely traditional self-governing local autonomy, the so-called Panchayat institution such as tribal governments and village council, established over a long time. Such informal institutions tend to exert greater influence over political power relations within the local community than the central government. The local ruling class such as local elites, rich farmers, and the upper caste, had generally intimate relationships with state-level government bureaucrats, local politicians, civic organizations, and the media. These relationships are optimally reflected in their interests in various local policies. In some cases, they have even utilized political strategies for the salience of sensitive social issues over local development projects in order to secure vested rather than public interests. Several manufacturing industrial projects cases in past years—for example, Tata, Posco, and Vendanta—displayed complicated interest conflicts because of inefficient economic governance based on the rent-seeking relationship among various stakeholders (Das, 2005; Mukhopadhyay, 2006; Vachani, 2008). As a result, India failed to achieve the expected outcomes, which meant that the rent-seeking relationships between the government and firms remained intact. For this reason, some studies have pointed out that the high growth of manufacturing industry immediately after reform was likely a temporary outcome of an increased flow of foreign capital, which adversely influenced total factor productivity (Pack, 2000; Kochhar et al., 2006; Rodrik and Subramanian, 2005).

Conflicts in Labor Relations in Manufacturing Sector

Another major obstacle to the successful development of India's manufacturing sector is the Indian government's strict regulations concerning labor relations. For example, the Contract Labor Act and the Industrial Dispute Act was enacted to protect of workers socialist economic ideology. According to this law, a firm with more than 100 employees is required to obtain government's permission to fire employees, reduce its workforce, and close its business. Manufacturers have therefore shown conservative attitudes toward recruiting employees and preferring to reduce their workforce and thus constrain the creation of new jobs (Agarwala, 2008; Gangopadhyay and Wadhwa, 1994).

Since labor unions exert considerable influence in political elections, Indian politicians have been forced to accede to their policy demands to be elected. This hampers politicians in achieving policy consistency of economic liberalization. The process of revision of the labor law and of a recruitment-dismissal system toward economic liberalization provides insights into how the political interests of policy decision maker are well aligned with those of labor union. This rent-seeking relationship have consequentially opposed neo-liberal labor policies and also deteriorated India's market-oriented industrial strategy to vitalize manufacturing sector. For example, the unions consistently argued that the process of flexibility of labor market should be agreed to through social consent based on the National Common Minimum Program which preferred socialistic policy. In this way, the central government's industrial policy in manufacturing sector has often been delayed by labor regulations because of strong opposition from labor unions and civic organizations. Yet, on the other hand, some state-level governments have enforced radical reforms to revise labor law and successfully break up the chronic rent-seeking relationships among government, unions, and firms (Gangopadhyay and Wadhwa, 1994).

Activation of Consultative Body for Arbitration Interest Conflicts

The Indian government began to be acutely aware of the importance of establishing cooperative economic governance to promote its manufacturing sector given the political economic background as mentioned above. The government has therefore designed various institutional mechanisms to arbitrate conflicts among stakeholders based on the synergistic effects of the government-business relationship (Prichett, 1997). For instance, the Indian government has established a high-level consultative committee on manufacturing to gather various opinions of the hands-on workers and arbitrate policy conflict among governments, firms, local communities, and others. The members of committee were drawn from diverse public sector, including the Ministry of Finance, the Economic Advisory Council to Prime Minister, and the Planning Commission. The National Manufacturing Competitiveness Council (NMCC) established in 2004 by extension is composed of government officials, business executives, and economists from diverse fields; they constructed public-private partnerships to develop infrastructure of manufacturing sector. They also arbitrate policy disputes within manufacturing sectors or between inter-industry sectors furthermore. At the same time, the Indian government kept on pushing ahead various policies to promote market-friendly environments and drastically reduce the scope of regulations on many industrial activities in manufacturing sector. As a result, the manufacturing industrial growth rate has increased rapidly and contributed to the development of national economy.

On the other hand, distributive problem in India has become significant. Economic inequality among social classes and the imbalance of inter-industry in manufacturing sector have also escalated. The United Progressive Alliance (UPA) coalition government couldn't help taking public opinion into consideration and modifying industrial policies to achieve a balance of economic growth and social equity, while somewhat sacrificing the speed of manufacturing sector's development. This change from development-oriented policy to redistribution-oriented policy has created a dilemma for the Indian government regarding economic development and inclusive growth. Domestic industrial firms and foreign investors have criticized that the retreat of the industrial policy led by the UPA coalition government was a simple outcome of democratic populism (Mohan, 2010).

Moreover, in this political/economic turmoil, Indian government's capacity to realize inclusive growth policy has been limited by the persistent rent-seeking relationship. This has produced unsatisfactory outcomes given the scale of investment activity in the manufacturing sector (Chand and Sen, 2002).

Table 3. Industrial Development Strategies and Institutional Characteristics of Manufacturing Sector

Type	1980's	1990's	2000-present
Industrial Development Strategy	State-led development strategy for industrial rearing	Pro-Market Strategy and Opening policy under economic liberalization	Inclusive growth strategy for growth and distribution
Governmental Regulation	Centralized state-led planning: targeting & positioning	Decentralized policy making process: Meditate conflict of interest	Institutionalization of Arbitration mechanism for interest conflict
Government Attitudes Toward Firms	Firms as objects of promoting as growth engine industry	Firms as objects of Interest coordination	Firms as objects of Interest coordination
Government-Business Relationship	Rent-seeking relationship based on political economic interest	Interest based rent-seeking relationship surrounding large-scale development project	Cooperative relationship under activation of a consultative system

3.2. Industrial Development Strategies in the Service Sector

State-led industrial development strategy based on market competition

Unlike the typical process of industrial development stage elsewhere, the service sector in India revitalized before the manufacturing sector development. In particular, IT-related firms played a vital role in Indian's economy development by sustaining the highest level of competitiveness in the global market. A number of studies have analyzed the factors that influenced the development of India's IT industries then commonly pointed out that Indian government applied to IT industries a market economy mechanism from the beginning.

If one looks closely at the evolution of the IT industry, it is clear that the state took an active lead and provided institutional support from the initial stage until a solid industrial foundation has been established.

During the 1970s, the Indian government promoted simultaneously the hardware and software IT industries expecting synergistic effects of both sides. However, this action only has deepened confusion of inter-industrial policy. The Indian government thereafter had changed overall policy direction into promoting software industry. For this purpose, Software Export Scheme was enacted in 1972 in order to vitalize export software industry at the beginning. However, these initial efforts did not initially produce significant outcomes because of the high cost of entering the global market. After then, the Indian government enacted the New Computer Policy in 1984 to develop more progressive policy initiatives and incentives for increasing the productivity and profitability of the software industry (Mukherji, 2009).

From the perspective of state intervention, the role of the Indian government in the IT industry is not so different from that of other industrial sectors. However, it differed greatly in the way of government intervention and the characteristics of the regulations. It was quite similar to the East-Asian model of economic development—a model that government act as a driving force to vitalize, to some extent, the IT industry while effectively increasing industrial competitiveness in the market system. Most of all, the India IT industry has dispersed market power and is less prone to fostering rent-seeking relationships between government and firms. Consequently, it has successfully established effective economic governance based on cooperative government-business relationship.

This political phenomenon supports the embedded state autonomy theory that emphasized the synergistic effects of the interactions between government and business. According to this theory, as government officials gain more autonomy to the extent, they would become less vulnerable to the organizations that pursue private benefits and, as a result, they become more likely to produce desirable network settings. A number of rigorous case studies about high-tech IT industry of India have verified voluntary interactions between government and business in the Indian economy development process (Evans, 1997; Calì and Sen, 2011).

By the late 1980s, the Indian government's strategy of IT industry transitioned from a state-planned to a market-oriented policy because it was convinced that allowing IT companies to compete in free markets would be more effective given the natures of the software industry (i.e., its small size and creative content orientation). The Indian government enacted several policies and regulations to dramatically loosen its restrictions on free competition in market and provide a healthy business environment; For example, the Software Policy (1986), Software Technology Parks of India (1988), Import Duties on

Imported Software (1992-1995), and Income Tax Exemption (1993-1999).

Catching up with government's policy change, IT companies also undertook substantial efforts to improve their productivity in market. The IT firms, which once focused mainly on outsourcing opportunities, extended their discretionary boundary into decision making, research and development, and organizational management at this time. They also physically expanded by establishing overseas branch offices and building strategic alliances with local counterparts in foreign countries (Athreye, 2005). This sustainable development can be explained by the preceding groundwork laid by the Indian government to establish a cooperative government-business relationship with IT companies (Arora and Gambardella, 2005).

Emergence of IT firm's conglomeration and rent-seeking relationship

As the size of IT industry becomes bigger, the conflicts of the vested interest become greater. Furthermore, as a few of IT firms recently merged into conglomerates, the existing desirable cooperative relationship of government and business has been transformed gradually. Some scholars shed lights on the negative aspects of an intimate relationship between government and IT firms. They contended that IT industrial development is not different from outcome of intertwined conflicts and the interests of stakeholders as in all other industrial sectors. Such intimacy between the two main actors induces rent-seeking efforts by government officials and special interest groups, thereby hampering sound economic development and IT industry's free competition system has been diluted as a result. Moreover, Indian government has increased IT industrial regulations since the 2000s in order to rectify internal unfair competition and industrial imbalance in terms of inclusive growth.

To overcome this political/economic environment, IT firms strengthened lobbying activities and motivated to have a formal or informal connection with government. Politicians and government officials also want to keep their positions and power, even if it means that they must associate themselves with illegal political funding from such firms. This mutual need results in an exclusive rent-seeking relationship between government and business. Such a relationship will, in turn, lead to the redistribution of resources to

Table 4. Industrial Development Strategies and Institutional Characteristics of IT Sector

Type	1980's	1990's	2000-present
Industrial Development Strategy	State-led strategy as strategic industry	Market-oriented strategy facilitating market competitiveness	Inclusive growth strategy balance of growth among IT companies
Governmental Regulation	State-led planning: targeting & positioning	Minimized regulations and indirect policy support for free competition in market	Increasing government regulations for internal unfair competition
Government Attitudes Toward Firms	Firms as objects of policy support as a key industry	Firms as objects of collaborative partnership	Firms as objects of cooperative partnership
Government-Business Relationship	Cooperative relationship based on business friendly policy support	Cooperative relationship under free market competition	Emergence of rent-seeking relationship and Increasing IT conglomeration

unproductive activities rather than facilitate IT industrial productivity and market competitiveness to achieve sound economic growth. Market-oriented industrial policy in IT sector basically has been maintained up to now. Nevertheless, the changes of government and IT business relationship have a negative impact on IT industry development in long-term aspect.

4. CONCLUSION

Indian government established serious state-led industrialization policy based on a socialist economy after independence from British rule. At first, Indian government intended to balance between social equality and industrial development by regulating monopolies and oligopolies in market. Indian government has used very oppressive and coercive regulation methods based on state-dominant viewpoints. It caused the intimate rent-seeking relationship between government and business that has been gradually established across the industrial sectors especially surrounding industrial licensing-raj system. Under this socialist economy, India witnessed growing inefficiencies and corruption, which brought about an economic crisis in the mid-1990s consequentially.

Given these situations, the Indian government attempted to transform socialist policy into Market-oriented industrial development strategy by reducing government regulation and increasing the autonomy of businesses. Indian government tried to play a positive role in acting as a driving force for rapid economic development. For instance, the state actively promoted pro-business environments and drove the revitalization of the manufacturing and IT sectors by cultivating selected industries and promoting policy initiatives that facilitate business activities. This change of industrial development strategy led to positive consequences that interactive cooperative relationship between government and firms built up better economic governance. Thus, the Indian government has consistently made an effort to shape market-oriented industrial development strategy from a macro perspective, although industrial development process has diverged by firm type or industry sector.

On the other hand, as examined in the previous section, Indian government pro-market industrial policies has become more vulnerable to the demands of various interest groups under complicated decentralized system in the pursuit of inclusive economic growth recently. The rent-seeking relationship between government and business was still remained (scattered) across the industry and the complicated interest conflicts surrounding industrial development have adversely affected its institutional transition to a market economy. In particular, the rent-seeking relationship between government and business can still be easily justified as a permissible political activity within India’s exclusive policy network which hindered sustainable economic development. From the perspective of economic governance, this Indian case study implies that the relationship between state and market is more important than the contents of industrial development strategy. At all events, India’s industrial development strategies have been gradually evolving toward a sustainable economic growth by a trial-and-error process. In the long term, India may well be on the right track to achieve inclusive growth based on collaborative economic governance.

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