The Institutional Framework for Industrial Development in India in a Comparative Perspective

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This paper presents some preliminary observations on the institutional frameworks for industrial development in India during the periods before and after 1991, when radical policy reforms were introduced in the country. The paper was written as a contribution to preparing a more comprehensive research programme jointly with scholars from IDS, Roskilde, and the Centre for Studies in the Social Sciences, Calcutta. Therefore, considerable attention is paid to outlining the proposed approach and methodology.

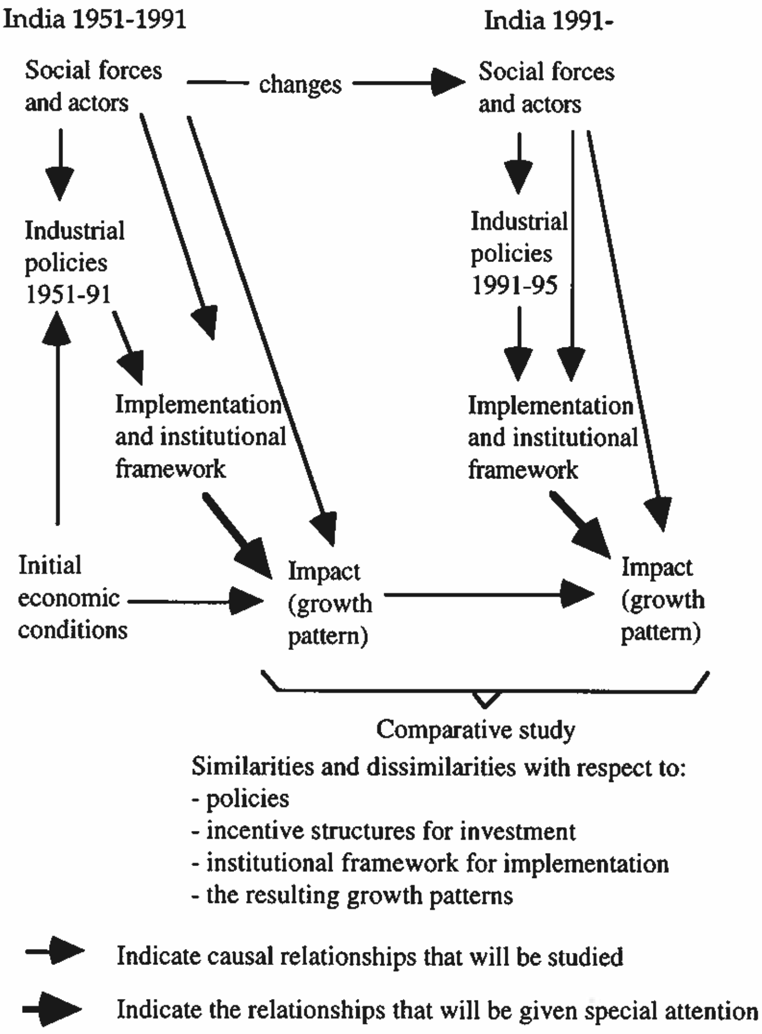
The overall aim of the research programme is to compare India and some of the high-performing Asian economies (HPAEs) with respect to (a) industrial performance, and (b) the role of the state in general terms. A further aim is to discuss the institutional preconditions for successful industrial development in the light of both European and East Asian experiences. The focus of the subproject on India will be on the interaction between, on the one hand, the institutional frameworks for policy formulation and implementation, and on the other hand, economic growth and the patterns of industrial change in India - as compared with the HPAEs.

1. Conceptual Framework and Approach

The conceptual framework for the research project will be derived from several sources, including political economy approaches and new institutional economics. I will not go further into this here but only present the overall design of the project which is being prepared.

The design involves two types of comparisons: One synchronic between India and the HPAEs; and another diachronic between India during the period 1951-1991 and India after 1991. The first phase of the project will address the diachronic comparison, using a design as briefly outlined in the figure below. The second phase will shift attention to a comparison of India with a model constructed on the basis of the experiences from the HPAEs selected.

Conceptual Framework and Approach:



Changes did occur during the four decades between 1951 and 1991, but the fundamental policy principles and the institutional framework shaping policy implementation and impact essentially remained the same. At the levels of aggregation and abstraction chosen for this project it is deemed appropriate, therefore, to treat the period referred to as one particular constellation of policies and institutions.

This constellation and its outcome in the form of particular growth trajectories and patterns of industrial transformation will then be compared, on the one hand, with the colonial period, and on the other, and in greater detail, with the post-1991 period.

In addition to these diachronic comparisons, the policies and institutional frameworks for industrial development in India before and after 1991 will be compared synchronically with the situation prevailing in selected high-performing Asian economies, particularly Taiwan and Thailand. The design will essentially remain the same, then with India as a separate case in the left half of the conceptual framework, and the stylised HPAEs in the right half.

2. India's Comparative Economic Performance

Under British rule, the Indian economy stagnated for over a century prior to independence. The national income grew only around 1 per cent per annum - about the same as the population growth rate. By 1947, the industrial sector accounted for less than 15 per cent of national income and employed less than 10 per cent of the labour force.

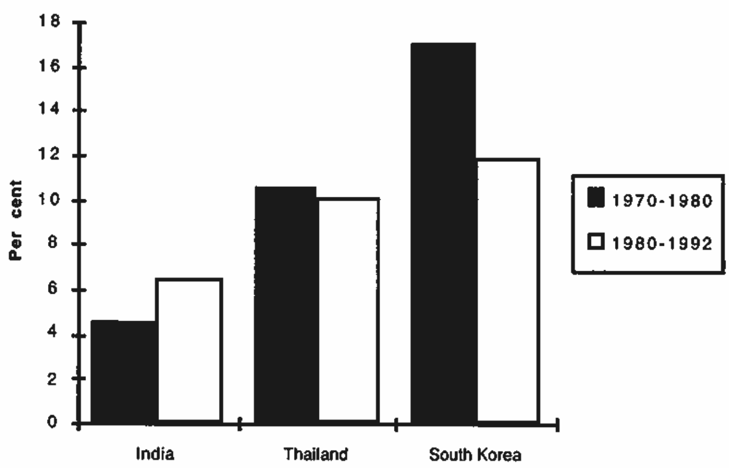
Over the period 1950-1985, national income showed a trend growth rate of 3.6 per cent per annum. But during the same period, the population growth rate increased considerably and brought down real per capita growth to 1.5 per cent.

It is interesting to compare the overall growth performance of India with that of South Korea, because these two countries had about the same per capita income - equal to 6-7 per cent of the per capita income of the USA. By the mid-1980s, South Korea had increased the per capita income to around 23 per cent of the US income, while it had remained virtually unchanged for India. During the same period, both Thailand and Malaysia showed superior performance in this respect to India's (Eswaran and Kotwal, 1994, Ch. 1).

A major reason for these differences, of course, could be the size of the countries and associated with that the extent to which the various economies could be industrialised within the 25-year period. India did experience considerable industrial growth, but in relative terms industry's contribution only increased from around 15 per cent in 1950 to a little more than 25 per cent in the early 1990s.

However, even if we compared the rates of growth for industry separately, India's performance has lacked significantly behind countries like South Korea and Thailand, as illustrated in the figure below where average annual growth rates are compared.

Growth of manufacturing 1970-92



Several reasons have been proposed for India's comparatively slow industrial growth. We shall not review the extensive literature on the subject here, but concentrate on the role played by the state in broad terms and by selected aspects of the institutional framework for policy implementation in more specific terms.

The institutional framework may not provide the most important contribution to explaining the comparatively slow growth, but it is my working hypothesis that this framework - which has been very different from the institutional set-up in South Korea and other HPAEs - has impeded industrial growth. At the same time, however, India's policies may have laid strong foundations for future growth at levels similar to those attained earlier in the HPAEs.

3. The Role of the State in India's Industrial Development 1951-91

In the late 1940s, when leading Indian decision-makers worked out the development strategy for the country, no planned economy in the strict sense of the term was envisaged. The aim was not for the state to supplant the private sector but to engage only in industries in which the private enterprises were unable or unwilling to establish or expand production. This basic policy, however, was gradually changed in the mid-1950s towards increasing state participation in production and more comprehensive operational controls over private industry.

From 1956 onwards, the official emphasis was no longer on the supplementary role of the Indian state. Instead, the new policy stressed the objective of establishing 'a socialist pattern of society' in which private enterprise would have only a minor role to play, the state having acquired 'the commanding heights' of the economy. In keeping with these policy statements, the public industrial sector was expanded considerably over the following decades, even in relative terms.

Simultaneously, the industrial approval system was further developed into a very comprehensive system of control over the private industrial sector.

A closer look at the public industrial sector in India has revealed that the actual enlargement was not primarily guided by the official ideology but rather by pragmatic considerations. It thus appears that the development of the sector can be understood essentially as a necessary supplement to the private, *Indian controlled* sector which, to some extent, implied supplanting or nationalising foreign controlled private enterprises. In general, the state engaged directly in production only where and when private Indian capital did not come forward - either because the individual enterprises could not provide the required investment, or because they were reluctant to do so due to high risks, low profitability or expected long gestation periods.[1]

As for the industrial approval system, this has been more difficult to justify on economic grounds in terms of its impact. The basic idea was to make the best possible use of scarce resources but our hypothesis is that in practice the whole system at an early stage developed into a straitjacket for both Indian and foreign entrepreneurs - into an institutional arrangement that generally promoted rent-seeking rather than productive investment.

When assessing the impact of the Indian state's highly interventionist approach, it will be necessary to distinguish between the short-term outcome and the long-term effects.

In the short term, we believe that India achieved a much more diversified industrial structure with indigenous control over strategically important basic industries. But in the long run it became apparent that this development was attained at what might be termed unjustifiably high costs.

Government regulations pertaining to the operations of foreign controlled companies in India added to these shortcomings a number of difficulties concerning technology transfer and development. The hypothesis proposed in this context is that direct regulation of technology flows produced undesirable side-effects. Thus, the Indian policies during the 1970s and the 1980s may have brought about cost reductions, unpackaging of technology and elimination of several restrictive provisions in the technical collaboration agreements, but these results were accompanied by reduced access to certain sophisticated technologies, supplementary technical assistance, and updating and upgrading of acquired technology. Consequently, Indian industrial competitiveness suffered.[2]

These assertions and hypotheses will be tested against more extensive empirical evidence concerning policy implementation

[1] The factors determining the development and specific structure of the public industrial sector were examined extensively in John Martinussen, *The Public Industrial Sector in India*, Aarhus, Institute of Political Science, 1980. Other, more recent studies of the public sector in the country include Amiya Kumar Bagchi, *Public Intervention and Industrial Restructuring in China, India and Republic of Korea*, New Delhi, ILO/ARTEP, 1987.

[2] Cf. John Martinussen, *Transnational Corporations in a Developing Country. The Indian Experience*, New Delhi, SAGE Publications, 1988, particularly pp 148-158. See also my more recent review of experience in this regard in John Martinussen, "Regulation of TNC Activities in a Third World Country: The Indian Experience", in: Helena Lindholm, (Ed.) *Approaches to the Study of International Political Economy*, Göteborg, PADRIGU, 1992.

and industrial growth patterns during the period 1951-1991. As several other factors are likely to have affected industrial growth and transformation, methods and indicators have to be elaborated to determine more directly the impact of state policies and the institutional framework through which they have been implemented.

Existing attempts at explaining India's comparatively slow industrial growth before 1991 will be re-assessed as part of our own endeavour to arrive at conclusions regarding the impact of the incentive structure created by industrial policies and the institutional arrangements for their implementation. Particular attention will be given, as already mentioned above, to the industrial approval system.

4. The Role of the Industrial Approval System

The industrial approval system was introduced in India in 1951 under the Industries (Development and Regulation) Act. The provisions of this Act made it obligatory for all manufacturing companies to obtain written permission from the Government for (a) establishing a new industrial undertaking; (b) taking up the manufacture of a new article; (c) substantially expanding the capacity of an industrial undertaking; and (d) changing the location of an existing manufacturing unit.

Exemptions from these licensing provisions could be granted only to certain categories of industrial undertakings, primarily small-scale and auxiliary units.

The overall objective of the industrial licensing under the said Act was to allocate investible resources according to priorities fixed in the development plans and other policy statements. The system was supposed to ensure the appropriateness of the proposed manufacturing activities.

The industrial licensing system was combined with other controls relating to financing, capital issues, imports, foreign exchange, foreign ownership, and monopolies.

Most of these controls were abolished when the Indian Government, in July 1991, announced drastic changes in its industrial and foreign trade policies. The following paragraphs, therefore, refer to the situation as it prevailed during the four decades from 1951 to 1991.

The industrial approval system as it existed during that period may be looked at as an institution within a New Institutional Economics (NIE) conceptual framework. As such, the industrial approval system was supposed to structure and determine repeated human interaction relating to investment decisions and investment interactions.

Two major questions arise within a NIE conceptual framework: (a) How can the origin of the approval system be explained? and (b) How can the actual mode of functioning of the system be explained? Both questions will be dealt with in the case study proposed. Here we shall focus on the second question only. Some preliminary answers which may play the role as hypotheses are given below.

Based on several studies, the following tentative conclusions may be suggested regarding the actual impact of the industrial approval system:

• It has contributed to*industrial diversification* in a national context. India has achieved a much more diversified industrial structure than previously - and in comparison with other large, less industrialised societies - with indigenous control over strategically important basic industries. It has become apparent, however, that this development has been attained at unjustifiably high costs. It seems very likely that the comprehensive regulatory framework has increased both transformation and transaction costs.

• The approval system *has not reduced the technology gap*. It has not contributed to India's catching up with industrialised countries in terms of technological development. Actually, it may have slowed down progress in this area considerably.

• The approval system has *not prevented concentration* of economic power in the private sector, but probably reinforced such concentration.

• Finally, the system has *not promoted development of medium and small-scale industry*, but rather acted as an entry barrier for newcomers.

The proposed study will look into all these aspects of the approval system's performance and impact. Let us try to illustrate the approach here by limiting the discussion to the effects on concentration and small-scale industries.

We propose to explain the observed deviations from stated objectives with reference to the influence from other institutions and their shaping of bureaucratic and intra-firm behaviour. The industrial approval system was just one aspect of the broader incentive structure in India. As already indicated, it may be an aspect which has primarily added to the costs of transacting investment and may thus have functioned more as a disincentive. This would be in line with the general proposition forwarded by the both neo-classical economists and 'new political economy' theorists that Indian regulations have promoted rent-seeking behaviour, rather than reduced it.

This may be partly a product of the approval system itself. But the major reason could also be sought, not in the system itself, but in the wider institutional framework within which it was implemented.

The point here is that the approval system was implemented by and through bureaucratic institutions which may be described in the following manner:

First, although separated from the rest of society by effective socialisation processes and specific rules which govern their behaviour, government officials in general remain loyal to outside social networks. They are inclined in general to favour members of their own social network. Others who do not belong to these networks have to pay extra to obtain similar favours - not necessarily in the form of simple bribes, but more often in more subtle forms of reciprocal exchange of services and favours. Some authors, like Hans Blomkvist (1988), have referred to this pattern of behaviour as governed by a *'patronage logic'* - rather than by formal rules and a 'policy logic'. Blomkvist consequently described the Indian state as primarily particularistic - as opposed to the West European state which is universalistic. The particularistic state concept is similar to Gunnar Myrdal's 'soft state' concept. The defining common characteristic is that policy implementation in a particularistic state is not chiefly governed by policy decisions and rules, but rather by social and political pressures and ties.

Second, the individual government official at higher levels of the hierarchy is vested with considerable discretionary powers in his discharging of administrative functions. This has increased the scope for outside influence and for discrimination based on personalistic relationships. Essentially, the same *personalistic* *relationships* are found within private sector companies. In a sense, one could say that the same society-generated and very basic social institutions have invaded and captured both the bureaucracy and the firms and thus effectively influence the intra-bureaucracy and the intra-firm behaviour. This, in turn, has significantly influenced the non-market transactions between bureaucrats and managers. They have tended to approach each other partly, or perhaps even mainly, on the basis of personalistic relationships. Managers have tried to influence government officials by appealing to their sense of commitment to outside social networks. When this has not been possible or appropriate, managers have used their command over resources to influence the discretionary decisions of government officials.

These types of relationships have benefited managers of large established firms and industrial houses, for at least three reasons: (a) They belong to the most powerful social networks; (b) they have had the necessary resources to support their claims for action and privilege; and (c) they have been in a position to wait.

Managers of small companies and newcomers, on the other hand, have suffered from disadvantages on all three counts.

This line of reasoning appears to provide a substantial contribution to explaining the actual functioning of the industrial approval system in favour of large established companies. At the same time, this brief illustration indicates how the wider institutional setting may impact upon the functioning of a particular policy and the formal institutions through which that policy is being implemented.

5. The New Economic Policies 1991-

In July 1991, the Government of India announced drastic changes in the industrial and foreign trade policies. Since then further liberalisations have been introduced.

The changes include abolition of industrial licensing in most industrial sectors; removal of most of the regulations restricting the growth of large companies; opening up for the private sector of many areas previously reserved for development by the public sector; removal of numerous regulations pertaining to foreign investment and transnational business collaboration; introduction of various incentives to encourage technology transfers in general and foreign investment in high-priority industries in particular;

and freeing of foreign trade from government interference and initiating steps to make the Rupee fully convertible.

The new economic policies mark a fundamental break with the past. They have significantly reduced the degree of state regulations in several respects and introduced a much more market-friendly policy environment. This, in turn, has considerably changed the climate for Indian private and foreign investment as well as for transnational technical collaboration.

Several restraining stipulations in the legal framework, however, remain effective and the whole policy-induced incentive structure continues to inhibit private sector growth in several areas. Further, the change of policies have not yet brought about a proportionate change at the implementation stage, partly because it takes time to change practices and attitudes all the way down through the bureaucracies, partly because some of the State governments have yet to change their policies in order to achieve full correspondence with the new Central Government policies. To this should be added the resistance observed to the market-oriented and outward-looking policies from major trade unions, opposition parties and other organisations in the country.

On balance, however, the overall assessment is that the role of the state in India is in the process of being significantly altered.[3] This corresponds to a more general trend which can be observed in several less industrialised countries. As such, the policy changes in India may be a reflection of a more widespread re-thinking of the role of the state.[4] Meanwhile, it is worth noting also that the changes are based solidly upon careful re-interpre-

[3] The profound policy changes have been extensively documented in Indian journals like *Business India, India Today, Business Today, Economic and Political Weekly*, etc., as well as in dailies like *Economic Times*. The new rules and regulations are collected in *Nabhi's New Industrial Policy and Procedure 1992*, New Delhi, Nabhi Publications, 1992. The present author has had opportunities to follow the development and interpretation of the policy changes during visits to India in January, 1992, October-November 1992, and January 1993.

[4] There are several reasons for this re-thinking. The accumulated experience with state-governed industrial development indicates serious shortcomings and in many cases outright failure. This general experience is being re-interpreted in the light of increasing debt problems which have been compounded by large public sector deficits. The experience is also being re-considered in the light of the recent changes in Eastern Europe and the Soviet Union which have set in motion a transition from centrally planned to market oriented economies in combination with a democratisation of these societies. These profound changes have added to the credibility of IMF and World Bank advice in favour of market-oriented reforms. This advice, therefore, has become more acceptable to many less industrialised countries.

tations of the Indian experience with state-governed industrial development. The Indian Finance Minister, in 1991, summed up the reasons for the policy changes in this concise manner:

> "There is a growing recognition that while the country did make substantial progress in the 1980s, its full development potential has not been realised. The world in which our old policies were conceived is now a very different place. Technology is today the main determinant of power and wealth of nations. That technology is with multinational corporations, not the public sector. To get access to modern technology, India has had to change its attitude to direct foreign investment. The old bureaucratic methods of controlling economies through quantitative import restrictions and industrial licensing will simply not work in India now that our economy has grown in depth and width. That is why we are deregulating and opening up to foreign investment."[5]

This could be taken as an excellent summary of the line of reasoning informing Indian decision-makers' re-thinking of the role of the state. Several other opinions on the issue, however, will have to be solicited through interviews with both government and private sector representatives as part of the research project proposed.

6. Policy implementation and the Institutional Framework

There is no doubt that the new economic policies have contributed significantly to increasing the industrial growth rate after 1991. It should be noted in passing that India experienced very high growth rates in the late 1980s. Thus, GDP growth amounted to more than 10 per cent in 1988/89 and around 7 per cent the following year. But this was followed by serious macro-economic imbalances in 1990 and 1991. In the fiscal year 1991/92, the growth of the Indian economy was between zero and 1 percent. I will not go into explaining this crisis here, but just note that the whole scene changed dramatically after the introduction of the new policies.

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[5] Finance Minister Manmohan Singh in an interview with the *International Herald Tribune*, October 21, 1991.

The policies have contributed to bringing about several changes. It cannot yet be substantiated *how much* the new economic policies contributed, but the directions of changes to which they added momentum I believe include the following:

- A substantial increase in private investments from Indian citizens in manufacturing enterprises.

- Non-resident Indians' increased investments in India to five times the amount transferred in 1991. For the last few years they have transferred more than USD 1 billion per annum.

- Markedly increased private portfolio and direct investments from Japan and other OECD countries. Presently, projects worth more than USD 4 billion have been approved (May 1995).

The rate of growth since 1992 has jumped to a higher level - 4-5 per cent per annum in real terms. The growth rate is expected to continue around 5 per cent for the rest of the decade.

Industrial growth since 1992 has stabilised between 6 and 8 per cent. In capital goods, the annual growth in terms of real value has been more than 12 per cent.

Now, the overall question is whether, and to what degree, these changes can be explained with reference to the new policies - and possibly with reference to changes in the institutional arrangements for their implementation. An associated pertinent question is whether the higher level of industrial growth can be sustained over a longer period. In more specific terms, some of the pertinent research questions are the following:

- How, more specifically, have the new policies of particular relevance to industrial development been implemented? Each of the new policy components will have to be studied here in detail, possibly under headings like de-regulation of private enterprises, privatisation of public enterprises, commercialisation of remaining public enterprises, etc.

- Has the introduction of new policies been followed by basic changes in the institutional set-up?

- What has happened to the industrial approval system?

- What has been changed since 1991 - with respect to policies, institutional arrangements for their implementation, incentive structures, etc.?

- Which changes can contribute to explaining different growth patterns in the post-1991 period?

This latter question should be answered within a broader context comprising studies of other factors that may potentially have affected industrial growth and transformation, including altered power relations among the contending social forces, changed bargaining strengths of the major actors involved, and different market and other economic conditions within India as well as internationally.

This should be followed by analyses of the combined impact of the new policies and the institutional framework for their implementation. As the period available for impact studies will be comparatively short, attempts should be made to distinguish between actual impact and impact that may be expected for particular and clearly stated reasons.

No attempt will be done presently to answer all these question. Instead, I will briefly outline the sort of real-type model of appropriate institutional frameworks against which we may assess the prevailing conditions in India before and after 1991.

7. Institutional Preconditions for Sustained Industrial Growth

It may be appropriate to make a distinction between (a) basic preconditions for industrialisation, and (b) preconditions for internationally competitive industrialisation.

From the studies undertaken by Douglass North - and others - we may extract some of the basic institutional preconditions for industrial development (North, 1990). These are summarised below.[6] In a sense, the preconditions listed may be regarded as

[6] North adds to these prerequisites some other like a fiscal system in which expenditures are tied to tax revenue; a private capital market; patent laws and other instruments to promote the growth of innovative activity. He also emphasisis that the incentive structure as a whole should reduce rent-seeking behaviour. It is interesting to note in this context the comparison North makes between Britain and Spain in the 16th and the 17th centuries (North, 1990, p 114 ff). Britain, of course, is the case where the prerequisites are found, while the opposite is true

the minimum requirements. However, in their most elaborate form these preconditions also constitute important elements of the institutional framework required for dynamic industrial transformation and internationally competitive industrialisation. Other requirements for this kind of industrial development are extracted from studies of the high-performing Asian economies and presented in subsequent paragraphs.

As stated earlier, the case study will describe and assess the institutional framework for industrialisation in India against the preconditions noted in the theoretical literature as well as in studies of the HPAEs.

A few preliminary observations on the Indian situation 1951-1991 may be given here with reference primarily to the hypotheses proposed by North about the institutional prerequisites for industrial development. In the actual study more attention will be given to preconditions extracted from East Asian experiences. Besides, all the preconditions hypothetically proposed here will be subjected to careful operationalisation.

Minimum requirements

• *Security of property rights*

These are emphasised by North as the basic incentive structure of an economy (North, 1990, p112). Security of property rights has also been emphasised by the OECD in a recent report, where the core proposition is summed up in just one sentence: "Without titles, people hesitate to invest and property cannot be used as collateral." (1989 Report, p 16).

Property rights are essentially secured in India in the narrow sense of the concept. However, our principal hypothesis in this respect is that the regulatory framework, during the period 1951-1991, interfered to such an extent with the right to make use of private property that some degree of insecurity was introduced. This did not seriously affect big companies. They were in a position to extract from government all the necessary approvals - or they simply circumvented rules and regulations (cf. Martinussen, 1988, p 84 f.). But the insecurity affected medium and small companies as well as investors trying to set up new undertakings.

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with respect to Spain. Now the point is that the description of Spain during that period may be applied to some extent to India during the four decades preceding 1991.

Special, and more ambiguous preconditions within that category are the so-called intellectual property rights. These rights will be selected for a case-in-case study with reference to both India and selected HPAEs.

• *An effective and impartial judicial system*
The system in India is essentially impartial - but not effective. Enforcement of contracts, in particular, is very poor and extremely slow.

• *A transparent regulatory framework*
Laws and regulations, according to North, must be adopted after a transparent process in order not to impede industrial growth. The mode of functioning of the state bureaucracy must be transparent. Discretionary powers must be limited by clearly stated rules and regulations and by opportunities for appeal to higher authority or the judicial system.

The mode of functioning of the state bureaucracy in India is not transparent. Discretionary powers are not limited by clearly stated rules and regulations and by opportunities for appeal to higher authority or the judicial system, as was indicated earlier.

The significance of this state of affairs, however, may have been over-emphasised by North. Transparency, in particularly, has not been a prominent feature of the regulatory framework in most of the HPAEs. This hypothesis therefore may need some further elaboration.

• *An institutional framework that promotes and permits complex impersonal exchange*
This includes the establishment and enforcement of contracts; the establishment of limited liability corporations; entry and exit regulations for private firms; etc.

As we have seen, the industrial approval system in India was to such an extent embedded in societal institutions which prescribed personalistic relationships that this prerequisite remained essentially absent. Further, the incentive structure as a whole did not reduce rent-seeking behaviour but rather promoted such behaviour within networks of interaction characterised by personalistic relationships. It will be interesting to find out the extent to which, and the areas in which, the adjusted and reformed institutional framework after 1991 approaches the preconditions emphasised by North. Further, it will be interesting to investigate in greater detail similarities and dissimilarities between post-1991 India and the HPAEs.

Some of the institutional characteristics against which I propose to assess the situation in India are briefly listed below. They may be regarded at the same time as higher-level preconditions.

Higher-level preconditions

The major institutional prerequisites for dynamic and internationally competitive industrial development identified in recent World Bank commissioned and other studies of the high-performing Asian economies may be summarised as below. The idea is to use these as hypotheses in the case study of India. It will be necessary, though, to investigate more carefully which institutional prerequisites have been the most significant for achieving the high growth rates and the rapid industrial transformation in the selected HPAEs. There is no consensus in the literature that those listed are the most important.

• *Insulation of the bureaucracy*

This concerns the ability of economic technocrats to formulate and implement industrial policies with a minimum of effective lobbying for special favours. Pressure from external interest groups and individuals should not unduly influence bureaucratic behaviour, which should rather be governed by rules and regulations. The existence of an independent personnel authority in charge of recruitment, pay scales, transfers and promotions is deemed particularly important here (cf. *The East Asian Miracle*, p 167 ff.).

• *High-quality civil service - which is also honest and responsive*

The insulated bureaucracy must be held accountable. "To sustain growth, a bureaucracy must have the competence to formulate effective policies and the integrity to implement them fairly." (ibid., p 174).

Among the important principles that should prevail in the civil service, the following may be noted: (a) Merit-based recruitment and promotion; (b) incentive-based compensation/ remuneration and relatively high salaries; (c) government employment should be associated with high status and prestige; (d) job security; (e) career paths to the top and substantial rewards to those who make it; (f) a competitive environment that discourages dishonesty. These principles have been extracted from *The East Asian Miracle*. Other principles may be extracted from the literature on good governance.

• *A legal and regulatory framework for private sector growth*

• *A support system for small and medium enterprises*
A support system of this kind is required to compensate for the comparative disadvantages of small and medium enterprises - with a further view to exploit their potential. Credit facilities are deemed particularly important aspects of such a support system.

• *An institutional framework for co-operation between the state and the private sector*
Possible frameworks include various consultative mechanisms and deliberation councils, like the Japanese deliberation councils or the Korean export-promotion meetings. The mechanisms should facilitate information transmission, assure transparency and predictability, and allow industrialists to concentrate on economic activity so that their share of industry profits are determined more through competition than through rent-seeking.

The above preconditions have to be consolidated into a systematic frame of reference. This should then subsequently function as a sort of real-type model against which the situation prevailing in India after 1991 can be described and assessed. The aim of this exercise will be to identify strengths and weaknesses in the institutional set-up as seen from the perspective of achieving sustained and internationally competitive industrial development in the country.

With all the other factors affecting the actual patterns of growth and transformation the results of the exercise will provide only a partial explanation, but one that may complement other types of explanations. Moreover, the study proposed may add to the general understanding of the significance of institutional arrangements for industrial development.

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