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STATE BUSINESS RELATIONS IN INDIA

**A SUMMARY OF RESEARCH BY
THE IPPG RESEARCH
PROGRAMME CONSORTIUM IN
2008–2009**

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BACKGROUND

While growth has accelerated in India since the 1980s, the outcomes with respect to growth and poverty reduction has differed widely across Indian states. The differential paths of Indian states with respect to poverty reduction and economic growth since the reforms of the 1980s and 1990s seem to be related to some degree with the nature of state-business relations at the state level, and hence are intimately related to political processes within the state including the distribution of formal and informal power between states and businesses and also ideology and electoral concerns of political parties.

OBJECTIVES

The objectives of the research are to:

- understand the nature of formal and informal interactions between the state and business across states in India, and how the institutions governing these have evolved over time;
- understand the effects of different types of state business relations on measures of economic performance;

THE PROJECTS

There will be three sets of projects on Indian states under the common theme of state-business relations:

1. The first study will undertake the political and economic analysis of the forms and functions of state business relations in three states in India – Andhra Pradesh, Orissa and West Bengal. These three states have seen very different outcomes with respect to industrialisation. The study will examine whether the nature of state business relations have contributed to the differences in industrialisation outcomes. The study will be undertaken by a team of economists and political scientists using the case-study method.

2. Along with the case-studies of state-business relations in the three states, there will be econometric studies of the effects of state-business relations on firm performance. These econometric studies will examine whether the differences in the evolution of state business relations in the three states had clear and robust effects on firm output, productivity, employment, wages and entry/exit. The studies will be particularly interested in understanding whether these effects differed by the size, ownership, location of the firm, and whether the firm belonged to the formal/organised or informal/unorganised sector.
3. A third study will also construct a state-level measure of state business relations for the 16 major Indian states. This index construction will be based on secondary as well as primary data collected through extensive interviews with business associations as well as state ministries in the state capitals (and elsewhere where necessary). The index will be used to analyse the relationship between state business relations and growth across Indian states and over time at the macro level. It will also be used to analyse the impact of state business relations on firms' performance along the lines described in Project 2.

WHO WILL THIS RESEARCH BENEFIT?

The research findings are expected to be of value to the private sector, especially owners and managers of small and medium sized enterprises, and the public sector, especially government officials in economic ministries and departments relating to industry and commerce, in understanding how effective state business relations come about, and how may effective state business relations impact on economic development. At the inception of the research process, a focus group of key stakeholders in the research – representatives from business and the bureaucracy – will be formed, who will be actively involved in the discussion and dissemination of the research findings. Regional workshops will be held in Bhubaneswar, Kolkata and Hyderabad in mid 2009, along with a national workshop in Delhi in late 2009. Discussion and Briefing Papers will be available on the IPPG website when the research projects are completed.

THE IPPG CONSORTIUM



The 'IPPG' is a shorthand name for the *Research Programme Consortium on Improving Institutions for Pro-Poor Growth*, launched in September 2005, and funded by the Department for International Development (DFID) of the British Government. It is based in the School of Environment and Development, University of Manchester. The joint directors are Dr Adrian Leftwich (University of York) and Professor Kunal Sen (University of Manchester).

The founding proposition of the IPPG Programme is that the interactions of economic, political, social and cultural institutions constitute a matrix that may either enhance or constrain pro-poor growth. The task of the Programme is then to identify historically and comparatively those institutional sets and contexts that enhance pro-poor growth, and – recognising that the history of the evolution of institutions in any society reflects the changing bargaining power of different social groups – to show how such patterns of institutional interaction change or may be helped to change. A further aim is to identify the conditions under which coalitions of stakeholders may be encouraged to adapt, adopt, negotiate and change institutional matrices that will be conducive to pro-poor growth.

For more information on the IPPG and the programme's activities, please see the IPPG website at www.ippg.org.uk