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CRONY CAPITALISM AND INDIA
Before and After Liberalization

CRONY CAPITALISM
AND CONTEMPORARY INDIA-II

Surajit Mazumdar

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*Surajit Mazumdar**

[**Abstract:** *This paper, the second in the series, initiates the examination of the nature of the relationship between private capital and the State in India. While the principal focus is on the present context of India under a liberal economic policy regime, both the past of Indian capitalism and the past discussion on the concentration of economic power are also brought into the picture to substantiate the key arguments. The paper provides theoretical and also some limited empirical substantiation for the proposition that unlike what would be the prediction of crony capitalism theory, liberalization, rather than reducing the degree of subordination of public authority to private capital, has only facilitated an enhanced degree of state capture.*]

1. Introduction

This paper is the second in a series on crony capitalism and contemporary India. Moving from the more general discussion of the "theory" of crony capitalism that the first paper[1] was concerned with, this one initiates the process of directly addressing the current Indian context. The prime purpose of this paper is to make the case that there exists a very real business-state nexus in India under a liberal economic policy regime whereby the exercising of public authority is often subservient to the interests of private profit. An additional sub-theme of this paper is that the concrete case of Indian capitalism reinforces the conclusions arrived at in the first paper.

As mentioned in that paper, if one were to go by the reasoning of the "theory" of crony capitalism, then the phenomenon of cronyism should be globally in rapid historical retreat. Nowhere should this be truer than in the Indian context emerging with the onset of liberalization. The process initiated since 1991 was clearly a crisis-driven change, in line with the theory's understanding of how the breaking down of crony systems is initiated. It has involved the retreat of the State from attempts to direct the course of the economy, the dismantling of the entire structure of discretionary controls associated

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* This paper is the second in the series on Crony Capitalism and Contemporary India and also the second by the same author. The acknowledgements and the disclaimer of the first paper apply to this one too. *E-mail:* surajit@vidur.delhi.nic.in

[1] Mazumdar (2008)

with, and the grant of greater freedom to the operation of market forces. The liberalization process has encompassed the financial sector as well as the external sector, with the loosening of controls on trade and capital flows, both direct and portfolio. Some studies have sought to establish that the entry of foreign institutional investors (FIIs) into the Indian stock market has considerably improved the monitoring by the market of the performance of corporate managements[2]. A 'rule based' takeover code has also been put in place. India has also been from much before 1991 an electoral democracy with an 'independent judiciary' and a 'free press' (both of whom have clearly tilted more and more towards free-market ideology in recent years). Since 1991 there have also been numerous changes of government.

Post-liberalization India thus possesses virtually none of the classic conditions that the theory of crony capitalism associates with flourishing crony capitalism. Yet, we shall argue in this paper that it would amount to a travesty of the truth if we were to conclude from this that the Indian State has been freed, to a great extent if not entirely, from 'capture' by private business interests. But we shall come to that not directly but after a brief journey into the past of Indian capitalism. Two purposes would be served by this foray into history that will be covered in the first two parts of this essay. One is that it can serve as a gentle reminder of the fact that the phenomena of state authority serving business interests in India has been stretched over a long period of time, its beginnings predating by over two centuries the emergence of the post-independence 'activist' state. Secondly, in that brief recapitulation of the past, we shall also revisit the old Indian discussion and debates on the relationship between concentration of economic power and a policy framework that involved planning, controls and regulation. Apart from providing some insights that may be of relevance even in the present context, this revisit would contribute to an appreciation of the fact that there are other ways than that offered by the theory of crony capitalism to approach the study of the business-state relationship.

The third part of the essay shall then provide the general arguments why liberalization has not eliminated the structural basis for the cronyism in Indian capitalism but instead reinforced, perhaps cronyism in the narrower sense and most definitely the general grip of corporate interests over state policy. The fourth and final section shall then try to provide some kind of indirect empirical substantiation of this by demonstrating that the context of liberalized Indian capitalism has not in fact proved to be highly supportive to the general growth of entrepreneurship.

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[2] Khanna & Palepu (2000)

2. COLONIALISM AND THE MANY SHADES OF CRONYISM

The beginnings of India's capitalist experience can be traced back to the arrival in India of European mercantile companies, the most important eventually being the British East India company (the Company). The grant of the royal charter to the Company by Queen Victoria in 1600 giving it a monopoly over the India trade can be called the first act of 'cronyism' of relevance to India. This monopoly was subsequently deepened in the 18th century by the gradual displacement of other European mercantile companies and the process of the territorial conquest of India. Conquest converted the Company into government, the most extreme form of 'state capture' possible, and which led to even the utilization of 'surplus' revenue for the commercial activity of purchase of Indian goods for export to England and Europe[3]. Cronyism was also reflected in the Company government helping its own servants and other European merchants to amass vast fortunes from the inland trade and even direct loot.

The erosion of the Company's independence and the increasing authority of the British crown over Indian affairs did not mean the end of colonial cronyism. The abolition of the Company's monopoly over the trade with India in 1813 was a result of the rise of new interests in Britain, the industrial capitalist class which was interested in accessing the Indian market. Their powerful influence, through the Lancashire lobby in the British parliament, on Indian trade policy for over a century since the abolition of the company's monopoly, is widely acknowledged[4]. The free trade policy that the colonial rulers adopted in India was surely a case of 'state intervention'. Yet, since that did not involve state intervention as conventionally understood, the theory of crony capitalism would fail to recognize the 'cronyism' element that is actually writ so large on it. That the one way free trade policy provided the environment for the long process of de-industrialization of India's economy, the massive destruction of India's traditional artisanal industry, only serves to emphasize this strong element of cronyism underlying it.

The beginnings of railway construction and the parallel emergence of modern industry and capitalist enterprise in India in the middle of the 19th century brought in its wake a new kind of cronyism alongside the one described above. The business class that emerged during this period had two distinct components—expatriate Europeans and native businessmen who moved from purely mercantile activities into industry. Of these, European enterprise came to occupy the "commanding heights" of the economy,

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3 Dutt (1983)

4 Indeed this is the reason that British imperial policy before 1914 has been often erroneously interpreted as being entirely reducible to advancement of the interests of the Lancashire textile industry [Bagchi (1980)].

dominating not only international trade, banking and shipping, but also the sectors based on export markets and those with a large dependence on government purchases. The private construction of railways was also undertaken by European enterprise.

The dominance of European businessmen was based on, *"the persistent advantages enjoyed by the Europeans not only because of their early start and acquaintance with external markets but also because of the racial alignment of government patronage and the financial and other services supporting and reinforcing European control over trade and industry"*[5].

In other words, the peculiar context of capitalism emerging in a colonial economy made for a sharp 'inequality of influence' that enabled European capitalists to establish and maintain a dominant position in relation to their Indian counterparts.

> *"The dominance of modern industry by European business houses before the First World War was supported and reinforced by a whole set of administrative, political, and financial arrangements within India. The European businessmen very consciously set themselves apart from 'native' businessmen; they claimed a cultural and racial affinity with the British rulers of India which was denied to the Indians who might compete with them.*
>
> *For the Europeans, whether civil servants or military officers or businessmen, 'society' consisted of other Europeans…*
>
> *….this social discrimination was complemented and supported by political, economic, administrative and financial arrangements which afforded European businessmen a substantial and systematic advantage over their Indian rivals in India."*[6]

This description would surely fit what is today called a crony capitalist 'system'.

The 'politicization' of Indian business in the period after the First World War, the process of its alignment with the national movement, took place in this background as native businesses and nationalist politics found common ground on issues of economic policy. It was also the process through which many Indian businessmen established their connections with those who were going to be part of the future political establishment.

A less obvious instance of cronyism during the colonial period was associated with the emergence of a new kind of foreign enterprise on the Indian scene in the inter-war

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5 Bagchi (1980), p. 205. The ideology of white superiority and the exclusion of Indians from key positions in the military and administrative structure were logical corollaries of colonial rule [Sarkar (1983)].

6 Bagchi (1980), Pp. 166-67

period—the multinational corporation. Their competitive strength lay to a great extent in their command over technology and financial resources, and they were therefore less dependent than expatriate European firms on a special relationship with British colonial administrators[7]. Yet it cannot be said that *British* was entirely immaterial to creating a congenial environment for British MNCs.

> *"The overseas activities by British Corporations – already well developed before the First World War – thus saw significant further expansion in the 1930s…. The natural direction of expansion for many companies in the inter-war context was the Empire."*[8]

Many prominent MNC entrants of that time were in fact of British origin—for example, Imperial Tobacco (ITC), Imperial Chemical (ICI), Unilever, Dunlop, British Oxygen, British Aluminium, General Electric Corporation (GEC), Guest Keen Nettlefold (GKN)—and no other national group had a comparable a presence.

3. CRONYISM AND THE POST-INDEPENDENCE CONTEXT: THE DEBATE ON CONCENTRATION OF ECONOMIC POWER

With the transfer of power, Indian capitalism entered a new phase and this was accompanied by shifts in the alignment of patronage towards Indian businesses to a much greater extent than earlier. The strategy of import-substituting industrialization and planned economic development that the Indian State adopted soon after independence was one that broadly had the concurrence of Indian business. In that strategy, apart from restrictions on external economic interaction, the state had a key role as an active agent of intervention in the economy, both as producer as well as regulator. Private capital too had a place in the 'planned' process of expansion, but that meant that the State or State agencies remained important in the allocation of expansion opportunities between private enterprises through a system involving industrial and import licensing, foreign collaboration approvals, capital issues controls, etc.

The question of cronyism, without that term itself being used, surfaced within the larger concern with the issue of "concentration of economic power". This was not something that initially occupied too much of the attention of policy makers, though the Constitution that came into force in 1950 did refer to such concentration in general terms[9]. Nor was it necessarily thought that the private corporate sector was the centre of

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[7] Ray (1985)

[8] Hannah (1983), p. 117. Hannah also suggested that company names like Imperial Chemical Industries were no accidents.

[9] Certain principles of policy to be followed by the State–
The State shall, in particular, direct its policy towards securing–....

contd...

such concentration. Indeed an early argument was that though control over industry had become an important source of economic power, land ownership was still the more important one[10]. The notion that economic power was heavily concentrated in a few hands was also considered as one that "may be dismissed as an alarmist view"[11]. It was also contended that the real emerging centre of concentrated economic power was the State rather than the private corporate sector.

> *"…while the process of concentration of economic power was yet to be completed, the countervailing power in the hands of the State has already assumed sizeable proportions.*
>
> *The seat of concentrated economic power is shifting from private individuals to countervailing institutions, particularly the state. This may, if at all, mean political democratisation of economic power but it certainly is not diffusion of economic power."*[12]

Concentration in the private corporate sector really came under the lens in the 1960s beginning with the appearance of the Mahalonobis Committee Report (1964), which was followed by reports of a number of important Government commissions—the Monopolies Inquiry Commission (1965), the Managing Agency Inquiry Committee (1967), and the Industrial Licensing Policy Inquiry Committee (1969)[13]. Hazari's seminal study[14], whose preliminary results were used by the Mahalonobis Committee, must also find mention amongst the major studies on concentration in the private corporate sector appearing in this decade, though there were also others published before or around the same time[15].

The central empirical fact that generated much of the discussion on private corporate concentration in the 1960s was that this concentration was not exhibiting a downward trend despite the process of industrial expansion and a few large business houses had maintained a steady dominance over the sector. One focus of the discussion, therefore, was on the causes of such concentration, with a diversity of such causes as well as opinions making their appearance. The admission, that concentration of economic power

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(b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

(c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment; ... [Constitution of India, Part IV, DIRECTIVE PRINCIPLES OF STATE POLICY, Article 39]

[10] Bose (1952)

[11] Bajpai (1952), p. 318

[12] Mohnot, p. vii

[13] GOI (1964), GOI (1965), GOI (1966) and GOI (1969)

[14] Hazari (1966)

[15] Mehta (1952 a and b), Joshi (1965), Mohnot (1962), Kothari (1967)

in industry was to an extent 'inevitable' and would consequently have to be 'tolerated', was indeed quite common in the literature. Considerations of efficiency and economies of scale, scarcity of entrepreneurial talent, and the greater ability of large business houses to mobilize finances and secure foreign collaborations, were typically cited as factors for such inevitability, though others did contest such views[16]. The availability of devices like the managing agency to control companies was also highlighted in the discussion on causes of corporate concentration. But most important for our purposes was the debate on the relationship between concentration and the system of controls and regulation, which is where cronyism as it is normally understood, could operate. Both the MIC and the ILPIC highlighted how the system of controls and regulation became instruments for perpetuating or increasing private corporate concentration. But their analysis did not reduce it all to a simple issue of corruption.

The MIC did mention the "deep pockets" of large business houses and their use for providing financial assistance to political parties and to corrupt public officials and between themselves the MIC and the ILPIC also highlighted the deliberate manipulation by large business houses of the licensing mechanism[17]. But there were two mutually reinforcing additional elements that in their view made for the system of controls working in favour of large business houses. One was the weight of their "credentials" with the authorities. Even if no extraneous considerations were at work, licensing authorities keen to ensure that scarce resources are effectively utilized tended to favour those with established credentials, experience in executing large investment projects, and who could more successfully organize the necessary finances and foreign collaborations. This was not a factor that depended on any 'connections' between business families and public officials but was a natural tendency flowing from the same context that gave rise to planning and licensing. A second factor reinforcing this was the direct result of cronyism in the economic domain—the control and influence of large business houses over banks and financial institutions. Some of these were private entities directly controlled by these houses, but they also included financial institutions in whose affairs these houses had a major say through their representation in the managements of these institutions.

R.C. Dutt, however, in adding another dimension to this issue, in fact turned the issue on its head by arguing that concentration of economic power was more the cause than the effect of how the system of controls was used.

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[16] See for example RC Dutt's note of dissent in GOI (1969) and VKRV Rao's introduction to Goyal (1979)

[17] Ghose (1972)

"As far as planning and controls are concerned, they are by themselves neutral in this respect. They can certainly be utilised to increase concentration. At the same time they can equally effectively be utilized to reduce or prevent further concentration.

…the influence which those who control large large sectors of the economy have on the economic policies and decisions of Government….can to some extent determine the manner in which economic controls are exercised by government, and account for the fact that these controls have not been actively utilized to prevent increase of concentration."[18]

Underlying this perception of Dutt was a clear-cut understanding of the quite *impersonal* power of big business that was inherent in the structure of the economy.

"Concentrated economic power involves control of large resources, and also of large areas of production and of the economy as a whole. Those who have this control are in a position to influence the economic policy in a large measure, irrespective entirely of their relationship with political parties, whether in opposition or in power, or even their relationship with individuals in authority. A programme for industrial expansion, for instance, must depend to a large extent on the willingness of the corporate sector to invest their savings for such expansion. Those who control the savings can influence the "incentives" required for investment, and, therefore, the whole set of economic decisions which relate to this problem".[19]

Hazari also expressed a somewhat similar understanding of what concentration of economic power implied:

"The strongest argument against concentration of private economic power in a mixed economy is that, in the absence of checks and balances with which a political democracy safeguards itself against the powers of Government, it can and is likely to act to the common detriment. On purely economic reckoning by the strength of its power, big business can influence both the market and the Government to secure large resources for ends which are either of low priority in terms of planning or earn lower returns than would have been earned by other businesses, or both."[20]

In other words, it was precisely the ability that it gave to a few large business groups to significantly influence state policy that made concentration in the private corporate sector a relevant phenomenon. It was left to S.K. Goyal to later explicitly make this connection between the two while simultaneously distinguishing between business concentration and concentration of economic power[21]. Business concentration in his view

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[18] GOI (1969), Pp. 192–193

[19] GOI (1969), p. 193

[20] Hazari (1967), p.viii

[21] Goyal (1979)

reflected the concentration in control over assets and the consequent ability to influence the market while concentration of economic power also included the power to influence government decision-making. Such economic power could be exercised by big business enterprises individually as well as *collectively*. Concentration of control over assets did not provide a proper index of the concentration of this power because it was not distributed in proportion to the control over assets.

The Mahalanobis Committee had also earlier taken a position that the degree of concentration of control over assets *per se* may not properly indicate the concentration of economic power.

> *"The term 'concentration' could also be based in a wider sense of a small number of individuals or groups having in their control significant volumes of economic power in terms of capital or income or employment or media of communication which, though not constituting a large percentage share of the national aggregate in each case, nevertheless sets them so much higher than any other individual or group in the relevant context that it gives them a disproportionately large influence and enables them to exercise economic power not measurable statistically by the mere ratios of concentration."*[22]

The Committee in addition had commented specifically on the corporate sector. While noting that the industrial production in the private sector accounted at that time for only 16% of the national product, and only half of that was organized under a corporate form, it said:

> *"But the corporate sector is the most dynamic element of our developing economy and must claim special attention in any study of concentration of economic power…Though the increasing size of companies is by itself not necessarily an index of growing concentration of ownership of companies -–and there is some evidence of an increasing dispersal of ownership as such – the phenomenon is conducive to greater concentration of control and economic power and…has facilitated the process."*[23] [Emphasis original]

In other words, as Berle and Means had pointed out, there was a clear appreciation of the two-sided nature of the process of separation of ownership and control. And like Berle and Means again, concentration of economic power was clearly distinguished from the absence of competition, though the possibility of concentration undermining competition was not ruled out by all[24].

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[22] GOI (1964), Part I, pp. 25–26

[23] GOI (1964), Part I, p. 30

[24] For example, the MIC had the following to say: "Big business" by its very "bigness" sometimes

contd...

"…competition cannot, in any event, be an effective remedy against the concentration of economic power in India. Concentration is not synonymous with monopoly in this country because…every large group has diversified industrial interests. There is practically no industry which can be said to be a monopoly of any group."[25]

Notwithstanding its different strands, the debate on concentration did yield a central common conclusion. This was not that the State had to withdraw from intervention to curb concentration and the manipulation of controls. Rather, curbing the concentration of economic power required its own specific intervention. This contributed, along with other factors, to a series of measures in the late 1960s and 1970s—including the abolition of managing agencies, the MRTP Act, the nationalization of major commercial banks, and the nationalization of general insurance and the core sectors of the economy like the oil sector in the first half of the 1970s. These combined with other measures like the Foreign Exchange Regulation Act (FERA) to change in important ways the context in which the corporate sector operated. Some private groups were indeed hard hit by some of the changes[26]. But the operation of tendencies that could be described as cronyism did not cease, nor did concentration in the private corporate sector disappear.

The measures aimed apparently at restricting the private sector actually came in the background of the general devaluation of planning from the mid-1960s onwards. In such a climate, the ability of the State to discipline private capital suffered, and this was reflected in what the monopoly control measures turned out to be in practice.

The process of undermining of the measures to curb private corporate concentration began at the stage of the framing of the laws themselves, with various loopholes being left in the system of regulation which large business groups could exploit to their advantage. The limitations of the MRTP Act in this regard have been extensively discussed in the literature[27]. Even though the Managing Agency system was abolished,

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succeeds in keeping out competitors….the very presence of "big business" in an industry is likely to have a deterrent effect on the entry of smaller units, even in industries without any special scope for economies of scale." [GOI (1965), p.137]

[25] Hazari (1966), p. 359. Hazari in fact argued that the real contradiction was between competition and economic policies (planning) that sought to prevent excess capacity and wastage of resources. Hazari (1967), p. viii.

[26] The nationalization of industries like banking and coal meant loss of assets for major Indian groups. The takeover by the government of its major companies virtually wiped out the Martin Burn group. The surviving European Managing Agency Houses such as Andrew Yule and Gillanders Arbuthnot were also eliminated, their concerns being acquired by Government or private Indian capital. Apart from the foreign oil companies, MNCs like IBM and Coke too had to quit India.

[27] Chandra (1981/79), Goyal (1979), Chalapati Rao (1985), Agarwal (1987).

business groups were allowed to retain effective centralized control over their companies[28]. Extensive use of the device of inter-corporate investments was the main method for this. The firm establishment of public sector dominance in the field of institutional finance also had no adverse impact for the private sector. With public sector institutions becoming the key financiers of investment projects in the private sector, the ability to secure an industrial license was an almost automatic guarantee that these institutions would provide the funds. Part of the financing by these institutions took the form of acquisitions by them of share capital in private companies resulting in the increasing importance of shareholding of public sector financial institutions in private sector companies. In addition was the promotion of the joint-sector involving government or government controlled institutions holding a part of the equity. As a result, public sector holdings of the share capital of major private sector companies belonging to large groups acquired significant magnitudes. Had Government policy been one that was actually directed towards controlling private sector companies, such large public sector holdings might have amounted to severe erosion of the control of groups over these companies. But in reality financial institutions followed an explicit policy of non-interference in management, which made their holdings largely passive[29].

The lax attitude towards the private sector meant that there was no serious effort to implement the plan targets where private sector investment was involved. Private sector firms were systematically allowed deviations of actual capacities from licensed capacities, either by under-utilization of licenses secured or by creating capacities larger than what was approved, which were either hidden or for whom approvals were secured *ex post*. A study had found such co-existence of under-utilization and over-utilization of licenses and of actual production levels both significantly below as well as above stated installed capacity levels[30]. Most bizarre perhaps was the fact that big business houses were allowed to take advantage of incentives and concessions that were actually meant to encourage small businesses[31]. Despite the hype about the high tax regime in India, numerous tax concessions were also granted to big business as a result of which there was a huge gap between the statutory and the effective rates applicable to the corporate sector[32].

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[28] Sengupta (1983)

[29] Indeed the Government actually acted to prevent the scrutiny, of the accounts of the private sector companies which in effect became government companies, by public authorities like the Comptroller and Auditor General. It also helped incumbent managements ward off takeover attempts. See Goyal (1983a, 1983b)

[30] Corporate Studies Group (1983).

[31] Goyal, Rao & Kumar (1984)

[32] Goyal (1988)

The onset of the 1980s saw the Indian state developing an increasingly permissive attitude towards the large private sector, which only reinforced the tendencies described above[33]. In other words, the series of measures that followed the 1960s discussion on concentration in the private corporate sector failed to achieve the stated objective of curbing such concentration. But why did that happen and with what consequence? On these there are different views.

In the tradition of the R.C. Dutt kind of reasoning, one review of the experience after the MRTP Act concluded that the measures to curb concentration were defeated by the operation of what could be very well called "cronyism".

> *"…the primary factor responsible for the rapid increase in concentration has been the exercise of 'economic power' by the influential big business of India. The relationship between the business houses and the ruling political parties has been close; and the associations have been obviously to mutual advantage - at the cost of public interest and in disregard of the constitutional obligations and contrary to oft repeated public pronouncements by the leadership."*[34]

In contrast to this is a view that does not explicitly consider the degree of concentration in the private corporate sector as a relevant variable. This emerged in the background of the fact that the transition to a higher growth trajectory in India happened in the 1980s, before rather than after the extensive liberalization following the 1991 exchange crisis[35]. In this view, the state's attempts to control and regulate economic activity—the infamous "license-permit raj" of which the business world is treated simply as the benign victim—acted as a barrier to the Indian economy realizing its growth potential. Excessive controls, it is argued, contributed to the progressive deterioration of the quality of governance institutions. If the barrier to growth was weakened in the 1980s, it was because paradoxically the deterioration in governance, and the consequently increasing collusion between business firms and governance institutions in circumventing the control regime (cronyism), contributed to reducing the adverse effects of 'market distortions' in the 1980s. Clearly this perception of the Indian experience of the 1980s belongs to the same family as the theory of crony capitalism, and is strikingly similar to the Haber kind of view of cronyism as a second-best solution in the absence of limited government.

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[33] Rodrik and Subramaniam (2005) described this as a shift towards a *probusiness* orientation of the Indian State which they distinguished from the *promarket* orientation emerging after 1991.

[34] Goyal (1979)

[35] Virmani (2004)

4. LIBERALIZATION AND CRONYISM IN INDIAN CAPITALISM

As already indicated in the previous paper, the idea that liberalization signals the beginning of the end of crony capitalism is based on a misconception that with liberalization the State ceases to be an important factor in the economic arena. Liberalization involves a process of transition whose key agent is the State, and creates in its wake numerous opportunities of conferring benefits on businesses having a privileged relationship with decision-makers. Just as regulation can provide the smokescreen for crony capitalism, liberalization can similarly provide a smokescreen for granting favours to cronies. But it is not merely in the transitory process that cronyism can flourish. The context that emerges as a result of liberalization is also one in which private capital exercising significant leverage over the State becomes a structurally inherent feature. The Indian scenario after liberalization can serve to illustrate these propositions.

For a country like India, one of the largest but also amongst the poorest of Third World countries, the liberalization process has also involved the opening up of the economy to speculative capital flows. This itself bears the imprint of crony capitalism because, as was emphasized in the previous paper, the world-wide process of financial liberalization has been driven by financial interests backed by powerful states. In addition, such opening up, it has been argued, puts the economic policy of any Third World country into a straightjacket that demands adherence to a restrictive fiscal policy and other measures that would maintain the 'state of confidence'[36]. To that extent, the State is at least to a degree significant enough to be relevant, captured by 'globalized finance'. At the same time, the attempts to attract even foreign direct investment, given the fact that such capital does not lie within the direct jurisdiction of the Indian state, has to mean similar concessions. Considerations of a 'level playing field' then compel the extension of concessions even to domestic capital.

Two important examples would illustrate the working of such cumulative processes of state capture. The first is the case of the tax on long-term capital gains from securities. Foreign institutional investors were first exempted from this tax and this was subsequently extended to domestic investors[37]. Thus, a significant tax concession has been granted to a small segment of wealthy domestic and foreign investors for which no justification can be found in the established principles of taxation[38]. The second example relates primarily to foreign direct investment. To attract such investment, restrictions on

[36] Sweezy (1999/1994), Patnaik, P. (2000), Bello, Malhotra, Bullard and Mezzera (2000)
[37] Prof. C.P. Chandrasekhar had pointed this out at the Symposium
[38] See Bagchi, Amaresh (2004)

extent of foreign shareholding in Indian companies had to be removed or reduced significantly. This combined with easing of takeover norms meant that Indian companies became vulnerable to takeovers by big foreign firms. The climate was thus created for the easing of the prevailing restrictions on business groups using the resources of company's under their control to build large controlling blocks in them (through inter-corporate investments and buying back of shares). Consequently, incumbent managements of most Indian companies now usually hold very large controlling stakes. *Entrenchment*, the phenomenon that the theory of crony capitalism associates with a crony capitalist system, has thus become far more marked in recent times *because of* liberalization[39].

Privatization—the transfer of ownership of assets from public to private hands—is, of course, the classic example of a process inherent in liberalization where largesse of very large economic values can be showered on favoured businessmen. The general experience of the large scale privatization in the so-called transition economies is now seen almost as a rule to have given rise to crony capitalism even by those who advocated it[40]. The Indian economy was also one where the public sector had acquired a significant presence before liberalization. And unlike in the case of the transition economies, there also existed in India a powerful class of large business groups *prior to* privatization. The potentiality for cronyism to work in the process of privatization of public sector companies was therefore much greater. Given the controversies that have dogged the Indian privatization process, it would take a brave soul to suggest that the inherent potential for cronyism in it has played no actual role.

But more generally, liberalization is a transformation process where rules of the game are being changed, and in a context where there is also privatization of public assets and the increasing general reliance on private capital for the production and delivery of goods and services. The enlargement of the area where the profits of private capitalist enterprises have direct relations to decisions of public bodies is its consequence, with the concept of public-private partnership even institutionalizing this. Traditionally, in most capitalist countries significant public sector presence had emerged in sectors where competitive markets cannot function and where public sector production or regulation

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[39] Rao and Guha (2006).

[40] This is from the IMF's own quarterly magazine: "In many transition countries, mass and rapid privatization turned over mediocre assets to large numbers of people who had neither the skills nor the financial resources to use them well. Most high-quality assets have gone, in one way or another (sometimes through the "spontaneous privatization" that preceded official schemes, sometimes through manipulation of the voucher schemes, and perhaps most often and acutely in the nonvoucher second phases), to the resourceful, agile, and politically well-connected few…" [Nellis (1999)]

are virtually the only alternatives. The steady displacement of public sector production by the private sector in such sectors inevitably therefore also means their regulation so that the State's role does not disappear but becomes redefined. A large area of so-called deregulation associated with liberalization is in fact of such a kind, and so much so that it has even been argued that the appropriate description of the global process of change over the last two and a half decades is the spread of "regulatory capitalism" rather than that of deregulation[41].

The increasing privatization of the economy thus creates two levels at which cronyism in the narrow sense can work. At the beginning cronies can be helped to set themselves up in these sectors because the state plays an important role in the process by which are determined the initial entrants. When they become the "incumbents", these cronies can be helped through the regulation process. In the Indian case, almost all the major sectors that have been de-reserved and/or opened up for increased participation of the private sector—telecom, power, mining, petroleum and gas, banking, insurance, airlines, etc.—are of the kind where State regulation of one or the other form has been applicable[42]. Moreover, each one of these sectors is very large. State regulation is also involved in other important spheres of wealth accumulation, like the securities market.

The continuing necessity for regulation over large and critical sectors of the economy only serves to highlight the fact that even under a liberal economic regime, the State remains an important actor in the economic arena and decisions of state or quasi-state institutions play an important role in determining the quantum and distribution of economic benefits[43]. The State's role: in granting property rights in land and for the exploitation of natural resources; in influencing the development of infrastructure and its pricing; in influencing the value of property[44]; its power to grant tax benefits; the awarding of government contracts, etc.—all create opportunities for granting favours of tremendously large economic value. In the Indian case, in recent times public power and resources have been actively involved in the process of private capital acquiring land on a vast scale for industrial projects, Special Economic Zones, and real estate projects. The same is the case with mining and exploration rights awarded to private sector companies. Even though it is common to hear that the big success story of Indian

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[41] Levi-Faur (2005)

[42] See Kochanek (1996)

[43] See Hildyard (1998) for a general discussion of this. The spectrum war currently raging between GSM and CDMA operators in the telecom industry illustrates this.

[44] Land-use norms, building bye-laws, environmental clearances, etc., may be cited in this regard. Apart from this, the role of the State in the development of public infrastructure also influences the value of any property.

liberalization, the information technology (IT) sector, grew rapidly without the assistance of the State, it has actually been one of the biggest beneficiaries of tax sops granted by the Government[45].

Thus even in a liberalized economy, the importance of having State authorities as allies remains extremely critical to business success. The business-state nexus therefore does not disappear with liberalization. The modification that the relationship undergoes is in fact one where the business side acquires greater strength.

For one, the liberalization process is also one that affects both the ideological outlooks as well as values of public officials in a manner that makes them more inclined to act in the interests of private capital. The positioning of the private sector as more efficient than the public sector, the idea that the State should not interfere in the working of the market, and the concept of public-private partnership, are integral elements of the worldview associated with liberalization which public officials would also tend to internalize. There is also an inherent celebration of money-making in a liberalized context that can increase the proneness to corruption of public officials, and the greater permissiveness towards international transactions has also added a new dimension to the possibilities of graft. In the Indian case, more than a decade and a half of liberalization cannot be said to have reduced corruption. Moreover, in a globalized context, private business enterprises also become the standard-bearers of "nationalism", "national-interest", and "national achievement" so that national success tends to be seen as something that coincides with their success[46].

But adoption of a friendlier attitude towards private capital also becomes more of a compulsion for the State with a liberalized economic policy regime for a number of reasons. Firstly, the process of decontrol has a dual character. On the one hand it may mean that public officials lose some of the instruments through which they in the past could have conferred benefits on favoured enterprises. On the other hand it also simultaneously means the loss of instruments by which private capital may have been disciplined by the State or guided towards performing the role consistent with the attainment of definite national objectives. With liberalization, 'concessions' and 'incentives' remain the only means available. This is further aggravated by the fact that the commanding heights of the economy, which at least in principle was to be occupied

[45] Chandrasekhar (2003)

[46] The reactions to the few successful cases of major acquisitions abroad by Indian companies, which includes the public sector State Bank of India stepping forward to provide a $1 billion loan to the Tata group for financing the acquisition of Corus and proudly declaring that it cleared the loan in a mere 5 minutes, serve to corroborate and underline this.

by the public sector in the earlier Indian policy regime, have been decisively ceded to private enterprise. Private enterprises have come to be accorded the position of being the instruments for growth and development. In a federal set-up like India's, the leverage of private capital over the State is also enhanced by the competition for investment between states that liberalization has forced them into.

One major development of great significance in this regard is the impact of liberalization on tax rates and the revenue structure. The general reduction of the rates of both direct and indirect taxes is part of the inevitable logic of liberalization, and that this has resulted in stagnation or decline in the tax to GDP ratio in India is well-known. This has, however, also been accompanied by the increasing importance the corporate income taxes in total tax revenue—the share of this in Central Government revenue having gone up from under 10% in 1990–91 to over 30% in 2006–07. Since a liberalized regime does not permit higher rates of taxation, *the level of government revenue has increasingly become a function of the magnitude of corporate profits*. Since fiscal 'discipline' also has paramount importance in a liberalized economic policy regime, the significance of this dependence is all the more.

What all this adds up to is that economic openness of the kind that has taken place under Indian liberalization does not mean that the State has becomes irrelevant to the working of the economy. Rather, it is its ability to be autonomous of private capitalist interests—foreign as well as Indian and collective as well as individual—and its capacity to accommodate the interests of other sections of society, that have been undermined by openness. In the language of an earlier era, liberalization can be said to have ***structurally*** increased the social power of big business or the ***concentration of economic power.*** Using their leverage with the State, private capitalist enterprises can and have been continuously securing individual and collective benefits. Indeed, the distinction between the individual and collective benefits has also become increasingly blurred. There is, of course, the persistence or even strengthening of business concentration, with 'deregulation' facilitating the working of the spontaneous tendencies towards such concentration. Financial sector liberalization has also enhanced rather than reduced the bias in financing, with large businesses being in a better position to access both domestic and foreign financial markets than their smaller counterparts. The heightened exposure to global competition has also contributed to tilting the scales in favour of the bigger players because they have greater capacity to survive and succeed in such an environment. All of these in turn have contributed to the bigger businesses enjoying a disproportionate clout with the State.

5. LIBERALIZATION AND POWER OF BIG BUSINESS: SOME EMPIRICAL EVIDENCE

That a narrow group of large businesses have acquired significant influence with the State, and are able to secure major benefits through such influence, is not something that can be easily established empirically, at least directly. Even though there may be many threads which connect the world of business with that of politics and officialdom, not all of these are visible. Even when visible, it may not be always possible to find direct evidence that would confirm the value of these connections. But these difficulties are not peculiar to the liberalization context. How many instances of such direct proof exist, for example, to support the widely held belief that corruption was characteristic of the licensing and other processes associated with State regulation in India? The evidence in such matters has always been indirect.

One kind of such indirect evidence that may be provided is the listing of decisions by public bodies whose nature and background would 'suggest' that benefiting one or more business groups constituted their prime motive. Such evidence has a lot of value but is extremely difficult to put together. We shall not here present such evidence, leaving it to other papers in this series. Instead we shall concentrate on an alternative kind of indirect evidence in the form of results that indicate the nature of the processes at work in determining the winners and the losers in the competition between businesses. Who are the ones who have succeeded in the competition game under liberalization and have been the principal drivers of changes in the corporate sector? Are they the same old business groups that had flourished under the old economic policy regime or has liberalization provided a congenial environment for a new breed of entrepreneurs to grow and establish themselves? Have such new entrepreneurs grown purely on the strength of their entrepreneurship or have other factors outside the economic sphere contributed to their success? Answering these questions is what our evidence is directed towards. These questions acquire significance in view of the widely held view that liberalization was supposed to eliminate the potential system of patronage in-built into the old system of industrial regulation—with its artificially created barriers to entry into different industries—that allowed business opportunities in them to be rationed between a privileged few business houses (or 'cronies'). With liberalization, it was contended, it would be above all entrepreneurial ability and not a prior command over patronage or resources that would (a la Schumpeter) separate the successful business from the failures. If this understanding were to be correct, then more than a decade and a half of liberalization should have produced significant changes in the major players in different industries and at the aggregate level. That it has not is what our evidence will show.

5.1 An Overview

To begin with, one may briefly note some overall evidence about the growing importance of the private corporate sector in the Indian economy. Clearly, liberalization and the removal of many externally imposed constraints on it appear to have created a conducive environment for the expansion of the private corporate sector in India. The rapid growth of non-government joint-stock companies and their paid-up-capital that was observed in the 1980s continued thereafter (Table 1). The notable feature of the growth after 1991, however, was that it reversed the trend of increasing share of government companies in the paid-up capital of the corporate sector.

Table 1
Growth of Companies and their Paid-up Capital

End March	*No. of Companies*	*Paid-up Capital (Rs. Cr.)*	*Of which, Non-Government Companies*		*Share of Non-Govt Cos. in PUC (%)*
			No. of Companies	*Paid-up Capital (Rs. Crores)*	
1981	62,714	16,357	64,863	4,914	**30.04**
1986	1,24,379	36,595	1,23,359	9,507	**25.98**
1991	2,24,452	74,798	2,23,285	20,313	**27.16**
1996	4,09,142	1,64,088	4,07,926	87,126	**53.1**
2001	5,69,100	3,57,247	5,67,834	2,47,501	**69.28**
2002	5,89,246	4,05,753	5,87,985	2,85,248	**70.3**
2003	6,12,155	4,57,059	6,10,872	3,26,576	**71.45**
2004	6,41,512	4,98,791	6,40,203	3,52,432	**70.66**
2005	6,79,649	6,54,022	6,78,321	4,98,208	**76.18**
2006	7,32,169		7,30,817		

Source: Annual Reports on the Working of the Companies Act

By the mid-1990s, the paid-up-capital of non-government companies had exceeded that of government companies and the gap has continued to increase thereafter. Not only that, the share of the private corporate sector in the economy's net fixed capital stock has also increased rapidly after liberalization, leaving behind the share of non-departmental enterprises. In other words, with liberalization there has been a rapid process of privatization of the corporate sector. A second indication of the rapid growth of the private corporate sector is the fact that the organized private sector has grown faster than the rest of the economy, and increased its share in NDP (at current prices) from just over 12% in 1990–91 to over 19% by 2004–05 (Table 2).

This growth of the private corporate sector has also been accompanied by a rather dramatic shift in its sectoral focus. As is indicated by Table 3, the services sector has rapidly displaced manufacturing as the principal sphere of operation of organized private capital.

Table 2
Indicators of the Importance of the Private Corporate Sector in India (%)

Share of Organized Private Sector in NDP at Current Prices		*Share of Private Corporate sector in Net Fixed Capital Stock at 1990–91 prices*	
1980–81	12.5	**1981**	7.45
1990–91	12.33	**1991**	10.79
2004–05	19.24	**2006**	23.4

Source: Computed from data in CSO, National Accounts Statistics

Table 3
Share of Manufacturing & Services in Private Organized NDP

Sector	*1990-91*	*2004-05*
Manufacturing	64.48	37.66
Services	24.41	50.32

Source: Computed from data in CSO, National Accounts Statistics.

The growth of the private organized sector, however, has not been one that has spread its benefits widely. One indicator of that is that employment in that sector has hardly grown since 1991. A second is that most of the private organized growth has taken the form of corporate profits. The share of compensation of employees in private organized NDP declined from 43.81% in 1993–94 to just 33.33% in 2004–05. This trend has been the sharpest in the rapidly growing services sector where the share of compensation of employees has fallen from 46.52% in 1993–94 to 27.54% in 2004–05. In the manufacturing sector, we see a similar story if we exclude the salaries of white-collar employees. The share of wages in net value added in the factory sector (as per ASI data), which was 30.28% in 1981–82 and even at the end of the 1980s was 27.65% (1989–90), has actually fallen steadily and rapidly—to 17.89% in 1997–98 and further to 12.94% in 2004–05.

5.2 Stability and Change in Leading Business Groups

Notwithstanding the expansion and transformation of the private corporate sector, major business groups of the pre-liberalization era continue to dominate the sector. Table 4 lists the largest 25 business groups/families (in terms of assets) in 2005–06, based on the group classifications and companies available in the Prowess Database[47]. As many as 15 of them appeared amongst the large business groups in the last list of companies registered under the MRTP Act, almost all of them being also amongst the 25 largest at that time. The MRTP Act listings, however, did not capture all the large groups at that time, and 5

[47] Since there have been divisions in the case of many family controlled business houses, for facilitating comparison with the past all the different splinter groups of a family controlled group have been clubbed together prior to ranking them.

of the remaining 10 large business groups—namely OP Jindal, Ispat, Videocon, Wipro, and Bhai Mohan Singh—were also large by 1989–90. A hint of this is also provided by their asset holdings at the end of 1991–92, the year that liberalization began.

Table 4
Assets of Top 25 Business Groups of 2005–06

Rank	*Rank 1990#*	*Group/Family*	*Assets (Rs. Crores.)*		
			1989–90#	*1991–92*	*2005–06*
1	3	Reliance (Ambani)	3,241	9,167	1,63,989
2	2	Tata	6,851	15,564	1,01,219
3	1	Birla	7,235	13,917	67,544
4	26	Essar (Ruia)	437	1,898	44,949
5	15	I.T.C.	742	4,047	30,012
6		Om Prakash Jindal		635	26,886
7	28	Hinduja (Ashok Leyland)	422	1,277	23,197
8		Bharti Telecom		29	21,808
9		Sterlite Industries		2,480	19,457
10	9	Larsen & Toubro	1,130	3,199	17,589
11	7	Bajaj	1,228	1,908	16,994
12	22	Goenka	570	3,583	16,151
13		Ispat (Mittals)		1,092	15,142
14	21	Mahindra & Mahindra	620	1,223	14,947
15	11	T.V.S. Iyengar	929	1,582	14,176
16	12	Uni Lever (F)	925	3,368	13,669
17	SLU	Jaiprakash	484	1,164	12,845
18		Videocon		873	11,373
19		WIPRO		103	9,595
20		Infosys Technologies Ltd.		8	9,114
21		Jet Airways (India) Ltd.			9,067
22	4	Singhania	1,938	2,952	8,356
23		Moser Baer (F) Group			8,178
24	5	Thapar	1,782	2,665	8,010
25		Bhai Mohan Singh		539	7,999

Source: For 1989–90; for the rest, CMIE, Prowess Database

The remaining 5 groups may have grown large after liberalization, but in most of these cases their growth trajectory has been through processes where the 'visible hand' of the State has been prominent. Bharti and Jet Airways have grown mainly through regulated sectors—namely telecom and aviation respectively—where private sector entry was

permitted after liberalization. Older large groups have also expanded in similar directions—with the Ambani, Tata, and Birla groups, for example, having substantial interests in the telecom sector. A large part of Sterlite's assets come from privatized public companies. Again, older groups too have benefited from privatization—the Tata acquisition of VSNL and Reliance's acquisition of IPCL being two prominent examples. The low-taxed IT sector has been the domain of Infosys' growth, as it has been also for older groups like Tata and Wipro.

Table 5
Distribution of 278 Business Groups by Ratio of R & D Expenditure to Total Sales

10 % and above (4)	12% (14)	0.5–1% (25)
Ranbaxy Group	Tata Group	Bajaj Group
Dr. Reddy's Group	Mahindra & Mahindra Group	Thapar Group
Sun Pharma Group	T.V.S. Iyengar Group	Kirloskar Group
Torrent Group	Hinduja (Ashok Leyland) Group	Kalyani (Bharat Forge) Group
5–10% (9)	Bharatia Group	Amalgamation Group
CIPLA Group	Elgi Group	Asian Paints Group
Lupin Group	Eicher Group	Modi
Firodia Group	Sanmar Group	Escorts Group
Zydus Cadila Group	Samtel Group	Ramco Group
Wockhardt Group	HFCL Group	Rajju Shroff Group
Ind-Swift Group	Rico Auto Inds. Group	Alchemie Group
Panacea Biotec Group	Shyam Telecom Group	Excel Industries Group
Glenmark Pharma Group	Jyoti Group	Rane Group
Zee Telefilms group	Easun Group	Mehta C.K. Group
		Larsen & Toubro Group
2–5% (11)	0–0.5 % (117)	Ghia Group
Piramal Group	Ambani	Sandesara Group
Moser Baer Group	Birla	Cosmo Group
Dabur Group	Om Prakash Jindal Group	Elder Group
Aurobindo Pharma Group	Sterlite Inds. Group	Sona Group
Ipca Labs Group	Hero (Munjals) Group	Jagsonpal Group
Alembic Group	Goenka	WS Industries Group
J B Chemicals Group	Murugappa Chettiar Group	Grauer & Weil Group
Minda S.L. Group	Singhania	Alkyl Amines Group
Ucal Fuel Group	Godrej Group	Batliboi Group
Indoco (Suresh Kare) Group	UB Group	
Natco Pharma Group	Bangur, etc.	0% (108)

Note: Figures in Brackets indicate number of groups in each category
Source: Computed from Prowess Database of CMIE.

Table 5 illuminates the fact that dominance in the Indian private corporate sector can hardly be attributed to the dominant firms being the significant technological 'innovators'. It shows that only a few business groups, almost all of them involved in the pharmaceutical sector, invest any significant portion of their revenue in research and development. More strikingly, the largest Indian groups are mostly in the category of low spenders on R & D.

5.3 Liberalization and Changes in Market Leaders: Results of a Sample Study

The broad empirical picture of the previous section can be further reinforced by the results of a study that has a greater micro-orientation. Changes in the overall picture of leadership in the corporate sector should reflect both the changes in the relative importance of industries as well as those *within individual* industries. The growth of new large groups like Bharti, Infosys, Jet Airways or even Moser-Baer is associated with the former kind of change, and neither of them can be said to have grown by displacing less efficient incumbent private sector firms in the industries through which they have grown. But if liberalization was supposed to remove entry barriers in general in the industrial sector, barriers that protected inefficient incumbents from competition, then one should expect that the composition of leading firms in different industries should have undergone important changes since 1991. Our sample study outlined below looks at the nature of these changes in the manufacturing sector, with the emerging services sector also making a brief appearance.

5.3.1 The Sample

For the purposes of this inquiry, we chose 126 manufactured products covered by the latest issue of CMIE's Market Size and Shares (CMIE 2007). The principal criterion used for short-listing these products from the 243 covered in the publication was the size of the market[48] for these manufactured products in the year 2005–06, and a threshold minimum size of Rs. 1000 crores was applied. Since comparisons had to be made with the situation on the eve of liberalization, only those products could be considered which were also covered by CMIE's Market and Market Shares 1992 (CMIE 1992) and which provided comparable information for 1990–91. In a few cases, the products appearing in the latest issue did not directly appear in the 1992 issue but were included with other products or information about the state of the industries were indirectly available from related industries. These were included in the sample because it was possible to make an assessment of the changes and continuities over the period 1991–2006. However, some

[48] The CMIE currently defines the size of the market for any product as sales by domestic firms of that product (domestic plus exports) plus imports of the same. In other words, domestic purchases plus exports of any product constitute the total market for it.

products like soft drinks, marine products, and diamonds have been excluded because of difficulties in comparing their pre- and post-liberalization scenarios[49]. The total sales of the 126 products finally included amounted to Rs. 759245.1 crores[50], equivalent to 42.07 % of the total value of registered manufacturing output for the year 2005–06. But these sales were highly unevenly distributed amongst the 126 products, with a mere 13 of them accounting for over 50% of the aggregate (and the first 8 for over 40%) (Table 6). At the other end, 57 products accounted for less than 10% of the total sales (for details see Appendix Table 1).

Table 6

Market Size, Domestic Consumption and Sales of the Top 13 Sample Industries (Rs. crores)

	Product/Industry	*Market Size*	*Domestic Consumption*	*Sales Value*	*Cumulative Percentage Share in Total Sales of Sample Products*
1	Steel	117211.30	101667.20	97589.60	12.69
2	Drugs & Pharmaceuticals	46115.20	24536.30	41600.00	18.10
3	Spun Yarn	39012.10	30811.10	38750.00	23.13
4	Passenger Cars	33198.90	33198.90	33198.90	27.45
5	Cement	33013.90	31898.50	33000.00	31.74
6	Sugar	30654.00	30084.90	30000.00	35.64
7	Vegetable Oils	34216.30	34216.30	25500.00	38.96
8	Motorcycles	19073.40	19026.20	19073.20	41.44
9	Paper	17879.70	16901.70	16200.00	43.54
10	M & HCVs	15178.40	14138.10	15086.50	45.50
11	Urea	15970.30	15966.00	14250.00	47.36
12	Cigarettes	13709.30	13594.90	13664.10	49.13
13	Fabrics	168941.80	160901.50	13454.81*	50.88

* Includes only sales of 807 companies; aggregate industry sales = Rs. 167000 crores

Source: CMIE 2007.

[49] In the case of soft drinks, the coverage certainly excludes the major players, they being closely held MNC affiliated unlisted companies. The problem of non-coverage of MNC affiliated unlisted companies also afflicts other industries, in particular the consumer electronics industries. But in their case, the degree of non-coverage is firstly lower, and secondly, while assessing the changes in them we will take into account the important presence of these unlisted companies. Marine products (where there is a substantial export component) have been excluded because no proper comparison can be made between 1990–91 and 2005–06—many of the firms to which sales are attributed in the 1992 issue were clearly not producers, suggesting that these were trading sales for securing export benefits. In the diamond industry, the process of firms becoming incorporated entities only began in the second half of the 1980s.

[50] In the sales of fabrics, in whose case a large part is by unorganized units, we have included only the sales of the 807 companies in the CMIE sample.

5.3.2 Concentration in Individual Industries

The unevenness in the relative sizes of different industries make the task of assessing the *in general* level of concentration in Indian manufacturing industries somewhat complicated. On the one side is the reality that a large number of industries are fairly concentrated in the sense that there are few domestic players in them. But the majority of the few relatively larger industries are also amongst the least concentrated. Thus while in the case of as many as 57 products in our sample over 90% of sales are accounted for by the top 5 firms and imports[51], only 3 of the top 13 products accounting for over half of the sales—namely motorcycles, medium and heavy commercial vehicles, and cigarettes—are amongst these 13 (for details see Appendix Table 2). Other industries within these 13—like spun yarn, fabrics, vegetable oils, sugar, etc.—have a large number of firms within whom sales are distributed.

This pattern, of a few large less concentrated industries and a large number of smaller but highly concentrated industries, is of course not new. As brought out by the examination of industrial concentration by the Monopolies Inquiry Commission, a similar scenario prevailed over four decades ago[52]. Even the 1990–91 picture as it appears in the 1992 CMIE issue was of the same kind, with the more and less concentrated industries being the same as in 2005–06. Lack of comparability of the data does not permit generating quantitative results on the trends in market concentration. But it does not appear that there is any industry amongst the 126 industries in our sample exhibiting a significant increase in the number of major firms between 1990–91 and 2005–06. In other words, liberalization has not resulted in any major process of de-concentration in individual industries.

But in the context of any discussion of concentration in individual industries in India, three important points need to be kept in mind.

Firstly, the phenomenon of the same business group having more than one company in the same industry has not completely disappeared and in fact can also be found in the relatively larger industries. Thus, actual levels of concentration are higher than the pattern of distribution of the market between companies would suggest. In the Cement industry for example, the top four companies had a market share of a little over 41% in 2005–06.

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[51] Partly, of course, this high share can be attributed to a large level of imports—10 of the 12 products where imports exceeded the sales of the top 5 firms were amongst these 57 products. However, these 10 products accounted for less than 6% of the total sales of all 57 products.

[52] GOI (1965)

Table 7
Illustrative List of Cases of More than one Company of the same group in the same industry

Product / Industry	*Group*	*Market Share of:*	
		Largest Single group co.	*All group cos.*
Cement	Birla AV	11.65	22.28
Cement	Holcim- Gujarat Ambuja	11.25	22
Aluminium Foils	Birla AV	37.45	42.17
Animal Feeds	Godrej	11.30	20.30
Axle Shafts	Kalyani	32.03	51.37
Beer	UB	39.62	77.41
Ethylene Glycol	Reliance	45.80	74.13
Ferro Alloys	IMFA	11.35	17.05
Floor & Wall tiles	Somany Enterprises	10.93	18.20
Forgings	Kalyani	24.82	28.79
	Amtek	10.09	16.35
Glass Hollowares	Somany Enterprises	28.02	40.09
LAB	Reliance	31.99	48.88
Material Handling Equipment	Tata	12.04	18.84
PFY (incl. POY)	Garden Vareli	6.01	6.87
	Reliance	36.30	47.14
Piston Rings	M-Federal Mogul	27.61	34.95
	Amalgamations (Simpson)	9.20	16.54
PSF	Reliance	59.36	69.35
PVC	Reliance	35.04	56.68
PVC Pipes &Fittings	Kisan	5.10	12.80
Steel	Jindal OP	5.21	9.42
Steel Pipes & Tubes	Jindal OP	10.99	13.70
	Kejriwal	5.98	8.00
	Jindal BC	2.37	3.34
Sugar	Dhampur Sugar	2.15	2.77
	Sakthi	1.35	2.58
	KCP (V Ramakrishna)	1.05	1.79
	Saraswati Indl. Syndicate	1.15	1.69
	Thiru Arooran	0.94	1.64
Vanaspati	Ruchi	8.30	10.68
	Amrit Banaspati	4.27	7.09
Vegetable Oils	Ruchi	14.19	17.83
Wines, Spirits and Liquors	UB	35.78	53.01
Wires & Cables	Vedanta (Sterlite)	8.09	13.43
	Surana Udyog	1.02	1.79

Source: Derived from CMIE 2007

But these four companies belonged to only two groups—the Aditya (Kumarmangalam) Birla group and the Holcim-Gujarat Ambuja combine. The former group's cement companies between themselves accounted for 22.28% of the market, while the cement companies controlled by Kumarmangalam Birla's grandfather, B.K. Birla, which he is supposed to inherit, had another 7.9% of the market[53]. Combining this with the 22% share of the Holcim-Gujarat Ambuja companies, one can say that effectively the top 2 firms had a combined market share of over 50%. That the cement industry is not an exception in this regard is illustrated by the cases highlighted in Table 7.

Secondly, the degree to which different manufactured products in our sample properly represent a product market—which should only include sales of close substitutes—varies considerably across products, and is lower in case of some (though not all) of the larger industries—like drugs and pharmaceuticals, fabrics, steel, and paper—with the first of these being the most extreme case. This is an additional reason why the degree of concentration tends to be underestimated.

While the above two have been relevant to the Indian context even earlier, the third is a new phenomenon, of major companies in some industries not getting covered by the CMIE on account of their being fully owned subsidiaries of parent MNCs. In some cases—refrigerators, televisions receivers, washing machines, etc., being typical examples—these firms could be amongst the top 5 firms, and the concentration ratios emerging from the CMIE samples could be consequently lower than the actual. A possibly related problem is the following. There are some obvious cases of industries in CMIE 2007 where companies, which were part of the sample but not appearing amongst those, listed having higher market shares than those actually listed. For example, in the case of scooters, the total sales of all the 7 sample companies is shown to be Rs. 2834.39 crores, which is also the aggregate market size. Only six companies are, however, listed and their aggregate sales are shown to be Rs. 1191.52 crores or 42.04% of the market. This would mean that the unmentioned 7th company would have a market share of nearly 58%! In the case of refrigerators too, 8 listed companies have been shown to have an aggregate market share of 56.45% and the total 10 sample companies a share of 97.44%, leaving a combined market share of over 40% for the two companies not named!

5.3.3 Continuity and Change in the Leading Firms

The heterogeneous pattern of concentration suggested that dual criteria be applied for determining major firms in industries—based on either size or relative position in the

[53] The companies controlled by different factions of the family together accounted for 37% of the market.

industry. Accordingly, we defined a leading firm in any industry in 2005–06 as one which either was amongst the top 5 firms in that industry or had sales of at least Rs. 100 crores in that industry. Having thus identified the leading firms, we categorized the different industries on the following basis, using CMIE 1992 for comparison.

Category 1 industries: Those in whom the leading players in 2005–06 prominently featured companies/groups already present in the industry in 1990–91. The proportion of such industries can serve as an indicator of how widespread has been the role of the incumbency factor in determining the leading firms after liberalization.

Category 2 industries: Those in whom there were new major players but from amongst the large Indian/NRI business groups existing in 1990, entry having been achieved through acquisitions or otherwise. This is an indicator of the importance of prior membership in the category of large business in enabling firms to take advantage of the changed entry conditions.

Category 3 industries: Those in whom new major players were affiliates of Multinational Corporations (MNCs), MNC entry having been through acquisitions or otherwise. This is a parallel category to Category 2.

Category 4 industries: Those in whom there were new major players which were Indian controlled but not from amongst the old large groups. The relative importance of these industries would be an indicator of the degree of emergence of new Indian entrepreneurship in the sample industries.

These four categories are, of course, not mutually exclusive but overlapping. But their relative significance in the sample can help illuminate the impact of changes in entry conditions. These are shown in Table 8.

As can be seen in the table, as many as 119 of the 126 industries in the sample, accounting for nearly 98% of the total sales of the sample industries, fell in category 1 with 51 of these being exclusively in that category. At the other extreme, only 28 industries accounting for less than 40% of total sales saw the emergence of new Indian players, and in these too in all barring one the old incumbent firms too continued to occupy leading positions. Further, in some of them the emergence of new Indian players amongst the leading firms has been accompanied by older large groups being among the new major players in these industries. The latter phenomenon, and the emergence of new MNC players, is also witnessed in many other industries without being accompanied by the former.

Table 8
Relative Importance of Different Categories of Industries and their Overlaps

		Overlap with Category:				*Total*
		1	*2*	*3*	*4*	
Category 1 Industries	No.	51	34	21	27	**119**
	Sales Share (%)	34.27	32.85	14.41	39.32	**97.58**
Category 2 Industries	No.	34	4	3	10	**39**
	Sales Share (%)	32.85	1.66	1.56	18.42	**34.93**
Category 3 Industries	No.	21	3	1	2	**23**
	Sales Share (%)	14.41	1.56	0.13	3.73	**14.96**
Category 4 Industries	No.	27	10	2	1	**28**
	Sales Share (%)	39.32	18.42	3.73	0.21	**39.53**

Notes: 1) Sales Share refers to share in aggregate sales of all sample industries; 2) Overlap of any category with itself refers to those which are exclusively in that category.
Source: Derived from CMIE 2007.

Thus, the stability of leading firms has been a far more widespread phenomenon than that of their displacement by new Indian players. Even where older incumbents have been displaced, old large groups or MNCs rather than new Indian players have replaced them in many cases. Indeed, even in the industries where new Indian firms have made a mark, they are more prominent than older incumbents or large groups in only a handful of industries. Typically, even in such industries older groups and MNCs have tended to overshadow new firms. As Table 9 shows, only a little under a quarter of the total sales of leading companies in the 28 Category 4 industries were accounted for by the new Indian major players (for details see Appendix Table 3).

Table 9
Significance of New Firms amongst Leading Firms in 28 Category 4 Industries

Share of New Firms in Total Sales of All Leading Firms	*Number of Products*	*Share in Total Sales of Leading Firms in all 28 products (%)*
Over 50%	7	7.04
25 to 50%	12	37.73
Less than 25%	9	55.23
24.66 % (Overall share)	**28**	**100.00**

Source: Derived from CMIE 2007.

Even the 'newness' of the new Indian business houses we have been talking about also is only in the sense that they were not recorded as firms in the respective industries by CMIE 1992. But this may have been only because they were private limited companies then, or they may have simply been overlooked. We therefore undertook a further exercise of trying to ascertain the age of these firms and when they entered the industries in which they appear amongst the major firms in 2005–06. This exercise threw up the result that the overwhelming majority of these supposedly new firms were in fact

already in existence before liberalization and were often though not always incumbent firms in the industries where they appeared prominently in 2005–06 (Table 10). Indeed, in many cases, the firms date back to before the 1980s and some have even had a life span stretching back to the pre-independence period.

Table 10
Period of Origin of New Major Indian Players in 28 Category 4 Industries

Category of New Indian Players	*Sales in 2005–06 (Rs. crores)*	*Percentage to Total*
Firms Originating before 1980	26033.94	49.94
Firms Originating between 1980 and 1991	21626.61	41.48
Firms Originating after 1991	4471.12	8.58
TOTAL	**52131.67**	**100.00**

Source: Derived from CMIE 2007.

A clear cut and unambiguous conclusion that emerges from the above is the following. The entrepreneurial base from which the major Indian firms in 2005–06, in the 126 manufactured products appearing in our sample, have been mainly drawn was one that was already in existence before the initiation of liberalization. The easing of entry conditions in *individual* industries does not therefore appear to have contributed significantly to easing of the *general* barriers to entry into the class of those who control industrial assets and markets. Our sample is also sufficiently large and representative for these conclusions to be generalized for the manufacturing sector as a whole.

These conclusions can be fortified by examining the overall distribution of sales in the 126 industries taken together shown in Table 11, which is also important because the leading groups in different industries are not mutually exclusive. This shows that companies belonging to the Indian groups that were large before the onset of liberalization accounted for nearly half of the total sales by privately controlled companies in the 126 products in the sample, with MNCs present from before liberalization accounting for another 10%. Less than 40% of such sales, and less than 35% of the total sales was the share of other Indian private firms, and this included the sales of many firms of pre-liberalization origin.

Companies controlled by the top 40 Indian families/family groups, from a ranking based on sales in these 126 industries, accounted for 42.64% of the total sales and the top 10 MNC controlled companies had a share of 8.46%. In other words, sales in the 126 sample products were highly concentrated in a few hands (for details see Appendix Table 4). Of the top 40 Indian families/family groups, only 5 did not originate from the large Indian groups at the end of the 1980s but each had been born before that. The Vedanta or Sterlite group of the Agarwals, who have been already mentioned earlier, has been in the metal

business and became famous by acquiring BALCO and Hindustan Zinc when these were privatized. The Singhals of the Bhushan Steels groups have been involved with the steel industry since the early 1970s. The Dhingras of Berger Paints acquired the 1923 incorporated company from the UB group in 1991. The Nirma group of Karsanbhai Patel began in 1969. The Adani group, having begun as a partnership firm in 1988, would have to be dubbed the youngest of these 5 groups. Even many old family groups about whom the general perception may be that they are in terminal decline and who are not generally portrayed these days as the symbols of corporate India—like Thapar, JK Singhania, Shri Ram, Dalmia and Bangur—still appear to be of fairly significant proportions when their different splinter groups are combined.

Table 11
Shares in Total Sales of 126 products

Category	*Sales*	*Share In total Sales*	*Share in Private Sales*
Cooperative	6267.64	0.83	
Govt. Controlled Private Sector Cos.	5162.37	0.68	
Public Sector Cos.	61120.62	8.05	
Old Non-Private Total	**72550.63**	**9.56**	
Old Indian large Groups	338730.55	44.61	**49.33**
Old MNCs	69480.71	9.15	10.12
Old Large Private Total	**408211.26**	**53.77**	**59.45**
New MNCs	17692.12	2.33	2.58
MNCs Total	**87172.83**	**11.48**	**12.69**
Others	**260791.11**	**34.35**	**37.98**
Total Sales	**759245.12**	**100.00**	

Source: Derived from CMIE 2007.

5.3.4 Services and the Emergence of New Entrepreneurial Groups

Does the general picture of stability amongst major entrepreneurial groups despite liberalization change very much if we were to also take into account the new services sectors that have seen rapid growth? Apparently not if we were to consider, for example, the two major such service industries—telecom services and software—even though the relative newness of these sectors should have made them conducive for entry of new firms.

In the former, the only major Indian group that did not figure amongst the large groups of the pre-liberalization era was the Bharti group, and even this group had established itself in the manufacture of telephones before liberalization. Other major players in the telecom industry were public sector enterprises BSNL and MTNL, old groups like Tata,

Birla AV, Reliance and Essar, or foreign companies like Hutch (now acquired by Vodafone).

In the software industry, 6 of the top ten companies in terms of sales—Tata Consultancy Services, Wipro, HCL Technologies, Tech Mahindra, I-flex Solutions, Hewlett-Packard Globalsoft, and Larsen & Toubro Infotech—who between themselves generated 48.54% of the total industry sales in 2005–06, were associated with old Indian large groups or MNCs. Of the three remaining top 10 companies, the largest was Infosys Technologies with a market share of 17.88%. But Infosys started operations way back in 1981. Satyam Computer Services (market share 9.18%) was incorporated in 1987. Polaris Software Lab, the smallest of the top 10 companies, too originated in the 1980s and Citigroup played an important role in its formation. New entrepreneurial groups in the software industry are thus crowded into the 23% market share left by the top 10 for remaining 684 other companies. In other words, even a sector like software, apparently the most conducive to the emergence of new entrepreneurship, has not made any significant dent to the dominance of older established enterprises or entrepreneurial groups.

6. CONCLUSION

The general conclusion that has emerged from the preceding discussion so far can be summed up as follows: the time has not yet come to write the epitaph of Indian crony capitalism, if one does choose to use that expression as a description of the intertwining of the world of business and money-making and that of politics and administration. Such intertwining has been a feature of Indian capitalism from its birth and liberalization has only given it a renewed vigour. In ways different from the past but for that reason not less significantly, globalized finance and a narrow spectrum of large and established businesses have exercised influence on and also benefited from the decision-making process of the State. The empirical evidence presented clearly shows that under liberalization the main actors and drivers of changes, in the private corporate sector and in different individual industries, have been existing domestic and foreign large firms and incumbent firms—that is firms with a past 'history'—rather than new entrepreneurs. Private capital, both domestic and foreign, and both industrial and financial, has also succeeded during this period in imposing to a greater extent its writ on the development process of the Indian economy, to the exclusion of other segments of Indian society. While the corporate sector and financial markets have grown rapidly and enlarged their presence in the Indian economy, the exclusive character of that growth is now widely recognized. In either its narrower or wider sense, therefore, a high degree of 'state capture' is at least a de facto if not a de jure reality in contemporary India.

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Appendix Table 1

Sample Industries Ranked According to Size of Sales

	Product	*Market Size*	*Domestic Consumption*	*Sales Value*	*Cumulative Percentage Share in Total Sales of Sample Products*
1	Steel	117211.3	101667.2	97589.6	12.85
2	Drugs & Pharmaceuticals	46115.2	24536.3	41600	18.33
3	Spun Yarn	39012.1	30811.1	38750	23.44
4	Passenger Cars	33198.9	33198.9	33198.9	27.81
5	Cement	33013.9	31898.5	33000	32.16
6	Sugar	30654.00	30084.9	30000.00	36.11
7	Vegetable Oils	34216.3	34216.3	25500	39.47
8	Motorcycles	19073.4	19026.2	19073.2	41.98
9	Paper	17879.7	16901.7	16200	44.11
10	M & HCVs	15178.4	14138.1	15086.5	46.10
11	Urea	15970.3	15966	14250	47.98
12	Cigarettes	13709.3	13594.9	13664.1	49.77
13	Fabrics	168941.8	160901.5	13454.81	51.55
14	Soaps	12613.2	12481.6	12500	53.19
15	Steel Pipes & Tubes Excl Seamless Tubes	12779.8	9607.5	12143.1	54.79
16	Automobile Tyres	12302.4	10183.7	12030	56.38
17	Copper & Copper Products	15685.7	8952.9	11763.2	57.93
18	LCVs	9706.6	9137	9705.2	59.20
19	TV receivers (Incl. spares & kits)	9872.8	9542.3	9100	60.40
20	PFY (incl. POY)	9366.4	8563.2	8735.1	61.55
21	Wines, Spirits and Liquors	8877.8	8754.9	8675.4	62.70
22	Synthetic Resins	10973.3	8987.9	7643.3	63.70
23	Tractors	7374.4	6383.1	7350	64.67
24	Pig Iron	6960.8	6466.6	6950	65.59
25	DAP	8565.4	8565.4	6900	66.50
26	Tea	6908.1	5177.4	6800	67.39
27	Fabricated Steel Structurals Excl. Transmission towers	7026.1	6254.4	6800	68.29
28	Alloy Steels	11125.20	7074.8	6585.40	69.15
29	Pesticides of all types	7306	4515.3	6551.6	70.02
30	Paints & Varnishes	6957.4	6858.2	6550	70.88

Appendix Table 1 Continued

	Product	*Market Size*	*Domestic Consumption*	*Sales Value*	*Cumulative Percentage Share in Total Sales of Sample Products*
31	Wires & Cables	8024.2	7299.5	6472.8	71.73
32	Primary Aluminium	7496.4	6577.6	6359.5	72.57
33	Sponge Iron	6282.8	6245.8	6250	73.39
34	MUVs	5947.10	5947.1	5947.10	74.18
35	Xylenes	6799.4	4324.9	5260	74.87
36	Coffee	5372.9	3773.4	5200	75.55
37	Vanaspati	5200	5200	5200	76.24
38	Synthetic detergents & Scourers	5354.7	5191.5	5098.1	76.91
39	Aluminium Products	7162.3	5744.3	5049.8	77.58
40	Mixed & Complex Fertilizer other than DAP	5155.3	5142.4	4905.7	78.22
41	PVC	5992.7	5872.2	4800	78.85
42	Computers & its Peripherals All types	10668.8	10483	4686.8	79.47
43	Boilers	4800.4	4496	4554.2	80.07
44	PSF	4324.7	4104.2	4227.7	80.63
45	Castings	4100	4100	4100	81.17
46	Air-conditioning Equipment	4554.8	4374.4	3641.1	81.65
47	Engines of All types	5290.1	4719.8	3600	82.12
48	Earth Moving machinery	4285.8	4206.4	3460.7	82.58
49	Ferro Alloys	4100.00	2920.20	3439.5	83.03
50	Transmission Power Structures	3438.50	3126.1	3416.70	83.48
51	Switchgears of All types	4918.9	3810.6	3224.6	83.90
52	Machine Tools	7930.5	6981.5	3200	84.33
53	Transformers	3492.2	2913.8	3143.9	84.74
54	Ethylene Glycol	3493.3	2952.4	3135	85.15
55	Ammonia	5265.7	5262.4	3050	85.56
56	Animal Feeds (incl. Aqua Feed)	3264.1	3180	3050	85.96
57	Soya Products (incl. oil cakes & meal)			2934	86.34
58	Storage Batteries	3421.8	3221.1	2900	86.73
59	Caustic Soda	2930.4	2899.6	2841.1	87.10

Appendix Table 1 Continued

	Product	*Market Size*	*Domestic Consumption*	*Sales Value*	*Cumulative Percentage Share in Total Sales of Sample Products*
60	Scooters	2834.5	2827.6	2834.4	87.47
61	Refrigerators	2892	2776.6	2818.1	87.84
62	Glass	3179.5	3073.3	2800	88.21
63	Steel Wires & Ropes	3064.9	2635.7	2796.1	88.58
64	Bearings	4390.5	3558.9	2714.5	88.94
65	Forgings	2656.3	2656.3	2656.3	89.29
66	Fuel Injection Pumps, Nozzles, Nozzle Holders	2658.4	2369.6	2636.7	89.64
67	Three Wheelers	2506.7	2504.8	2506.5	89.97
68	Dyes & Pigments	4002.5	793.8	2506.5	90.30
69	Benzene	2519.3	1689.4	2450	90.62
70	Beer	2376.8	2347	2368.7	90.93
71	LAB	2313.10	1809.6	2290	91.23
72	Soda Ash	2368.7	2213.3	2250	91.53
73	Washing Machines	2255.2	2168.7	2147.3	91.81
74	Confectionery	2151.9	2055	2100	92.09
75	Footwear			2050	92.36
76	Floor & Wall tiles	1972.6	1970.3	1971.3	92.62
77	Seamless Pipes & Tubes	3948.40	3188	1962.5	92.88
78	VSF	1957.6	1850.4	1948.2	93.13
79	Shock Absorbers	1757.3	1696.7	1750	93.36
80	Bicycles	1688.50	1581.40	1670.00	93.58
81	Polyester Films	1808.9	1430.5	1658.9	93.80
82	Glass Hollowares	1688.6	1422.3	1620	94.01
83	Carbon Black	1713.9	1469.3	1606.3	94.23
84	Plywood & Veneers	1685.8	1524.9	1600	94.44
85	Printing Inks	1828.7	1431.9	1575.30	94.64
86	Biaxially Oriented Polypropylene Films	1639.9	1595.6	1507.8	94.84
87	Pumps of all kinds	3174.7	2373.2	1500	95.04
88	Refractories	1887	1761.7	1454.7	95.23
89	Malted Milk Foods	1450.7	1424.8	1450	95.42
90	Industrial Alcohols	2044.10	1957.30	1414.81	95.61
91	TV Picture Tubes	1797.4	1664.6	1400.7	95.79

Appendix Table 1 Continued

	Product	*Market Size*	*Domestic Consumption*	*Sales Value*	*Cumulative Percentage Share in Total Sales of Sample Products*
92	Textile Machinery	8389.6	8000.3	1398	95.98
93	Audio Equipment	2024.7	1755.5	1375	96.16
94	Asbestos Cement & Products	1385.1	1346.8	1370.1	96.34
95	PVC Pipes & Fittings	1556.2	1305.3	1366.8	96.52
96	Lamps & Tubes	1677.9	1573.5	1340.7	96.70
97	Steam & Hydro Turbines	2062.3	1928.1	1320.9	96.87
98	Dry Cells	1445.3	1403.9	1260.6	97.04
99	Automobile Tubes	1140.5	1033.4	1136	97.19
100	Infant Milk Food	1120.5	1115.1	1120	97.33
101	Axle Shafts	1100	1100	1100	97.48
102	Electrical Fans	1139.50	1053.5	1057.90	97.62
103	Newsprint	2980.8	2952.9	1047.9	97.76
104	Metal Containers (Incl. Cylinders)	1283.4	1074.8	1013.7	97.89
105	Woollen Fabrics	1191	1072.1	1004.7	98.02
106	VFY	1030.1	759.8	988.2	98.15
107	Environment Control Equipment	1246.9	1228	975	98.28
108	Process Control Equipment	1786.9	1678.9	950	98.41
109	Aluminium Foils	1294.2	1037.1	941.60	98.53
110	Material Handling Equipment	1363.2	1284.6	921.7	98.65
111	Valves	1310.7	81.9	911.1	98.77
112	Telephone Instruments	1147.3	1126.3	906.7	98.89
113	Acetic Acid	1023.8	971.6	900	99.01
114	Compressors, All Types	1648.8	1266.6	899.6	99.13
115	Pistons	872.6	779.1	850	99.24
116	Phosphatic Fertlizers	850.6	847.4	850	99.35
117	Gears	1392.1	1280.7	839.7	99.46
118	Watches & Clocks (Incl. parts)	1074.7	876.1	757.4	99.56
119	Medical Equipments	4480.1	2714.5	679.4	99.65
120	Piston Rings	634	522.1	600	99.73
121	Methanol	1010.60	996.8	515.4	99.80
122	Printing Machinery	1460.3	1126.7	404.2	99.85

Appendix Table 1 Continued

	Product	*Market Size*	*Domestic Consumption*	*Sales Value*	*Cumulative Percentage Share in Total Sales of Sample Products*
123	Particle Board	568.00	523	326.8	99.89
124	Phenol	1231.5	864.4	313.3	99.94
125	Elastomers (Synthetic Rubbers)	1861.3	1722.7	304.8	99.98
126	Metallurgical Machinery	1385.2	850.2	184.6	100.00
	TOTAL	1029027.9	912594.2	759245.12	

<u>Source:</u> Derived from CMIE 2007.

Appendix Table 2

Sample Industries Ranked According to Share of Top 5 Firms and Imports

	Product	*Share in market of:*						
		Top 1	*Top 2*	*Top 3*	*Top 4*	*Top 5*	*Imports*	*T5 +Imports*
1	Phenol	13.42	25.44	25.44	25.44	25.44	74.57	100.00
2	Cigarettes	82.59	92.31	97.21	99.57	99.67	0.33	100.00
3	M & HCVs	65.19	99.39	99.39	99.39	99.39	0.61	100.00
4	Primary Aluminium	49.47	68.91	84.42	84.83	84.83	15.17	100.00
5	Woollen Fabrics	72.92	80.96	83.74	84.36	84.36	15.64	100.00
6	VFY	30.71	59.48	80.41	91.64	95.93	4.07	100.00
7	MUVs	60.75	91.99	98.77	99.85	100.00	0.00	100.00
8	VSF	99.52	99.52	99.52	99.52	99.52	0.48	100.00
9	Three Wheelers	69.75	82.46	88.96	94.89	99.99	0.01	100.00
10	Carbon Black	47.68	83.81	93.72	93.72	93.72	6.28	100.00
11	Steam & Hydro Turbines	54.94	63.09	64.05	64.05	64.05	35.95	100.00
12	Metallurgical Machinery	7.43	9.69	11.48	12.75	13.32	86.67	100.00
13	Telephone Instruments	45.04	69.11	75.05	77.68	78.99	20.97	99.96
14	Audio Equipment	38.65	62.40	65.30	67.82	67.85	32.09	99.94
15	Xylenes	77.29	77.29	77.29	77.29	77.29	22.64	99.93
16	TV Picture Tubes	48.87	64.45	77.20	77.65	77.84	22.07	99.91
17	Ethylene Glycol	45.80	74.13	85.53	89.62	89.62	10.26	99.88
18	Watches & Clocks (Incl. parts)	55.72	63.49	67.64	69.28	70.31	29.53	99.85
19	Elastomers (Synthetic Rubbers)	8.49	13.20	16.12	16.12	16.12	83.62	99.74
20	LAB	39.91	71.90	88.79	98.74	98.74	1.00	99.74
21	Boilers	69.36	90.68	92.28	93.61	94.47	5.13	99.60
22	Printing Machinery	20.95	24.75	25.85	26.52	27.13	72.33	99.46
23	Biaxially Oriented Polypropylene Films	49.09	77.05	85.12	90.46	91.33	8.06	99.39
24	LCVs	57.26	76.36	90.99	97.86	99.37	0.01	99.39
25	Fuel Injection Pumps, Nozzles, Nozzle Holders	80.60	89.93	93.79	96.85	98.28	0.82	99.10
26	Textile Machinery	13.53	14.19	14.80	15.29	15.59	83.34	98.92
27	Seamless Pipes & Tubes	20.10	39.10	43.24	46.95	48.38	50.30	98.67
28	Dry Cells	42.92	64.91	78.04	84.01	85.88	12.78	98.66
29	Lamps & Tubes	35.76	50.61	64.43	71.50	78.20	20.10	98.30
30	Process Control Equipment	24.21	41.14	48.19	50.34	51.35	46.84	98.19
31	PSF	59.36	80.18	85.54	90.73	95.37	2.24	97.61
32	Medical Equipments	6.99	8.62	10.18	11.44	12.61	84.84	97.45
33	Bicycles	35.02	62.61	84.44	96.02	96.02	1.10	97.12

Appendix Table 2 Continued

	Product	Share in market of:						
		Top 1	Top 2	Top 3	Top 4	Top 5	Imports	T5 +Imports
34	Transmission Power Structures	49.97	71.15	85.11	93.05	96.36	0.63	96.99
35	Copper & Copper Products	36.79	63.70	70.13	71.04	71.85	25.01	96.86
36	Benzene	63.51	77.87	87.23	91.84	93.76	2.75	96.51
37	Ammonia	17.78	31.62	41.66	48.41	54.42	42.08	96.50
38	Earth Moving machinery	33.33	62.97	72.62	75.39	77.13	19.25	96.39
39	Compressors, All Types	14.79	29.12	40.13	47.56	50.82	45.43	96.26
40	Soda Ash	32.82	55.57	76.81	87.31	91.00	5.01	96.01
41	Motorcycles	50.35	82.38	93.14	94.63	95.61	0.00	95.61
42	Storage Batteries	51.46	64.49	74.82	77.77	80.31	15.25	95.56
43	Methanol	23.87	33.44	39.59	43.67	46.45	49.00	95.45
44	Acetic Acid	48.96	73.90	78.68	81.51	83.32	12.09	95.42
45	Printing Inks	40.50	57.28	72.36	76.93	81.27	13.86	95.12
46	Newsprint	9.96	19.15	26.33	28.26	29.95	64.84	94.79
47	PVC	35.04	56.68	62.95	68.77	74.37	19.90	94.27
48	Steel Wires & Ropes	40.47	73.52	77.99	81.71	85.23	8.77	94.00
49	Engines of All types	23.38	39.31	49.12	58.69	61.25	31.95	93.20
50	Valves	35.30	49.00	54.74	59.17	62.04	30.49	92.52
51	Particle Board	15.78	25.49	34.77	42.71	49.53	42.55	92.08
52	Pumps of all kinds	12.99	25.90	34.46	36.94	39.31	52.75	92.06
53	Electrical Fans	28.43	46.91	61.05	74.27	84.62	7.16	91.78
54	Paints & Varnishes	38.05	55.48	71.53	82.02	85.58	5.86	91.44
55	Computers & its Peripherals All types	14.56	25.67	28.73	31.73	34.55	56.07	90.62
56	Environment Control Equipment	19.17	37.36	54.04	65.55	68.49	21.81	90.30
57	Aluminium Foils	37.45	46.32	52.86	58.19	62.91	27.24	90.15
58	Passenger Cars	41.57	65.27	78.86	87.68	89.57	0.00	89.57
59	Axle Shafts	32.03	51.37	66.61	79.46	87.71	0.00	87.71
60	Synthetic detergents & Scourers	40.42	60.70	70.47	76.66	82.55	4.79	87.34
61	Material Handling Equipment	17.41	29.45	41.15	49.74	54.89	32.39	87.28
62	Asbestos Cement & Products	29.36	47.30	62.69	77.73	85.71	1.08	86.79
63	Malted Milk Foods	71.24	85.99	86.25	86.42	86.42	0.05	86.47
64	Aluminium Products	42.06	47.30	51.87	54.59	56.76	29.49	86.26
65	Beer	39.62	73.15	77.40	81.64	85.59	0.35	85.93

Appendix Table 2 Continued

	Product	*Share in market of:*						
		Top 1	*Top 2*	*Top 3*	*Top 4*	*Top 5*	*Imports*	*T5 +Imports*
66	Automobile Tyres	23.53	45.56	63.24	77.45	83.71	2.21	85.93
67	Tractors	32.84	50.27	63.34	75.24	85.48	0.33	85.81
68	PVC Pipes & Fittings	35.19	55.60	63.30	68.40	73.25	12.17	85.42
69	Gears	16.55	24.70	32.76	39.92	45.22	39.68	84.90
70	Mixed & Complex Fertilizer other than DAP	26.08	43.89	59.83	71.07	79.89	4.84	84.73
71	Piston Rings	27.61	52.59	62.43	71.63	78.97	5.36	84.34
72	Pistons	28.23	49.92	67.88	74.43	80.85	2.59	83.44
73	Automobile Tubes	25.62	46.42	61.73	76.70	82.60	0.39	83.00
74	Bearings	15.54	26.45	34.03	39.51	43.52	38.17	81.69
75	Switchgears of All types	15.28	24.25	33.01	40.16	47.20	34.44	81.65
76	Alloy Steels	16.06	24.33	31.38	36.69	40.66	40.81	81.47
77	Metal Containers (Incl. Cylinders)	20.60	38.95	46.03	52.97	58.62	21.01	79.64
78	Refractories	21.92	33.03	41.99	49.64	56.21	22.91	79.12
79	Shock Absorbers	39.10	69.09	74.14	78.51	78.51	0.42	78.92
80	Soya Products (incl. oil cakes & meal)	62.93	67.13	71.13	74.56	77.69		77.69
81	Infant Milk Food	67.93	75.91	77.35	77.36	77.36	0.04	77.40
82	Synthetic Resins	15.44	25.00	33.92	41.37	47.01	30.35	77.36
83	Transformers	20.82	40.82	51.11	60.22	67.11	9.97	77.08
84	Washing Machines	49.68	59.50	67.44	70.00	72.16	4.78	76.94
85	Polyester Films	28.05	40.40	49.76	59.07	64.83	8.29	73.12
86	Sponge Iron	34.27	48.32	59.23	68.87	71.95	0.52	72.47
87	Industrial Alcohols	11.59	20.97	29.08	35.91	40.25	30.79	71.04
88	DAP	15.92	29.26	38.63	45.40	51.49	19.44	70.93
89	Floor & Wall tiles	22.64	40.15	51.07	60.84	69.52	0.07	69.58
90	Machine Tools	3.46	5.45	7.01	8.34	9.60	59.65	69.25
91	Steel	24.28	34.71	41.30	47.05	52.26	16.74	69.00
92	Airconditioning Equipment	17.98	31.03	38.27	44.24	48.75	20.06	68.81
93	Dyes & Pigments	8.65	15.91	22.49	27.15	31.28	37.38	68.66
94	PFY (incl. POY)	36.30	43.37	49.70	55.77	61.79	6.74	68.53
95	Wines, Spirits and Liquors	35.78	46.43	53.67	58.16	62.27	2.28	64.55
96	Confectionery	30.49	48.36	55.14	58.26	61.21	2.41	63.62
97	Footwear	30.47	40.80	50.03	56.39	62.74		62.74
98	Ferro Alloys	15.06	26.42	33.39	40.09	46.51	16.11	62.62

Appendix Table 2 Continued

	Product	*Share in market of:*						
		Top 1	*Top 2*	*Top 3*	*Top 4*	*Top 5*	*Imports*	*T5 +Imports*
99	Urea	14.45	26.35	37.43	43.28	48.60	10.77	59.37
100	Pesticides of all types	15.40	25.38	34.37	42.98	48.76	10.33	59.08
101	Refrigerators	30.94	46.76	55.75	56.45	56.45	2.56	59.01
102	Glass Hollowares	28.02	40.09	46.53	50.01	53.30	4.06	57.37
103	Pig Iron	25.17	33.95	42.31	50.12	57.12	0.16	57.28
104	Forgings	24.82	34.91	43.63	49.89	56.10	0.00	56.10
105	Vegetable Oils	14.19	20.88	24.28	26.94	29.23	25.47	54.70
106	Wires & Cables	9.32	17.41	23.34	29.12	34.46	19.33	53.79
107	Steel Pipes & Tubes Excl Seamless Tubes	14.43	25.42	33.48	40.04	46.02	4.98	51.00
108	Caustic Soda	17.45	26.75	35.64	42.00	47.61	3.05	50.65
109	Tea	20.86	34.82	42.21	45.25	48.23	1.57	49.80
110	Phosphatic Fertlizers	13.30	24.27	33.48	41.93	49.24	0.07	49.31
111	Cement	11.65	22.89	32.26	41.41	46.85	0.04	46.89
112	TV receivers (Incl. spares & kits)	19.91	29.15	33.84	36.03	37.32	7.83	45.15
113	Glass	17.88	24.81	27.99	30.67	33.11	11.94	45.05
114	Scooters	19.57	28.99	36.48	41.29	42.03	0.00	42.04
115	Castings	14.98	22.89	30.27	36.67	41.79	0.00	41.79
116	Animal Feeds (incl. Aqua Feed)	11.30	20.30	25.63	28.64	31.31	6.56	37.87
117	Drugs & Pharmaceuticals	8.73	15.24	19.94	23.48	26.72	9.79	36.51
118	Paper	8.99	14.98	19.06	23.13	26.38	9.39	35.77
119	Soaps	20.16	23.77	26.95	29.97	31.61	0.90	32.50
120	Plywood & Veneers	11.00	20.77	23.33	24.94	26.30	5.09	31.39
121	Coffee	10.84	17.87	21.28	24.07	26.53	3.22	29.75
122	Vanaspati	8.30	16.45	21.24	25.50	29.35	0.00	29.35
123	Sugar	3.72	6.41	9.03	11.18	13.31	2.13	15.44
124	Fabricated Steel Structurals Excl. Transmission towers	3.76	7.11	8.94	9.69	10.23	3.22	13.45
125	Spun Yarn	2.37	3.92	5.14	6.22	7.24	0.67	7.91
126	Fabrics	0.76	1.26	1.71	2.10	2.31	1.15	3.46

Source: Derived from CMIE 2007.

Appendix Table 3

Distribution of Sales of leading Firms in 28 Category 4 Industries

	Product	*Percentage Share in Sales of leading Firms*		*Sales of All Leading Firms (Rs. Crores)*
		New Indian Firms	*Others*	
1	Plywood & Veneers	88.69	11.31	443.40
2	Industrial Alcohols	76.68	23.32	822.83
3	Metal Containers (Incl. Cylinders)	64.86	35.14	752.35
4	Wires & Cables	64.84	35.16	5461.75
5	Castings	57.81	42.19	2751.93
6	Steel Wires & Ropes	52.52	47.48	2612.13
7	Vanaspati	51.15	48.85	2047.88
8	Vegetable Oils	44.71	55.29	14052.43
9	Steel Pipes & Tubes Excl Seamless Tubes	42.44	57.56	11432.36
10	Forgings	42.30	57.70	1726.65
11	Phosphatic Fertlizers	41.00	59.00	418.85
12	Telephone Instruments	37.99	62.01	906.25
13	Drugs & Pharmaceuticals	37.49	62.51	29480.63
14	Alloy Steels	33.09	66.91	6268.09
15	Animal Feeds (incl. Aqua Feed)	30.48	69.52	1094.58
16	Polyester Films	29.32	70.68	1273.34
17	Storage Batteries	29.09	70.91	2748.08
18	Transformers	26.97	73.03	2695.38
19	Spun Yarn	26.82	73.18	7665.85
20	Fabrics	23.70	76.30	9701.41
21	Coffee	23.41	76.59	1426.29
22	Pig Iron	20.05	79.95	4866.61
23	Soya Products (incl. oil cakes & meal)	19.00	81.00	2279.57
24	Glass	17.72	82.28	1052.84
25	Steel	9.67	90.33	89771.32
26	Axle Shafts	9.41	90.59	964.78
27	Sponge Iron	4.67	95.33	5417.41
28	Biaxially Oriented Polypropylene Films	1.01	98.99	1274.22
	TOTAL	**24.66**	**75.34**	**211409.21**

Source: Derived from CMIE 2007.

Appendix Table 4

The Top 40 Indian Families/Groups and the Top 10 MNCs in 2005-06, Each Ranked According to Sales in 126 Sample Industries (in Rs. Crores)

The Top 40 Indian Families/Groups	
Tata*	44871.49
Birla (All)*	40017.91
Reliance**	22778.35
Jindal (All)**	17113.33
Hero**	11275.41
BAJAJ*	10542.40
Ruchi**	9726.04
Mahindra*	9069.41
Essar**	8993.20
Vedanta (Sterlite)	8548.42
Ispat**	7981.94
UB**	7539.39
JK Singhania (All)*	6040.53
NRI-Hinduja**	5711.12
Goenka (All)*	5622.28
Bhushan (All)	4976.18
Videocon**	4580.16
Oswal (All)**	4293.21
Thapar*	4254.09
Murugappa Chettiar*	4169.14
Ranbaxy (All)**	4156.76
TVS*	3789.33
Dalmia (All)*	3562.99
Shriram (All)*	3370.04
MRF*	3187.26
Cipla	3003.51
Raunaq Singh**	2947.57
Asian Paints (All)**	2821.06
Berger (Dhingra)	2810.37
Raheja Rajan	2737.08
Adani	2535.91
Amalgamations (Simpson)*	2468.12
Godrej*	2306.01
Nirma	2274.81
Bangur (All)*	2262.27
Kalyani**	2196.23
Dr. Reddy	2166.52
Lakshmi (GV Naidu)*	2109.24
Kirloskar*	2029.42
Kasturbhai Lalbhai*	1987.01

The Top 10 MNCs	
M-Suzuki	13866.10
M-ITC	13101.98
M-Hyundai	7867.72
M-Holcim	7705.45
M-Lever	4959.58
M-Honda	3007.93
M-Glaxo	2527.61
M-Bosch	2266.68
M-Philips	1544.20
M-ABB	1255.24

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