The new Industrial and Foreign Investment Policy announced on May 31, 1990 proclaims to release the Indian industry from "unnecessary bureaucratic shackles by reducing the number of clearances required from the Government". As a part of this objective it is proposed to allow foreign investment upto 40 per cent on an automatic basis subject to a 30 per cent restriction on import of capital goods. Similarly, larger freedom to Indian entrepreneurs in the matter of technology imports is in the offing. The policy explains that these and other proposals would be applicable to all manufacturing units in a `specified list' to be announced later.

Predictably the announcement generated a great deal of discussion at various fora. However, neither the policy statement nor the subsequent official clarifications throw light on the empirical basis for the decisions with regard to foreign investment and technology. Nor do they reveal any understanding of the nature of foreign private capital already existing in India. Significantly, the likely impact on the balance of payments, self-reliance, indigenous R&D, employment, India's stand on MNCs in the Third World fora and India's social and political spheres have not been spelt out clearly. Is it because the policy makers are not aware of the basic characteristics of the institution of MNC and the long term implications of the open door policy for foreign private capital and technology? The answer might be in the affirmative for the political leaderships but could not be so for the high profile economic advisers.

When it is decided to invite, permit or encourage large private corporations from outside the country to find a solution to <u>Indian</u> societal problems on the belief that MNCs would help solve India's major problems -- may it be foreign exchange, inflation, un-employment, interpersonal inequities or regional imbalances it is of importance to discuss direct and indirect implications of the new policy initiatives. <u>First of all</u>, one must recognise that MNCs are private corporations primarily guided by the philosophy of profit maximisation. MNCs are not in social service. There is a need to understand that societal problems cannot be the concern of private business. If one places faith on a wrong institution or instrument one has only to wait for the day of dis-illusionment.

<u>Secondly</u>, we need to recognise that MNCs operate world-wide. Most of the largest MNCs originated from the U.S., U.K. and West Germany and have their headquarters located in one or the other part of the industrialised world with market orientation. In operational terms, however, no large MNC has one nationality. MNCs may not be country specific but are economic system specific. It would be difficult to say in India if Nestle (Food Specialities) should be treated as a Swiss Company or a Bahamas' one. Similar would be the case with Pfizer whose foreign shareholder is registered in Panama, while the ultimate parent is located in the U.S. Legal provisions differ from one country to another. It could be that a large MNC is treated as an Indian national company in India, but a foreign one in U.K., France or Japan. MNCs are not nationality specific. Therefore, the top executives have no national hang-ups.

MNCs represent a network of private business enterprises having operations in large many geographic locations. For any network the success or failure is not judged by the performance or profit of any single wing or business in a country. MNC's business perspective has to be global. It does not fall in the realm of objectivity to expect that MNCs would promote interests of any one nation. It is just not in their character. However, to the extent promotion of exports from a country served their objective of global profit maximisation the MNCs would most certainly do so.

Thirdly, MNCs are in private business; and business means all activities that give a net advantage to them. Their choice of activity would depend on their understanding and assessment of market potential. MNCs would engage themselves in any activity that requires investment, market knowledge and experience, business connections, legal rights in tangible or non-tangible assets (ownership of patents, trade marks or monopoly rights) where from the corporation can extract economic return. MNCs, therefore, are not activity or industry specific either. Anything would do. If it was a tobacco company initially, it could take up hotel business or sale of vegetable oils later on. To shift the nature of business operations is normal as long as the new business offers higher return than the traditional industry. If the policy makers of the country develop a misplaced belief that MNCs would help India bridge technology gaps in hi-tech areas or any other industry, the fault does not lie with MNCs. For lack of one's own understanding of business logic and reality the business enterprises cannot be justifiably accused.

In the modern age it is well accepted that the institution of state has direct responsibility to lay down rules of the game even for the private business. Public interventions are a pre-requisite for smooth functioning of even the market oriented economies. In the Third World countries, however, the state has to play even a more important role. Many of the Third World countries have adopted regulatory mechanisms. From the view point of business promotion MNCs are bound to take measures that would reduce the intensity of regulations for them. It would be considered a very legitimate action if an MNC decides to cultivate `mutually profitable' relationships with those who control levers of political and administrative power. Investment in politics could be risky but also extremely remunerative. World history is full of instances when MNCs have not hesitated to sponsor coups against political leaderships who posed a threat to MNC business interests.

MNCs must aim at diversification in the long run though. Thus, to gain entry if the host country insists on the MNC manufacturing certain products such conditions would be acceptable as long as the host country regulations do not forbid diversification, new investments and expansion. If the host country, on its own awards them Indian nationality and help build their business image why should an MNC object? The policy makers in India have made the people believe that enactment of FERA, imposing export obligations and insistence on diversification is some sort of an unpleasant conditionality. Let any one examine the record of large private corporations in India or abroad to find out how MNCs have been itching to engage themselves in export; of course, combined with rights to import. No MNC would like to invest in a country for the sake of dividends, technology payments, or high salaries to the host country executives. MNCs being a part of international network of business activities cannot afford any one country unit (company or a branch) to live in isolation of the rest. Business autonomy is not a rule of the MNC institution.

MNCs can certainly be depended upon to promote exports as well as imports. Movement towards globalisation is their business philosophy. Can one place a faith in an international private business institution (the MNC) to earn net surplus of foreign exchange for India or any one country? To the extent exports are of raw materials and products that can only be produced in India, comparatively at cheaper prices, MNCs would export from India. The question, however, is not of sheer exports, an equally important issue is of the export prices. If an MNC is buying from five countries, it is but natural that it would buy from the country that offers the lowest price. It has been widely recognised that the buying locations can shift as a business strategy to take advantage of the lowest price. To have a better appreciation of this aspect of international trade and capacity of MNCs, one needs to understand today's reality where in a number of commodities MNCs enjoy a near monopsony status. in absence of producer country alliances buyers dictate the prices. MNCs can comfortably pitch one country suppliers against another.

Yet another fact to be understood is that MNCs are large international business networks with control over vast finances, massive framework of distribution and sales outlets in industrially advanced countries, advertising resources, press and communication systems; employing the best and the largest army of attorneys and lawyers, auditors and accountants, researchers and public relations men; and enjoying legal protection to monopoly rights on thousands of basic inventions, industrial processes, patents, trade marks and designs. The network of international information and the speed at which it operates cannot be matched by any one governmental system including the U.S. not to speak of India or any other Third World country. While formulating policies with regard to such a powerful business institution policy makers cannot be casual and project their own illusions. The national costs can be high.

MNCs belong to a category of giants in relation to individual governments of many a country like India. If India wishes to harness and benefit from the powerful, we need to understand the natural aptitudes, the motivations, the capacity and other characteristics of MNCs. What we need to also appreciate is that MNCs are invariably aware of their own weakness and incapacity to fight against nationalism and ideologically committed national public systems. The only thing the MNCs yield to is public pressure. To them public means consumers and consumers cannot be easily brushed aside.

With fast changes in the global system of production the MNCs would change their business strategies. For instance, instead of seeking to engage themselves directly in production (and make investments) MNCs may increasingly go in for marketing of goods manufactured by others. This could help avoid direct conflicts with labour. What the MNCs, however, insist upon would be the right to brand names. To strengthen this, MNCs would tend to emerge as the biggest patrons of mass media -- TV, Radio and the Press. To remain dominant, it would be only expected that MNCs would insist on having legal and administrative support for patents and other forms of intellectual property rights. Trade and trading activity is a service industry. Expansion of specialised services in the new area; and it should surprise none if the U.S. and other advanced economies are asking for grant of entry of foreign private capital into insurance, construction, banking, consultancy and trade--external and internal. Given these likely trends, the pressure on the Third World countries would be mounted for lowering of regulations on national currencies.

To meet the challenge of nationalism and related sensitivities MNCs invariably try hard to wear related host country nationality caps and project their enterprises as promoters of local culture, music and traditions. It helps. Of late MNCs have become more conscious that while avoiding direct political patronage in any host country it is far more effective to find local partners who have high political clout and influence on national governments. This probably explains the recent growth of Birla-Yamaha, Tata-Unisys and Modi-Xerox type of joint ventures. (See Annexure - I for an illustrative list). No wonder, today the very Indian big business who opposed British capital and took a nationalist stance with the Congress and Gandhiji is finding it more profitable to be associates of MNCs. Can one be surprised if FICCI and ASSOCHAM have become the most vocal and loud supporters of MNC entry into India? Who controls FICCI or ASSOCHAM?

While these are some of the main characteristics of MNCs, we in India in general and policy makers in particular seem to have felt shy in recognising them. We did not attempt to debate and understand the multifaceted institution known as MNC. It is also possible that we preferred to ignore the reality and chose to follow haunches, beliefs and motivated suggestions. The state of affairs with regard to policy towards MNCs is best illustrated by the fact that the Indian legislations do not recognise even the concept of multinational corporation. While the Government has not found it necessary to undertake an exercise on the identity of the institution of MNC, it is has not hesitated to take the 40 per cent equity limit, fixed for the applicability of the foreign exchange regulation Act, 1973 (FERA) to permit open entry. As a result associates of a number of well known multinationals are treated on par with wholly owned Indian companies. The beneficiaries include: Unilever, Philips, Kodak, BAT Industries, Swedish Match, Nestle, Hoechst, Ciba-Geigy, Alcan Aluminium, Pfizer, Singer, etc.

The fact also remains that --- control is being exercised by the MNCs not only through the ownership of equity capital but also with the help of management rights which they bestowed upon themselves with the Government's explicit consent and legal stamp of approval. In many cases the MNCs wield 100 per cent control while owning far less than 40 per cent foreign equity. (See Annexure - II). Given such extensive control over the affairs of the company it is obvious that the foreign shareholder would decide what to produce, where and to whom to sell and at what price, where to import from and at what price, which technologies to pursue and which products to promote. One needs to ask:

would such a high degree of control in foreign hands be beneficial or inimical to self-reliant and independent development? If not, do we have the necessary instruments to make them work to the advantage of the country or, are we voluntarily surrendering national regulatory rights to intervene?

Coming back to the recent policy announcement, even if one accepts the official explanation that automatic entry of foreign investment up to 40 per cent is allowed only in specific areas, would such a policy continue to be applicable to the existing MNCs? In other words, would such 40 per cent foreign equity companies be restricted to product areas for which they apply to enter India initially or they would have the same freedom as enjoyed by non-FERA national companies? The scenario is not very difficult to imagine. Since the foreign equity would not exceed 40 per cent, the new entrants would straight away qualify to be non-FERA national companies. It is quite a common knowledge how ex-FERA companies are now expanding into a variety of consumer goods both through direct manufacturing and through marketing of products manufactured by small scale units in the former's brand names. There is no instrument with the Government to restrict non-FERA companies (whether old or new entrants to India) to `specified lists'. Annexure-III gives an illustrative list of low technology/low priority consumer products manufactured/marketed by MNCs who are otherwise supposed to be engaged in hi-tech production processes.

Another anomaly which has not been given the due attention it deserves is with regard to the small scale sector. The policy relaxations are in contradiction with the expectations from the sector. Given the freedom to conclude foreign collaborations would the small scale or for that matter any entrepreneur insist on exports which the foreign collaborator is known to resist? Secondly, wouldn't the resultant excessive dependence on foreign technology alter the character of the small scale sector to make it more capital intensive and reduce its potential for employment generation? Thirdly, can we rule out the possibility of MNCs entering directly in the small scale sector in the absence of any clear-cut guidelines with regard to foreign equity in the small scale sector? Would an MNC owned small scale company satisfy in any way the objective behind protecting and promoting small entrepreneurs?

One is not aware of any official study to assess whether the existing collaborations are borne out of genuine felt need for technology or were intended to blunt the edge acquired by the competitors through foreign brand names and trademarks. Such competition would without doubt lead to increased dependence on external sources for technology, machinery and raw materials.

It is debatable if the country ever really tried to restrict the operations of MNCs. While a feeble attempt has been made to restrict their operations to the so-called Appendix-I industries, the Appendix itself has been expanding continuously. While the FERA companies number about one hundred, the restrictions on their trading activities has been relaxed on the plea of export promotion. It is no surprise that a number of the important FERA companies have turned themselves into Export/Trading Houses. To what extent the

MNC exports comprise of the products manufactured by them?

The plight of Third World countries in the present international context is aptly described by the South Commission when it said:

> A network of relationships has been built up among private entities -- banks, investment houses, transnational companies -- in the leading developed countries. This has served to strengthen the influence of decisions made by private bodies on world economic activity, and to that extent to limit the effectiveness of governmental policy decisions. For the South the result is even further marginalisation and greater powerlessness.

India is no exception.

Strengthening India's own administrative frame and building the capacities to pick what we need and at a price not only that India can afford but that is the lowest in the international market, is the first step in the right direction. It is only through a strong public system one can attempt to keep the MNCs under check.

Annexure - I

Illustrative List of Joint Ventures

Beacon **Kone**
Beacon **Neyrpic**
Beacon **Rotork** Controls
Beacon **Tileman**
Beacon **Weir**

Birla **Yamaha**
Birla **3M**

DCM **Toyota**

Essar **Brown Root**
Essar **Forasol**

Fuller KCP
EIMCO KCP

Escorts **JCB**

Great **Atwood**

Greaves **Dronsfield**
Greaves **Foseco**
Greaves **Midwest Engg**
Crompton Greaves
David Brown Greaves
Drayton Greaves

Hero **Honda**

Hindustan **Textronix** Inst.

J.K. **Helene Curtis**
J.K. **Satoh** Agricultural

Khatau **Junker**

Kinetic **Honda**

Kirloskar **Rateau**
Kirloskar **Warner Swassey**
Kirloskar **Cummins**

Kothari **General Foods**

L & T **Gould**

Lohia **Starlinger**

Mafatlal **Zinser** Engg

Mahindra **British Telecom**
Mahindra **Owen**
Mahindra **Ugine Steel**

Modi **Champion**
Modi **Olivetti**
Modi **Telematics**
Modi **Xerox**

Murugappa **Morganite** Ceramic

Nagarjuna **Signode**

Nava Bharat **Parker Drilling**

Nicco **Hambro** Financial
Furmanite Nicco
Nicco **Helifusion**

Shriram **Honda** Power Equipt
SRF **Nippondenso**

Tata **Bradbury Wilkinson**
Tata **Honeywell**
Tata **Klockner** Indl Plants
Tata **Korf** Engg Services
Tata **Timken**
Tata **Robins Fraser**
Tata **Unisys**
Tata **Yodogawa**

Sundaram **Abex**
Sundaram **Clayton**
TVS **Suzuki**
TVS **Whirlpool**
Lucas TVS
Harita **Grammar**

United **Van Der Horst**

Source: Information System, Institute for Studies in Industrial Development, New Delhi

Note: Besides these are many others like Hitech Drilling Services, Eicher Motors, Digital Equipment India, Vespa Car Co., etc.

Annexure - II

Illustrative List of Companies in which Foreign Shareholders were Allowed to Appoint Managerial Personnel/Exercise Veto Powers by the Government of India

Abbott Laboratories India
Astra-IDL Ltd
Automotive Axles Ltd
Axles India Ltd
Bihar Sponge Iron Ltd

Birla Yamaha Ltd
Boehringer-Knoll Ltd
Burroughs Wellcome & Co. (I)
Cadbury India Limited
Carrier Aircon Ltd

Cemindia Co. Ltd
Colgate Palmolive (I) Ltd
Corn Products Co. (I)
DCM Toyota
Digital Equipment (I) Ltd

E Merck (I) Ltd
ESAB India Ltd
Eskayef Ltd
Fulford (I) Ltd
Fuller KCP Ltd

Gabriel India Ltd
German Remedies Ltd
Glaxo India Ltd
Godfrey Phillips India Ltd
Gramophone Co. of India Ltd

Hinditron Tektronix Instruments
Hindustan Ciba-Geigy Ltd
Hindustan Powerplus Ltd
Hoechst India Ltd
Incon (I) Ltd

IND-Suzuki Motorcycles Ltd
Indian Duplicator Co Ltd
India Nippon Electrical
India Photographic Co Ltd
Indian Sewing Machine Co Ltd
Indian Shaving Products Ltd
Indian Xerographic Systems
Indo-Asahi Glass Co Ltd
Indo matsushita Appliances
Indrol Lubricants & Specialities Ltd

Infar India Ltd
International Computers Indian Mfrs Ltd
Invel Transmission Ltd
Kalyani Brakes Ltd

Kanthal Bimetals India Ltd
Kirloskar Warner Swassey
Kothari General Food Corpn
Lipton India Ltd
May & Baker India Ltd

Miles India Ltd
Modi Champion Ltd
Modi Olivetti
Modi Xerox Limited
Monotype India Ltd

Moran Tea Co India Ltd
Nagarjuna Signode Ltd
National Peroxide Ltd
Nicco Batteries Ltd
Nicholas Laboratories India

PCS Data General India Ltd
Padmatex Engineering Ltd
Peico Electronics & Electricals Ltd
Perfect Circle Victor Ltd

Pfizer Ltd
Pond's (I) Ltd
Revathi-CP Equipment Ltd
SRF Nippondenso Ltd
Sesa Goa Ltd

Steelage Industries Ltd
Stormac India Ltd
Sulzer India Ltd
TVS Whirlpool
Tata Burroughs Ltd

Tasta Honeywell Ltd
Telemechanique & Controls (I)
Thomas Cook India
Tri-Sure India Ltd
Uni-Abex Products Ltd

Uptron Colour Picture Tubes
Utility Engineers (I) Ltd
Vespa Car Co. Ltd
WG Forge & Allied Industries
Wendt (I) Ltd

(Source: Prospectuses of respective Indian associates for different years available in the Information System of the Institute for Studies in industrial Development, New Delhi).

Annexure - III

Illustrative List of MNCs in Indian Economy
Operating in Consumer Goods Industries

Name of the MNC	Consumer Goods Produced/Marketed
Agfa Gaevart India	Cameras, Camera Films
Asian Agro Farm India	Poultry
Bata India	Shoes, Socks, Readymade Garments, Leather Bags
Berger Paints India Ltd	Paints
Brooke Bond India Ltd	Tea, Coffee, Masalas, Leather
Cadbury's India Ltd	Chocolates, Biscuits, Ice Cream
Carrier Aircon	Domestic Air conditioners
Ceat Tyres of India	Marine Products
Colfax Laboratories India	After Shave Lotions, Shaving Cream
Colgate Palmolive India	Tooth Paste, Tooth Powder, Tooth and Shaving Brushes, Shaving Cream, Soaps, Cold Creams
Corn Products Co India	Jelly and Custard Powders
Crompton Greaves	Domestic Electric Fans, Electric Lamps
Duphar Interfran	Cosmetics & Toiletries
Eskayef Ltd	Iodex Pain Balm and sprays
Ethnor Ltd	Marine Products
Eureka Forbes	Vacuum Cleaners
Fiskars India	Scissors
Funskool India Ltd	Toys
General Electric Co	Domestic Fans, Electric Lamps
Geofrey Manners India	Tooth Paste, Tooth Brush
Glaxo India	Baby Foods, Glucose
Godfrey Phillips India	Cigarettes, Tea
Goodlass Nerolac Paints	Paints
Gramophone Co. of India	Records, Pre-recorded Cassettes
Guest Keen Williams	Safety Pins, Nuts, Bolts
Hero Honda	Motor Cycles
Hindustan Lever	Soaps, Tooth Paste, Margarine, Shampoos, Detergents, Cleaning Powder, Carpets, Readymade Garments, Marine Products, Leather Goods, Carpets
Hindustan Ciba-Geigy	Tooth Paste, Tooth Powder, Tooth Brushes, Creams
HMM Ltd	Dairy & Milk Products, Hair Cream, Biscuits
ICI India Ltd	Paints
India Photographic Co	Cameras, Camera Films
Indian Shaving Products	Blades, Shaving Brush, Razors
Indian Sewing Machine Co	Sewing Machines, Kitchenware and Domestic Appliances
Indo-Matsushita Appliances	Rice Cookers
Indo-National Ltd	Dry Cells

(Contd...)

Name of the MNC	Consumer Goods Produced/Marketed
Ion Exchange India	Water Filters
ITC Ltd	Cigarettes, Hotels, Vegetable Oils, Carpets, Marine Products
J L Morrison	Tooth Paste, Feeding Bottles, Face Cream
J K Helene Curtis	Cosmetics
Johnson & Johnson	Ear Buds, Baby soaps, Baby Talcum Powders, Baby Lotions, Sanitary Napkins
Kelvinator India	Domestic Refrigerators
Kinetic Honda	Scooters
Kissan Products Ltd	Jams, Sauces, Squashes, Biscuits
Kothari General Foods	Coffee, Soft Drink Concentrates
Lakhanpal National	Dry Cells
Lipton India Ltd	Tea, Fruit Juices, Soft Drinks, Vegetable Oils
Madura Coats	Threads, Readymade Garments
Metal Box	Metal and Plastic Containers
Modi Carpets	Carpets
Nestle India	Coffee, Tea, Baby Foods, Dairy Products, Noodles, Ketchup
Pieco Electronics & Electricals	TVs, Radios, Tape Recorders, Intercoms, Marine Products
Pepsi Foods	Potato Chips, Soft Drinks
Pond's India	Toilet Soaps, Talcum Powder, Cold Cream, Leather Goods, Marine Products
Procter & Gamble	Balm, Chicklets, Digestive Tablets
Punjab Anand Lamp Inds	Electric Lamps
Rallis India	Fans, Readymade Garments
Reckitt & Colman India	Boot Polish, Antiseptic Lotion, Soaps, Detergents, Barley
Sylvania Laxman	Electric Lamps, Tube Lights, Tvs
Thomas Cook	Travel agents
Tube Investment of India	Bicycles
TVS Suzuki	Motor Cycles, Mopeds
Union Carbide India	Dry Cells
Vespa Car Co	Scooters
VST Industries	Cigarettes
WIMCO Ltd	Matches, Salt, Marine Products

Source: Information Syste, Institute for Studies in Industrial Development, New Delhi.