Foreign Direct Investments in India Since Liberalisation: An Overview

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Introduction

In the period ending with the 1980s, India maintained a selective approach towards foreign direct investment (FDI). The selectivity in approach was governed principally by the then objective of technology transfer and export promotion that the policy makers expected the foreign capital to meet. A number of measures were designed to maximise the perceived benefits from foreign investments while simultaneously keeping the costs low. However, the overall policy environment has also been considered as the key factor in determining the low level of foreign investment in the country.[1] The specific instruments of policy that were widely regarded as impediments to the expansion of foreign capital in the country were: industrial licensing under the Industries Development & Regulation Act, 1951 (IDRA); the size consideration under the Monopolies & Restrictive Trade Practices Act, 1969 (MRTPA); limits on the level of foreign share placed by the Foreign Exchange Regulation Act, 1973 (FERA); high rate of taxation; restrictive labour laws; and inadequate patent protection.

Beginning with July 1991, the government introduced a number of changes in the country's regulatory policies. Among these, and particularly important from the point of attracting foreign direct investments have been the following: de-reservation of many public sector reserved areas;[2] delicensing;[3] doing away with registration under the MRTPA, removing the general ceiling of 40 per cent foreign equity under FERA; lifting the restriction on use of foreign brand names in the local market; withdrawal of the restriction on entry into low technology consumer goods; abandonment of the phased manufacturing programme (PMP); dilution of the dividend balancing condition and export obligations; liberalisation of the terms for import of technology and royalty payments; permission to invest up to 24 per cent in small scale units, reduction in tax rates; etc. In the new policy regime, proposals for foreign investment need not necessarily be accompanied by foreign technology agreements.

Objectives and approach of the Paper

Since the new policy regime placed major emphasis on attracting foreign investment, the size of the approved investment, actual inflows, take-over of local companies and exports are among the issues which often get discussed with regard to foreign investments in the country. Incidentally, these issues are interrelated. We shall make an attempt in the following sections to provide a broad empirical content to these questions. The paper draws extensively from the experiences of the earlier studies conducted at the Institute for Studies in Industrial Development.[4] We shall also be making use of the aggregate data and information on individual approvals reported by the Secretariat for Industrial Assistance (SIA), Indian Investment Centre and other official agencies. In view of the nature of available information on the subject, as we shall see later, it is only possible at present to provide a broad picture and indicate the possible factors at play and tentative directions in which the FDI scenario is emerging rather than offering definitive conclusions. In the following we present the broad characteristics of foreign investments in the new policy regime to provide a basis for an informed debate on the subject.

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Foreign Collaboration Approvals

Foreign collaboration approvals are essentially of two types. One involving only payments for technology and the other involving investment in the equity capital of an enterprise existing or to be promoted. Approvals are accorded automatically in selected industries subject to foreign equity levels and payments for technology[5] by the Reserve Bank of India. The upper limit for automatic approval was raised from 51 per cent to 74% (100% in case of NRIs) in the notified industries in January 1997. The list of industries open for automatic approval was expanded simultaneously. In all other cases the government gives necessary permissions after a case by case examination. The Industry Minister accords approval to projects involving a total investment of up to Rs. 600 crores on the advice of Foreign Investment Promotion Board (FIPB) and for larger projects the decisions are taken by the Cabinet Committee on Foreign Investment (CCFI).

As a result of the basic changes and active promotion in home countries, the number of approved foreign collaborations rose sharply since 1991. During the past two years, the number of collaborations approved stood at 2,337 and 2,303 respectively. These are far higher than the highest number of collaborations (1024 in 1985) approved during any year in the 'eighties (See Table-1).

Table - 1

Financial and Technical Collaborations: 1981 to 1996

Year	No. of Approved Collaborations			% Share of Financial Collabora-tions in Total	Investment Approved (Rs. Cr.)
	Financial	Technical	Total		
(1)	(2)	(3)	(4)	(5)	(6)
1981	57	332	389	14.65	10.9
1982	113	477	590	19.15	62.8
1983	129	544	673	19.17	61.9
1984	151	601	752	20.08	113.0
1985	238	786	1,024	23.24	126.1
1986	242	715	957	25.29	106.9
1987	242	611	853	28.37	107.7
1988	282	644	926	30.45	239.8
1989	194	411	605	32.06	316.7
1990	194	472	666	29.13	128.3
1991	289	661	950	30.42	534.1
1992	692	828	1,520	45.53	3,879.1
1993	785	691	1,476	53.18	8,861.8
1994	1,062	792	1,854	57.28	14,190.0
1995	1,355	982	2,337	57.98	32,070.0
1996	1,559	744	2,303	67.69	36,150.0
1997 (up to July)	918	371	1,289	71.22	32,740.0
1991-Jul '97	**6,660**	**5,069**	**11,729**	**56.78**	**1,28,430.0**

Source: (i) India, Department of Scientific & Industrial Research, Ministry of Science & Technology, *Foreign Collaborations: A Compilation*, (ii) India, Ministry of Industry, *Handbook of Industrial Statistics*, and (iii) 1991 onwards: India, Ministry of Industry, *SIA Newsletter*, August 1997.

Note: Total investment includes GDRs and FCCBs amounting to Rs. 15,832 crores.

In terms of the amounts approved, the FIPB occupies a far more important position compared to the RBI. While the RBI gave automatic approval in nearly one-fourth of the financial collaboration cases, the foreign investment associated with these proposals was six per cent of the total investments approved. But for the change in policy in January 1997, RBI approvals would have accounted for far less. (RBI has since dispensed with the automatic approval procedure and companies need only to report after issue of shares to foreign financial collaborators subject to the condition that investments are made in the specified industries and are within the foreign shares allowed). In the context of the liberalisation of industrial policy, it is thus significant that much of the investment approved went through a formal procedure of approval unlike the automatic approval case where the investors may not be so serious. Also in the initial period, equity hikes by existing companies were approved automatically. It is only after a lot of public criticism of the manner in which the hikes were effected at prices considerably lower than the prevailing market prices, the terms were tightened. The automatic procedure is, however, more effective in technical collaboration agreements. Out of the 5,069 technical collaborations approved during till July 1997, the RBI granted 2,798 i.e., nearly 55 per cent. At times one finds that while the investment approval is accorded by the Government, approval for technical collaboration for the same case is granted by the RBI.

The relative significance of financial collaborations in the total approvals has increased rapidly during the 'nineties. From about 10 to 15 per cent during the latter half of the `seventies, the financial collaborations (FCs) accounted for a little less than one-third of the total FC approvals towards the end of the `eighties. The share of the FCs increased further since liberalisation of industrial policy and exceeded half of the total since 1993. During 1996 they accounted for two-thirds of the total i.e., double of their share in the late 'eighties.

Historically, India's policy has been to encourage technology imports without financial participation by the technology supplier. This was intended to give the much needed boost to technological development as the recipients of foreign technology were expected to absorb the technology and develop further with the help of their own R&D and without the restrictions imposed by foreign collaborators. The danger of impedance by the technology supplier is far greater if he also happens to share the ownership of the Indian entity. Another reason for discouraging foreign investment, especially in low technology items was to encourage local industry to come up and to conserve foreign exchange which the foreign investment would have entailed in the form of dividend payments and dependence on imports. The new policy regime discarded much of the earlier rationale and allowed foreign investment in a much larger number of industries. Hence a sharp increase in the number and the relative share of financial collaborations.

Approved Foreign Investment

The government approved investments (referred to as foreign direct investment -- FDI) increased substantially since the adoption of new economic policies in 1991. The size of foreign investments approved in 1981 was nearly Rs. 10.9 crores. The peak year during the 'eighties was 1989 when the approvals aggregated Rs. 316.7 crores. Even during the first year of liberalisation, i.e., 1991 approved investment shot up to Rs. 534.1 crores from the low of Rs. 128.3 cr in 1990. Till July 1997 i.e., during the six years since the policy liberalisation, official estimates indicate that the approved foreign direct investment was of the order of Rs. 1,28,000 crores. Out of this as much as Rs. 1,01,000 crores or about four-fifths was approved during the last two and a half years. During 1997, which marked the further liberalisation of the foreign investment policy, approvals in the first seven months have already exceeded the approvals for the whole of 1995. The increases in approved investment remain substantial in spite of the decline in the exchange rate of rupee over the period.[6]

At this point it is necessary to mention that the approvals since 1994 include Global/American Depository Receipts (GDR) issues and Foreign Currency Convertible Bonds.[7] These are essentially portfolio investments and lack the essential criteria of control over the enterprise and hence should not have been included in the direct investment figures except with the purpose of showing a healthy approval position.[8] Had the GDRs not been included, the approved investment for 1996 would have been lower than the amount for 1995. If the GDR amount of about Rs. 16,000 crores is taken out, the approved investment works out to Rs. 1,12,000 crores for the six years. There is a possibility of some of the other approvals having been included though these would not strictly qualify as direct investments.[9]

While the approvals seem to have grown significantly over the past six years, India's share in total global inflows is very small. Even within South, East and South-East Asia, its share was only 2.27 per cent; though it marks a significant improvement over the 1.37 per cent share during 1985-1990.[10]

Extent of Foreign Ownership

As mentioned earlier, restrictions on the percentage share of equity allowed to foreign investors (40 per cent, as stipulated under the FERA) were seen as a deterrent to foreign companies to invest in India. Removal of FERA restrictions on holding of majority stake would thus encourage investment inflows, especially from large transnational corporations (TNCs). It should, therefore, be expected that the distribution of companies in different ranges of foreign shareholding ranges will undergo significant changes. One may recall that a number of branches and subsidiaries of foreign companies were operating in India prior to the enactment of FERA. The number of foreign subsidiaries came down substantially due to the implementation of the FERA.[11] This was in spite of the fact that majority foreign equity share was not banned in cases of high technology and export-oriented companies. Some of the companies, notably those in the drugs and pharmaceutical sector, voluntarily diluted their foreign equity to 40 per cent[12]. Thus in the liberalised industrial policy environment the preference for higher levels of foreign equity becomes visible both in case of new entrants as also for those which earlier diluted the foreign shares and shed the foreign subsidiary status. The distribution of foreign shares would also be related to the foreign investor's perception of the need for a local partner. It is easy to visualise that foreign investors would normally prefer to have an Indian counterpart instead of going all alone in a regulated environment partly because the environment does not permit full ownership and partly to enable them find their way around the regulations. This would be particularly true for new foreign investors. By associating Indian collaborators, the foreign investors also obtain access to the local network of contacts, political support, business and operational advantage. Avoiding discrimination at the administrative level could also be another motive for associating with a local industrial group.

Table-2 gives the distribution of approvals over the six year period and the corresponding distribution for the three years 1981 to 1983. It can be seen that there is a clear shift in the pattern of approvals during the 'nineties. In the early 'eighties, the distribution was overwhelmingly in favour of percentage ranges up to 40 per cent. Out of the total amount of Rs. 208 crores as much as 93 per cent fell in this category. The share of 100% subsidiaries in the approved investment was a mere 0.65 percent. In contrast, 100% subsidiaries accounted for almost one-third of the approved investment during in the second period. In all, foreign subsidiaries accounted for 56 per cent of the total approved investment. Those settling for less than 40 per cent share accounted for a mere fifteen per cent of the investment now. It may be noted that these results hold good even if we leave out the cases involving equity hike in the existing cases.

Table – 2

Distribution of Approved Investments According to Foreign Share

Foreign Share (%)	No. of Approvals	Approved Amount (Rs.Cr.)	Share in total %	Cumulative Share (%)
A: <u>August 1991 to May 1997</u>				
Less than 10%	294	520.16	0.50	0.50
10 to 24.99	783	4,426.11	4.23	4.73
25 to 40	689	10,548.54	10.09	14.82
40.01 to 50	1,746	30,581.91	29.24	44.06
50.01 to 73.99	1,218	14,909.34	14.26	58.32
74 to 99.99	507	9,259.97	8.85	67.17
100 %	800	34,334.20	32.83	100.00
All Cases*	**6,037**	**1,04,580.23**	**100.00**	
B: <u>1981 to 1983</u>				
Not Available	3	0.31	0.15	0.15
Less than 10	6	1.11	0.53	0.68
10.0 to 25.0	70	24.95	11.96	12.64
25.0 to 40.0	160	168.31	80.65	93.29
40.0 to 50.0	9	10.65	0.51	93.80
50.0 to 74.0	22	11.20	5.37	99.17
74.0 to 99.9	5	0.38	0.18	99.35
100	2	1.35	0.65	100.00
All Cases	**277**	**208.68**	**100.00**	

* Excludes GDR Issues and cases for which information on foreign share was not available.

Source: A: Generated from a database developed at the Institute using collaboration approvals reported in Indian Investment Centre, *Monthly Newsletter* and Ministry of Industry, *SIA Newsletter*, various issues.
B: S.K. Goyal, et. al., "Foreign Investment Approvals: An Analysis" (August 1991 -- July 1993)", Institute for Studies in Industrial Development, New Delhi, March 1994.

It can be seen from the Table-3 that out of the 6,037 approved FCs, 800 were for enabling foreign investors to have 100 per cent ownership in their Indian ventures. Out of these 800, as many as 433, or 54 per cent, were approved since January 1996. The corresponding total approvals for the period were 2,216, or only 35 per cent. Further, the proportion of companies which were accorded majority ownership (subsidiary status) has also increased gradually over the period. From 30.7 per cent in the first one and a half years to 37.53 during the middle period (1993 to 1995) and to 52.59 per cent in the past one and a half years.

Industry-wise Pattern of Approvals

FERA sought to channelise foreign investment into high technology and export-intensive sectors. Even while retaining the basic concept of selectiveness, the post-July 1991 phase enlarged the scope for foreign investment. At the end of 1989-90, manufacturing sector accounted for 85 per cent of the total FDI stock of Rs. 2,705 crores.[13] Plantations had a share of 9.5 per cent. Within the manufacturing sector, Chemicals & Allied Products stood at the top followed by Machinery & Machine Tools , and Electrical Goods & Machinery in that order. Liberalisation of industrial licensing is the most important policy decision which can be expected to influence sectoral pattern of FDI. It also appears that to generate a

Table – 3
Increasing Share of Foreign Subsidiaries in FC Approvals

Period	Foreign Subsidiaries	of which 100% owned	Total	Share of Subsidiaries in Total Approvals (%)
Aug. 1991 to 1992	261	33	850	30.70
1993 to 1995	1,138	334	3,045	37.37
1996 to May 1997	1,130	433	2,146	52.66
Total Since 1991	2,529	800	6,041	41.86

Note : Excludes GDRs and cases where foreign share was not available.

demonstrative effect certain high profile collaborations had to be approved initially.[14] Moreover, with the emphasis on exports of non-traditional and those which were hitherto treated as low-technology based industries, the possibility of changes in industry composition of foreign investment has increased. Another major policy change in the new regime is with regard to drastic contraction in the public sector reserved areas, notably power and telecommunications.

Thus, dilution of industrial policy, particularly privatisation of the erstwhile public sector reserved areas, has been responsible for the dramatic upsurge in approvals as power, oil and telecommunications account for as much as 47 per cent of total approvals (See Table-4).[15] If Iron & Steel and Air Transport are also taken together, the share of erstwhile public sector reserved areas would be at least half of the total investment approved.

Table - 4
Shares of Different Sectors in Approved Foreign Direct Investment
(August 1991 to July 1997)

Industry/Sector	No. of Approvals	Approved Investment (Rs. Crs)	Share in Total (%)
Power & Fuels	242	32,690.48	25.47
Telecommunications	277	27,369.64	21.33
Service Sector	428	9,367.30	7.30
Chemicals (other than fertilizers)	531	8,063.91	6.28
Transportation Sector	309	8,012.81	6.24
Electrical Equipments (incl. Software)	1,138	7,566.60	5.90
Food Processing Industries	482	7,490.02	5.84
Metallurgical Industries	191	7,153.68	5.57
Hotel & Tourism	163	2,937.56	2.29
Textiles (include dyed,printed)	325	2,227.25	1.74
Industrial Machinery	361	1,797.26	1.40
Paper & Pulp (incl Paper Products)	63	1,596.69	1.24
Fermentation Industries	38	1,103.72	0.86
Sugar	6	1,000.75	0.78
Others	2,019	9,957.26	7.76
Total	6,573	1,28,334.93	100.00

Source: Based on data provided in Ministry of Industry, *SIA Newsletter*, August 1997.

During the first three years, fuel and power accounted for 40 per cent of the approved investments. But by 1996, telecommunications reached the top position with 23.55 per cent in total. This is in line with the stated official policy of developing the infrastructure sector.

Next in importance is the `Service Sector'. However, since most of the investment in the telecommunications sector was directed at either cellular mobile and basic phone services, this investment could as well be treated as part of the services sector. If the service sector is regrouped taking into account the other service categories like Hotels & Tourism, the service sector would come to occupy the top position with as much as one-third share of the total. An appropriate regrouping in case of Food and Agro products brings its share to 7.93 per cent. This sector is dominated by TNCs like Coca-Cola, Pepsi, Kellogg, Heinz and Seagram.

It is noteworthy that industrial machinery accounted for only 1.40 per cent of the approved investment. It should be mentioned here that the sectoral investment also includes the amounts permitted to be invested to either increase or take up stake in existing companies. In this background, the investment leading to immediate expansion of production capabilities in the machinery sector could further be lower. With the steep reduction in the customs duties for capital goods sector, foreign investors might be finding it more advantageous to export to India than to manufacture machinery within the country. It has also been observed that the sector is not receiving much attention even in technical collaborations. Compared to the 1986-1990 period, the average number of approved technical collaborations declined by 5.95 per cent for the Industrial Machinery group and by 38.84 per cent for Machine Tools during 1991-1995.[16]

Due to the inclusion of GDR issues, official tabulations at times tend to be misleading. The attempt at adjusting the official sectoral totals for GDR approvals could not be carried further due to the vagueness in the product classification of some GDR issues as also to the non-standard nature of the official classification itself. If the industry distribution is adjusted for GDR approvals to the extent possible, the inter se ranking does not get affected significantly within the top sectors. However, the worst affected in terms of approved amount are: Telecommunications, Services, Power, Transport and Textiles. The large issues of VSNL (Rs. 2,625 cr.) and SBI (Rs. 1,750 cr.) were significant contributors to the reduction in the case of the first two.

Discussion on foreign investments in India generally reflects the concern about their role in consumer goods industries. The Economic Survey, 1996-97 placed the share of consumer goods sector at 15.31 per cent and that of capital goods and machinery at 13.14 per cent and that of core and infrastructure sectors at 49.13 per cent in the FDI approved during August 1991 to October 1996. However, while in relative terms the share of consumer goods industries may look to be small, in volume terms it may be big enough to cause significant changes in the structure of many sectors. For instance, in the advertising sector, the approvals do not indicate any significant amounts -- we could trace approvals for less than 15 crores -- but it is well known that the sector is now dominated by foreign advertising agencies. While food processing sector occupies the seventh position with less than six per cent share, total approvals amount to Rs. 7,500 crores. Coca Cola alone received approvals of nearly Rs. 2,700 crores and approvals on account of Pepsi and its group companies work out to more than 1,000 crores. The drastic changes that occurred in the Indian soft drink industry since liberalisation are well known. Since a number of consumer goods companies are setting up holding companies and subsidiaries, the approved investment figures are unlikely to represent the full potential of the investments involved in these approvals for influencing market structures. For instance, most of the takeovers, joint ventures and alliances of Unilever group in India do not figure in the approved list: e.g. take over of Tata Oil Mills and its subsidiaries, entry into the ice cream segment, and the joint venture with Lakme. These were entered into by Hindustan Lever (incl. the merged Brookebond Lipton), a subsidiary of Unilever.

A point also arises whether it is necessary to relax the FDI policy with regard to consumer goods industries if the purpose of inviting FDI is to develop core and infrastructure sectors. Infrastructure and service sectors are such that the foreign investors have to physically set up their operations in the country if they wish to extend their operations to the country.[17] In contrast, in the manufacturing sectors, be they consumer goods or others, the investor has the option to export instead of taking up local manufacture (this is more true because of the rapidly falling trade barriers). Thus there is scope for treating the two broad spheres independently for policy purposes.

Size-distribution of approvals

We have seen in the above that investment approvals were concentrated in the major sectors of Power & Fuel and Telecommunications. These being heavy investment sectors, their share in number of approvals is small compared to the share in investment. The two sectors together accounted for 519 approvals or less than 8 per cent of the total. Understandably this sectoral character of the approvals will have its reflection in the size distribution of investments as well. From Table-5 it can be seen that proposals with Rs. 500.00 crores and higher investment were only 38 out of 6,183 i.e., less than 1 per cent. But these claimed a little more than one-third of the investments approved. If the approvals in the Rs. 100 -- 500 crs. range are also taken, 211 approvals account for more than 70 per cent of the total investment. On the other extreme are the projects in the less than Rs. 1 cr. bracket, which while accounting for almost half of the approvals for hardly 1 per cent of the investment. The pattern of the approvals makes it clear that the success or failure of the expectations with regard to inflow of foreign investment would be determined by a limited number of large projects and their industry characteristics.

Table – 5

Distribution of FCs According to Size of Foreign Investment
(August 1991 to May 1997)

Investment Range (Rs. Cr.)	No. of Approvals	Amount Approved (Rs. Cr.)	% of Col. 2	% of Col. 3
(1)	(2)	(3)	(4)	(5)
0 to 1 cr.	3,040	919.38	49.17	0.87
1 to 5 cr.	1,686	3,800.79	27.27	3.59
5 to 25 cr.	906	10,045.96	14.65	9.50
25 to 50 cr.	212	7,503.52	3.43	7.09
50 to 100 cr.	128	8,828.38	2.07	8.35
100 to 500 cr.	173	38,698.95	2.80	36.58
500 cr. & above	38	35,992.35	0.61	34.02
All Cases	**6,183**	**1,05,789.33**	**100.00**	**100.00**

Note: Excludes GDRs and cases where the investment figures are not available.

Country-wise Distribution of Approvals

Given the relative freedom now offered to foreign investors, one should expect that the sources of foreign investments would get further diversified. At the same time, since many large TNCs are based in the USA, the country may gain even a better foothold in India. At the end of 1989-90, US occupied the highest position with nearly half of the FDI stock. UK was in the second position with 19 per cent share followed by West Germany and Japan.

The four countries had a combined share of 83 per cent. Top nine developed countries had 93 per cent share in the FDI stock of 2,705 crores.[18] As better or higher technology is no more a special consideration for permitting new investments, one might witness a diversification of sources of investment. From Table-6 it can be seen that, as expected, USA stands at the top with a 30 per cent share. Europe takes the second position with a 23 per cent share. In all, the developed countries account for two-thirds of the investment. Next important category is that of South, East and South-East Asian countries led by South Korea. These countries contributed nearly 14 per cent to the approved investment representing diversification of sources of FDI. A surprising case is that of small countries led by Mauritius, which are known as tax shelters.[19] Many of the investments routed through Mauritius can be traced to US companies. Similarly, some of the investments from Mauritius as also Switzerland were found to have NRI association. Notable among these are the Rs. 600 crore investment by Parmars approved in the name of International Petroleum, Switzerland and Rs. 300 crore approval for Chatterjee Petrochem (Mauritius). This is in addition to the officially reported Rs. 5,900 crore investment by NRIs. In the past too, certain TNCs from advanced countries invested in India through their subsidiaries and associates in locations other than their home country. For instance, foreign equity in Nestle India was held from Bahamas Islands and in Pfizer it was from Panama though their respective parent companies belong to Switzerland and USA.[20] If these factors are taken into account, the share of USA and NRIs would turn out to be more substantial.

A notable feature of the country-wise distribution is that Korea took the lead over Japan which played an important role in the 'eighties. Of late, even other Asian countries namely, Malaysia and Thailand have turned important investors in India.

The substantial share of NRIs in total investment approved may resemble the experience of China. A significant portion of the huge investment China is reported to have attracted over the years has been from people of Chinese origin.

State-wise Location of new Foreign Investments

States have been showing considerable interest in attracting foreign investments. In this context and in the context of wide inter-state disparities in industrialisation, location of projects with foreign investments has assumed significance. Given the nature of approvals, however, the available information has serious limitations in reflecting the actual amounts that are likely to flow to different states. If one goes by the official figures, Delhi will be receiving the maximum amount of foreign investment followed by Maharashtra. (See Table-7) More importantly, in about 30 per cent of the cases, location was not indicated at the time of approval. These projects account for approximately one-third of the total investment. While Delhi stands at the top it is obvious that most of the corresponding 458 projects will not be located in Delhi. Delhi, in all probability must be representing the neighbouring states or the foreign investors might have used the services of local agents for communication and for doing the initial spadework. Depending upon the nature of the project these can be located anywhere in the country. Also, in case of services, location will not carry the same meaning and equal significance compared to manufacturing ventures. Incidentally, most of the approvals for Cellular and Basic Phone services carry Delhi addresses. Bombay, Bangalore and Madras were the other important locations for these approvals. For all practical purposes Delhi should also be clubbed with Un-indicated category. It, therefore, means that for almost half of the investment, the location is not known in advance. In view of the importance of a

Table - 6
Sources of Approved Foreign Direct Investment

(August 1991 to July 1997)

Country/Group	Amount (Rs. Crores)	% Share in Total

USA		**33,976.06**	**30.17**
Europe		**25,839.46**	**22.95**
- U.K.	8,199.36		
- Germany	4,955.92		
- Netherlands	3,047.05		
- France	2,734.10		
- Switzerland	2,051.96		
- Italy	1,998.64		
- Austria	1,627.38		
- Sweden	1,104.76		
- Belgium	5,63.56		
- Denmark	3,56.40		
- Ireland	2,30.76		
- Portugal	1,89.02		
- Others			
Other Developed Countries		**14,578.69**	**12.95**
- Japan	5,028.50		
- Israel	4,198.09		
- Australia	3,081.98		
- Canada	2,018.82		
- South Africa	163.46		
South, East & South-East Asia		**15,439.77**	**13.71**
- Korea(South)	5,551.21		
- Malaysia	3,339.86		
- Thailand	2,449.10		
- Singapore	1,929.70		
- Hong Kong	1,312.24		
- Philippines	383.88		
- Indonesia	353.08		
- Taiwan	120.70		
- Others			
Tax Shelters		**11,666.61**	**10.36**
- Mauritius	6,983.05		
- Cayman Islands	3,621.37		
- Panama	621.44		
- Bermuda	250.27		
- Others			
NRIs		**5,914.12**	**5.25**
West asia		**2,393.01**	**2.13**
- Saudi Arabia	622.53		
- Kuwait	583.48		
- Oman	569.72		
- UAE	547.75		
Latin America		**270.96**	**0.24**
- Mexico	252.43		
Russia		**244.27**	**0.22**
Africa		**147.54**	**0.13**
- Nigeria	147.54		
Total (incl. others)		**1,12,598.20**	**100.00**

Note: Excludes GDRs.
Source: Based on Ministry of Industry, *SIA Newsletter*, August 1997.

Table - 7
State-wise Distribution of Approved Foreign Investment
(August 1991 to January 1997)

State	No. of Approvals	Amount (Rs.Cr.)	Share in Total Investment (%)

Delhi	458	17,330.36	17.08
Maharashtra	832	12,676.39	12.49
Karnataka	434	5,493.90	5.41
Tamil Nadu	543	5,468.75	5.39
Madhya Pradesh	110	5,268.33	5.19
West Bengal	179	5,249.55	5.17
Orissa	49	3,790.79	3.73
Gujarat	251	3,762.54	3.71
Andhra Pradesh	295	2,511.27	2.47
Uttar Pradesh	219	2,444.52	2.41
Haryana	268	1,788.40	1.76
Punjab	66	821.20	0.81
Rajasthan	128	605.47	0.60
Other States	424	3,116.55	3.07
Others (state not indicated)	1,752	32,592.67	32.12
Total	5,814	1,01,494.02	100.00

Source: Based on Ministry of Industry, *SIA Newsletter*, February 1997.

few large projects in the approved investment, even a couple of projects can make a large difference to a state's share. And if for any reason, the projects do not materialise, the share in actuals will slump significantly. For instance, the somewhat high position of Orissa is acquired by two major projects namely a refinery (by Hindujas and Indian Oil Corp) and a steel plant (by Caparo group of Swraj Paul). The combined investment was about Rs. 625 crores. While the refinery project is unlikely to come up, a new collaboration was entered into by the Mesco group and China Metallurgical Import & Export with almost equal amount of foreign investment. In case of West Bengal Chatterjee/Soros Groups obtained approvals to invest about Rs. 800 crores in Haldia Petrochemicals.

Actual Inflows of Approved Investment

While the investment approvals show a promising picture, at least in comparison to India's past experience, considerable anxiety is expressed in different quarters over the slow pace of inflows.[21] Given that inflows do not start flowing immediately after the approval, one should expect a time lag between approvals and inflows, especially for large and long gestation projects. In their case it is reasonable to assume that inflows will flow gradually as the projects progress. The number of approvals against which inflows have been recorded would give a better indication of the extent of likely implementation of approved foreign investment projects. Since such information is not available, actual inflows are being compared to approved amounts. The general feeling is that inflows constitute about one-fifth of the approvals. However, if the fact that approval data includes GDR issues also is taken into account and that one should allow at least some time lag for capital flows, it is possible to arrive at different estimates of actual realisations (see Table - 8).

Table - 8
Share of Actual Inflows In Approved Foreign Investment

Period (Since 1991)	Approved Investment (Rs. Cr.)	Realisation of Inflows* (%)

Till 1996 (incl GDRs)	95,686.6	22.81
Till 1996 (excl GDRs)	84,002.9	25.98
Till July 1997 (incl GDRs)	1,28,430.0	16.99
Till July 1997 (excl GDRs)	1,12,598.0	19.38

* Actual inflows reported till July 1997 were Rs. 21,822.43 crores (only inflows under FIPB/SIA and RBI's Automatic approval scheme are taken into account).

Source: Based on data given in Ministry of Industry, *SIA Newsletter*, August 1997.

It is obvious that the extent of realisation varies from about one-fifth to one-fourth depending upon the way one looks at the approvals. The latter estimate seems to be more reasonable because it allows about seven months lag between approvals and inflows and also excludes GDRs which do not form FDI. It may not be out of place to refer to some avoidable confusion created by official agencies in reporting approvals and inflows. We have explained earlier that reported FDI figures include GDR issues. But when it comes to reporting inflows proceeds of GDR issues are being shown as portfolio investments.[22] As if this is not enough, RBI has been taking one set of figures for reporting actual inflows and another for reporting industry composition and country-wise distribution of inflows. The second set of figures does not include NRI investments reportedly due to non-availability of industry and country-wise details[23].

Instead of aggregate-level comparisons sector-wise comparisons would give a better picture of inflows and project implementation. This is, however, possible if inflow data is available for the industry groupings similar to the ones followed in the case of approvals. Unfortunately RBI, for some inexplicable reasons, followed its own classification and level of aggregation. It is difficult to understand why investment figures are not being made available in a standardised format, which would enable meaningful comparisons. In spite of these problems of comparison, the fact that infrastructure sectors received very little investment becomes evident from the inflow data released by the RBI for the past years. The top most position was occupied by Engineering (23.50%) followed by Finance (13.39%) Chemicals & Allied Products (13.15%), Food & Dairy Products (8.91%) and Electronics & Electrical Equipments (7.82%). Power & Fuel and Telecommunications do not figure in the details offered by RBI. A more detailed distribution provided by the Centre for Monitoring Indian Economy (CMIE) for the first four years (i.e., till 1994-95) shows that Chemicals and Electronics & Electrical Machinery had 20 per cent share each in the actual inflows. Other sectors of importance were: Services Sector (12.95%), Non-Electrical Machinery (9.58%) and Food & Agro Products (8.69%). The share of Power and Fuel was only 3.63%. Since the emergence of Telecommunications as a major recipient of foreign direct investment is a more recent phenomenon, under-standably the sector had only 0.03 per cent share in inflows.[24]

Another way of looking at the inflows is by countries. In a scenario of slow rate of inflows, knowledge of better project implementation by investors of certain countries may enable to form more realistic future expectations. However, as noticed earlier, the increasingly important role played by tax shelters has further distorted the country distribution to such an extent that during the past three years, Mauritius reached the top position in inflows with a 36 per cent share. USA was a distant second with a share of 14.5 per cent! (See Table-9)

Table - 9
Country-wise Inflows of Direct Investment (1994-95 to 1996-97)

Country	Inflow (Rs. Cr.)	Share in Total (%)
Mauritius	5,319.4	35.96

USA	2,145.4	14.50
Germany	1,032.0	6.98
UK	880.0	5.95
Japan	845.2	5.71
Netherlands	746.2	5.04
Singapore	546.3	3.69
Korea	323.1	2.18
Sweden	280.4	1.90
Others	2,675.0	18.08
Total	14,793.0	100.00

Note: Figures do not include NRI direct investment routed through RBI.
Source: RBI, *Annual Report 1996-97*.

Three factors should be noted in a discussion on inflows. Firstly, approvals have picked up significantly during the past two and a half years which accounted for four-fifths of the approved investment.[25] Secondly, a few approvals (211) account for a substantial portion (70 per cent) of the total investment. And, lastly, industry composition is such that Power, Fuel and Telecommunications sectors dominate the approvals to a large extent. The policy formulation in respect of these sectors has been very slow. Some of these projects are also surrounded by controversies. The cases of Enron and Cogentrix are well known. Telecom witnessed a major scam. Hindujas' power project at Visakhapatnam was approved in August 1992. Recent reports indicate that the project is arriving at a final shape now i.e., after five and half years.[26] Similarly, Cogentrix obtained the approval to set up a power project in May 1993. Its power purchase agreement (PPA) is expected to be signed towards the end of October 1997.[27] Thus, one can say that slow pace of infrastructure projects is mainly responsible for poor rate of inflows.

On the other hand, implementation appears to be quick in consumer goods industries.[28] The official approvals enabled many consumer goods TNCs to hike their shares reversing the impact of the FERA. This probably explains the near 50 per cent realisation in 1991. Inflows during the year were reported to be Rs. 351 crores out of the approved amount of Rs. 739 crores. In some cases, TNCs preferred to follow the take-over route (especially in consumer goods) to make a quick entry or to consolidate their position in the Indian market. In a few cases, the take-over factor was hidden. For instance, Heinz started its operations by taking over the food business of Glaxo and Modi-RJR's foray into manufacturing was through take-over of a small cigarette manufacturer in Andhra Pradesh. Till now Modi-RJR is reported to be only trading in tobacco. Certain existing units were transferred to new joint venture companies while the original Indian companies continue to exist. We shall discuss this aspect further in the section on take-overs. Implementation will also seem quick if it implies getting the products manufactured by local units and the foreign company marketing them under its own brand names (e.g. Laboratories Garnier promoted by L' Oreal of France).

There is a view prevailing that the sluggish pace of inflows is entirely due to the slow moving and hurdle creating bureaucracy and its failure to free itself from the old mind set. The fact, however, is that this view need not necessarily be relevant in all the cases of delay. The investors could also be responsible for the delays in some major projects.[29] A long-term investment demands close study of the market (McDonald took almost five years to open its first outlet). Inability to decide on the local partners is yet another reason for delays or even abandonment in some cases (e.g. Volkswagen and BMW). Since 1991, BMW tried different partners but till now one is not sure whether the company will go ahead with the projects (motor cycles and passenger cars). Similarly, LG Electronics' attempt at joining hands with either RPG or Birlas did not meet with any success. Finally its seems to have opted for a 100% owned unit. This is also related to the foreign investors' perception of the Indian market. The continuing sluggishness of the economy can be expected to lead to delays or even abandonment of certain proposals. For instance, Volvo seem to have abandoned manufacturing plans and is reported to be settling for a marketing joint venture which obviously involves far too low investment compared to a manufacturing one.[30] While in certain cases, the product may be available in the Indian market but the operations may have not have been set up fully. For instance, the automobile manufacturers' insistence on importing kits implies that full manufacturing operations have not yet been established. This may also imply that the companies might be keeping the escape routes open.[31]

Since project location is not always specified in a large number of cases location studies and negotiations with state governments for better terms might take time. One also suspects that in the initial period there was a strong possibility of inflating the investment figures by the foreign collaborators to ensure quick approval. Indeed, such a practice suited the government's strategy also as it wished to project large amount of FDI approvals as a measure of the success of its policies.[32] It is no secret that relative investment for MW of power generation was revised downwards by foreign companies after the issue became controversial. Policy makers failed to do their homework properly before according approvals and announcing projects. Had sectoral policies preceded approvals, the rate of implementation could in all probability have been faster. Also, in case if the Indian partners or state governments tried to protect the local interests (e.g. Indian Oil Corp in case of East Coast Refinery[33], Madhya Pradesh government in case of diamond mining in the state[34], IDBI in the case of steel plant in Orissa[35], Gujarat Government in the case of Parmar Refinery[36]) which resulted in delays, or even abandonment of a project, official machinery is not at fault. It is a reality that when it comes to extracting the maximum out of the ventures for themselves, NRIs do not lag behind any other. Tikoos and Balsaras are the other prominent NRIs who promised too much but delivered too little.[37] Compiling and sharing of experience in dealing with major investors may help in avoiding pitfalls.

In the end, one might even say that inflows could have been probably faster if there was a greater degree of privatisation and freer take-overs. The fact that take-over was one route through which FDI is flowing should not come as a surprise. It should be expected. In limited and markets not growing fast enough, the only way one can get into the market or increase market shares is to capture existing entities. Take-overs are also important for eliminating competition and acquiring control over the existing distribution channels.

Take-overs and Implementation of FCs

Significantly, even the low level of inflows has altered the structure of many consumer goods industries substantially. In the liberalised policy environment, Indian entrepreneur seem to have lost his bargaining power and well-known Indian brands have been taken over by TNCs providing them a ready market with lesser competition from local industry. The process is continuing. Take-overs have the additional implication that they do not add to new production capacities or employment opportunities.[38] On the contrary, they are likely to add to the growing outflows of foreign exchange. A survey conducted by us in 1993-94 revealed that the major consideration for the Indian parties in entering into a collaboration agreement was to get superior technology. `Access to foreign funds' was way below in the ranking.[39] One implication of these observations is that had the official policy not been liberalised the Indian promoter could have refused foreign stake taking advantage of the fact that the policy prohibited foreign investment in many areas. This may be understandable because for many small and medium projects, raising funds from the public was not a problem given the promising stock market. We have seen earlier that in many collaboration projects, the foreign share was quite small.

The recent controversy over ICI's (UK) attempted entry into Asian Paints, its major competitor in India, once again focused the attention on TNC take-over of Indian companies. When Parle's brands were sold to Coca-Cola not much hue and cry was raised. Similar was the case when TOMCO was taken over by Hindustan Lever. One reason for this could be that in the latter two cases, the Indian promoters withdrew on their own while in the former, the promoters are resisting the TNC's entry. The fact, however, is that in many other cases the ownership of Indian companies changed hands affecting market structures significantly. In this process, probably what has not attracted much attention is the transfer of units as distinct from take-over or merger of a whole company (See Table-10 for an illustrative list). This route was adopted for entry into consumer durables and machinery sectors. For instance, after the transfer of two plants (one has already been transferred to the joint venture with Peugeot and the other one is proposed to be transferred to the venture with Fiat), Premier Automobiles will be a pale reflection of its original self even though, it might remain a company `owned by Indians'. In a broader sense, hike in foreign share and entry of hundred per cent foreign-owned companies, setting up of parallel operations by TNCs and even crowding of the Indian market with foreign companies (with possible reduction in number and size of operations of locally owned companies) could also be interpreted as leading to diminishing role of Indian entrepreneurs and general investors and consolidation of TNC control over Indian markets. Similar is the case with alliances whereby the competitors are turned into allies (e.g. transfer of Lakme's brands to a 50:50 joint venture with the Levers).

Had the Indian partners not resisted the foreign companies' attempts at consolidating their position, more joint ventures would have passed in to the latter's hands. The cases of TVS-Suzuki, Hero-Honda and Godrej-GE Appliances are relevant here. While Honda raised its stake in Kinetic Honda to 51%, it could not achieve the same in Hero Honda. GE is on a spree to consolidate its position in its joint ventures. It has already received approval for converting GE-Elpro Medical Systems into a wholly-owned one by acquiring Elpro's 49% stake. After initial resistance, Birlas seem to have yielded to the pressure from their Swedish partners to allow majority stake in VXL Landys Gyr. Birlas are also at the receiving end in Birla 3M and Birla Kent Taylor. Whirlpool took over TVS Whirlpool and Fuller Intl took over Fuller-KCP. Suzuki's attempts at gaining majority control over Maruti Udyog are well known. Some other relevant cases are: Mercedes Benz getting approval for increasing its share to 76% in its venture with Telco; Bridgestone planning to increase its stake to from 51 to 74% in its joint venture with ACC; Bausch & Lomb increasing its share in the Indian venture to 69%; and Henkel hiking its share to 70% in Henkel Spic. It may be interesting to recall that Pepsi was started as a joint venture of Voltas, Punjab Agro Industries Corp and Pepsico, USA. The two Indian partners are nowhere in the picture now. Blue Star got edged out of Motorola Blue Star and Hewlett Packard India. Similar was the fate of Hinditron group in Hinditron Tektronix and Digital Equipment, and Shrirams in SRF Nippondenso. Shrirams' share also got reduced in Shriram Honda Power.[40] One reason for these developments is that some of the joint ventures were formed through transfer of units and hence did not involve any cash investments by local partners. They obtained shares in lieu of the transferred units. But when it came to expansion or bringing in additional money to sustain the venture which ran into trouble they were found wanting. On the other hand, after having gained experience, the foreign partner found the local partner to be dispensable. After all, for a joint venture both partners should have some strengths to offer to the venture. Once the Indian partners transferred the units, they neither had the money nor the marketing network with them. If the units make profits they could at least reinvest them. Technology was not in any case a strong point with them. At times foreign companies took over sick and sinking companies as illustrated by the recent takeovers by Polysindo group of Indonesia.

Table - 10
Illustrative List of Unit/Division Transfers to Joint Ventures

Unit to be Transferred	Remark

Apar Lighting Division	Transferred to the joint venture GE-Apar Lighting Ltd
Compressor unit of Kirloskar Brothers	Transferred to Kirloskar Copeland
Compressor units of SIEL and Kelvinator	Taken over by Tecumseh Venture
Engine Valves Division of Kirloskar Oil Engines	Proposed to be transferred to a JV with MWP, subsidiary of Mahle, Germany
Halol Plant of Hindustan Motors	Being used by the joint venture with General Motors.
Hinditron Equipments Mfg Co. Ltd. and Hinditron Computers Pvt Ltd (certain assets and know-how) and all the shares of Hinditron Information Technologies Ltd	Acquired by Digital Equipment (India) Ltd, a JV between Hinditron Group and Digital Equipment.
India Linoleum Unit of Birla Jute	Transferred to Birla DLW Ltd, a 50:50 JV with DLW of Germany
Kalyani Plant of Premier Automobiles Ltd	Transferred to Pal-Peugeot Ltd., a JV with Peugeot, France
Kirloskar Filters Division of Kirloskar Oil Engines	To be transferred to a JV with Knecht of Germany
Kurla Plant of Premier Automobiles Ltd	To be transferred to a JV with FIAT.
Luxor Pen manufacturing facilities	Transferred to Luxor Writing Instruments India Pvt Ltd a joint venture with Gillette
Electric Metres Division of VXL Ltd	Transferred to VXL Landys Gyr Ltd
Motor Cycle Division of Escorts	Transferred to Escorts Yamaha Ltd
Motor Cycle Engine Division of Hero Motors	Proposed to be hived off to a 50:50 joint venture with Rotax of Austria
Oral Care Divn. of Parle	Acquired by Gillette
Refrigerator Division of Godrej & Boyce Mfg	Transferred to the JV, Godrej-GE Appliances (with General Electric, USA)
Speciality Chemicals Divn. of Max India	Transferred to Max Atotech a 50:50 JV between Max and Atotech BV
Stabiliser Bar Division of Jamna Auto	To be taken over by NHK Jai Suspensions Ltd, a new joint venture in which the Japanese company will hold 74% share.
Sugar Machinery Division of KCP Ltd	To FCB-KCP Ltd, a JV with FCB of France
Two and Three Wheeler tyre plant of Ceat at Waluj	Transferred to South Asian Tyres Ltd a JV with Goodyear, USA

Public attention gets attracted more to happenings in the consumer goods sector. The illustrative list of consumer product companies given in Table-11 might help in understanding the popular perception of TNC takeover of the markets.[41] These cases illustrate the extent of new foreign entry in different consumer products. Visibility of TNC products increased in the market both through entry of new TNCs as also new brands/products introduced by the older ones.

Table – 11

Illustrative List of New Financial Collaborations for Consumer Goods Approved in the Post-Liberalisation Period*

<u>Consumer Electronics</u>:	**LG Electronics**	**Samsung**
Akai	**National Panasonic**	**Shivaki**
Grundig	(Matsushita)	**Sony**

Thomson

Automobiles:
BMW
Daewoo
Fiat
Ford
General Motors
Honda
Hyundai
Mercedes Benz
Volkswagen
Volvo
Yamaha

Alcoholic Beverages:
Bacardi Intl
Brown & Foreman Corp
Douglas Laing
Foster's Brewing Group
Henninger-Brau
Hiram Walker
International Distillers
Macdonald & Muir
Seagram
United Distillers
White & Mackay

Confectionery:
Agrolimen
Chuppa Chup
Lotus Chocolate
Mars
Perfetti
Van Melle
Wriggley

Other Food:
Danone
Heinz
KFC
McDonald
Pizza Hut
Quaker Oats
Dunken Donut
Kandos
Baskin Robbins

Domestic Appliances:
Daewoo
Electrolux
General Electric
LG Electronics
Samsung
Whirlpool

Garments:
Benetton
KB&T
Lacoste
Levistrauss
Mexx
Pierre Cardin

Soft Drinks:
Cadbury Schweppes
Coca Cola

Cosmetics, Perfumes, etc:
Avon Products
Baccarose
Cussons Group
L'Oreal
Maxim Cosmetic
Nectar Overseas
Revlon

Miscellaneous:
Black & Decker
Gillette
Kimberley Clark
Reebok
Sara Lee
Timex
General Electric

Note: Names in bold letters indicate that the ventures have already entered the market.
* Excludes FCs for the existing foreign affiliates and subsidiaries.

Export Prospects and FCs

The earlier policy on foreign investments placed a special emphasis on export promotion. Foreign companies with their knowledge of international markets, established brand names, superior technology and product acceptance, close association with the consumers through worldwide subsidiaries and affiliates are expected to be in a better position to promote host country exports. Indeed, a number of studies in India focused on this aspect of TNCs.[42] The general finding of these studies was that either foreign controlled companies were not significantly better export-oriented than Indian companies and/or that their operations have had a negative direct impact on the overall balance of payments. In certain cases, the apparent better performance was mainly due to trading (often unrelated products). In a recent instance of this nature it was found that Coca-Cola's exports included green coffee, black pepper, white hulled sesame and granite.[43] The export baskets of a large number of trading houses have many things in common: commodities, garments, leather products, handicrafts and marine products.

The present policy, however, places very little restriction on this count. In a sense, exports are now a voluntary activity. In a recent study it was observed that during 1991-92 to 1995-96, export orientation of 100 largest TNC affiliates/subsidiaries in India increased marginally from 8.07 to 8.64 per cent while the import dependence (imports as a percentage of sales) nearly doubled from 6.86 per cent to 12.94 per cent. As a result, these companies turned net losers of foreign exchange: from a positive balance of Rs. 270 crores to a deficit of Rs. 1,600 crores. Another major factor that contributed significantly to this development was the steep increase in payments in foreign exchange for technology, dividends, travel, etc. from Rs. 120 crores to almost Rs. 500 crores.[44] Preliminary analysis of recent data also indicates that in the pharmaceutical sector Indian companies are far more export-oriented than their counterpart foreign affiliates. In terms of net foreign exchange earnings and R&D

they are way ahead of foreign companies.[45] Interestingly, it was found earlier, using the Custom House data that while foreign pharmaceutical companies' exports were directed at neighbouring countries and the erstwhile USSR, Indian companies were exporting significantly to developed country markets.[46]

Given the composition of investments, with emphasis on infrastructure sectors, it is too early to say to what extent the other sectors will take advantage of the improved infrastructure and generate exports. To form some opinion in this respect, howsoever tentative it is, we made an attempt to analyse the export projections made by foreign collaboration projects during the past one year or so. The projections are reported to the press and do not form part of the basic collaboration details reported regularly by the SIA and the Indian Investment Centre. We could procure a good number of the FIPB press releases for the period. The available releases cover an investment of Rs. 25,000 crores and should, therefore, reasonably be representative of the recent position. It emerges from a study of the releases that the 1,239 approvals project total exports of Rs. 52,335 crores over a five year period. Since approvals include large investments in infrastructure sectors also, a comparison of investment and exports may not be appropriate. Comparison of number of projects may give a better idea of future scenario. It was noticed that out of the total number of approvals, less than 400 projected any exports. However, even among these, as many as 164 anticipated exports of less than Rs. 5 crores per annum. Table-12 gives an illustrative list of FCs projecting exports of Rs.250 crores or more over a five year period. It is interesting to find that the very first case projects exports worth more than Rs. 16,000 crores. That this was not a printer's devil is confirmed by the fact that the corresponding press release gave the total projections at Rs. 21,000 crores. The third largest projection is by Archana Telecom which is planning to set up a technology and resource park. The projected exports of Rs. 1760 crores cannot obviously be on account of the company. The sectoral characteristics of the proposals promising substantial amounts of export earnings reveal that textiles, trading and software companies stand at the top. Quite a few others are in the computer software development. A number of textile units were approved under the 100% EOU scheme.

Since these are only projections, one may not read very much into these figures except drawing broad conclusions that two-thirds of the projects do not have immediate plans for exports. The export areas and collaborators are such that in many cases these are not associated with large foreign investors. Some of them are NRIs. In some cases given the small size of the project, it is difficult to visualise that the projected exports would materialise. It appears that there is no strong direct relationship between size of foreign investment and export projections. One implication of this is that if exports are the main objective, foreign investment policy should be more selective.

FDI and the Indian Stock Market

Mobilisation of domestic savings by promoting the stock market is an idea that has been actively pursued by several developing countries including India. The stock market is projected as the most ideal form of organisation, which by by providing easy liquidity encourages the public to invest and thus brings out the latent surpluses in the economy. The

Table – 12
Illustrative List of Financial Collaboration Approvals Projecting Rs. 250 Crore Exports Over Five Years

Name of the Company	Foreign Collaborator	Product	Month Appro-ved	Foreign Equity	5-Year Exports (Rs. Cr.)
KRC Colour Monitor Tubes	Winny Electronic Enterprises, Taiwan	Colour Monitor Picture Tubes for Computer Monitors	9611	70.00	16438.00
South Asian Petrochem Ltd	EMS Inventa Ag, Switzerland	Bottle Grade Polyester Chip	9609	41.25	3487.70
Archana Telecom Services Ltd.	Universal Holding Ltd , West Indies	For setting up of an internationally compatible technology and resource park at Bangalore	9701	97.98	1760.00
--	ED&F Man Netherlands BV, Netherlands	For setting up 100% wholly owned subsidiary in India to conduct international trade in Sugar, Molasses Alcohol, Nuts and Spices, Cocoa and other de-regulated Goods	9704	3.50	1102.50
Tata Industries Ltd and Tata Information Systems	IBM World Trade Corporation, USA	Providing Information Technology Services	9705	72.00	806.40
STI India Ltd.	Commonwealth Devt. Corporation, UK	Cotton Yarn, Polyester/Cotton Yarn, Cotton Knitted Fabrics	9702	9.71	733.93
Klinkenberg India Pvt Ltd	E Klinkenberg BV, Netherlands	Export of Agro Produce viz. Cashew Kernels, Groundnut Kernels, Seasane Seeds, Walnuts, Spices (Black Pepper, Cardamom, Red Chilli, Cumin Seeds etc), Tea & Coffee	9707	0.01	694.63
--	Sumitomo Corpn, Japan	To establish wholly owned subsidiaries in field of general trading	9611	14.00	654.50
Kanbay Software (I) Ltd	Kanbay (Asia) Ltd, Mauritius	Computer software	9702	5.32	593.50
Gabriel India Ltd	Arvin Exhaust Intl,Netherlands	For manufacture and sale of exhaust system/catalyst	9608	11.84	563.00
Mandvi International Export	NRI	Basmati Rice	9704	0.49	530.55
TMT (I) Ltd	Agro Advies Buro,Netherlands	Cut Flowers	9610	160.00	528.00
Makharia Organics Ltd	NRI	Manufacture of Para Nitroaniline, other Aniline Derivatives & their Salts, Ortho Chloro Paranitroanilins etc.	9609	32.00	480.00
Fabworth India Ltd	NRI	All Wool Worsted Fabrics	9640	2.50	465.88
Nortel Mauritius Ltd	Nortel Mauritius Ltd, Mauritius	To set up a Wholly Owned Subsidiary in India which will participate in the Development of the Telecom Industry in India by bringing in its Latest Technology into India and sup.	9611	157.50	437.50
Chemplast Sanmar Ltd	Euro Issues, Euro Issues	Issue of FCCBs to Part finance an Export Oriented Textile Project	9608	17.50	400.00
Devarshi Cements Ltd	Enderlien Project Engg, Germany	Cement Portland Clinker and Power (for Captive Consumption)	9702	16.00	399.16
Bondex India Ltd	Kobe Steel Ltd, Japan	Manufacture and Marketing of Spun-bonded Non-woven Fabrics	9609	3.60	364.85
KB+T Ltd	Thakral Invest., Singapore	Men's Suitings	9611	10.93	359.90
Sritech Information Tech.	NRI	For the Manufacture of Professional Integrated Receiver Decoders	9703	1.76	354.24
--	SHV Makro NV, Netherlands	To set up a Wholly Owned Subsidiary in India which would involve in opening several whole sales stores in the main cities in India to introduce cash and carry distribution	9612	140.00	350.00
--	LG Electronics Inc, Korea (S)	To set up a 100% Owned Subsidiary company in India for the Manufacture, Marketing and Sale Of Electrical and Electronic Appliances such as Washing Machines, Refrigerators, Air	9701	204.75	350.00
Incab Industries Ltd	Leader Universal (Mauritius) Co, Mauritius	Manufacture of Power and Telecom Cables at Involved in Project Engineering Jobs on Contract Basis	9611	16.00	348.22
Manish Jain	Hanil Synthetic Fiber Co, Korea (S)	Acrylic Blanket, Cotton Yarn, Polyester Cotton Yarn, Cotton Acrylic Yarn, Wool Acrylic Yarn	9609	7.88	338.38
S Kumars Synfabs Ltd	Allied Textiles Machinery, UK	For manufacture of Pure Wool and Wool/ Polyester/viscose Blended Fabrics	9609	5.00	330.29
Texmaco Ltd	Howa Machinery Ltd,, Japan	For manufacture of advanced spinning M/c	9609	10.20	307.00
Dynamix Dairy Industries Ltd	NRI Schreiber International Inc., NRI	To manufacture a full range of value added Dairy Products, such as Lactose Casein Cheese Baby Food Mineral Salts Butter and Ghee	9601	7.56	300.00
Associated Cement Co.s	Tele Quarz GMBH	Quartz Crystals of various specification	9611	19.11	288.87
Marquip Asia Pacific Ltd, Mr. Senthil Kumar	Marquip Asia Pacific Ltd. Mauritius	Paper/pulp/paper/board making machinery including cutting machines of all kinds	9707	2.95	286.31
--	Intel Services Inc, USA	To establish a wholly owned subsidiary in India with two Business organisation under two separate divisions	9702	42.00	283.50
Baidyanath Enterprises Ltd	Yusung Co Ltd, Korea (S)	Worsted Wollen yarn	9610	1.79	282.65
Ritspin Synthetics Ltd	NRI	Polyester Viscose Blended Yarn	9609	12.00	280.00
Kolhapur Steel Ltd	Intl. Meehanite Meta, UK	Ductile Iron Pipe (100 Mm to 700 Mm ID)	9612	2.80	280.00
Ace Tech India Pvt Ltd	Nova Technology Inc, USA	Integrated Circuits	9611	26.94	277.55
Mormugao Maritina Ltd	Marubeni Corpn, Japan	To provide support services to water transport Operation, maintenance of Pier Loading	9706	5.40	266.05
M Fabrikant & Sons	M Fabrikant & Sons Inc, USA	Exports and domestic sales of loose diamond	9701	0.35	262.50
Sarda Plywood Industries Ltd	Polymer Group Inc., USA	For manufacture of Non-woven Fabrics	9609	43.75	254.63
--	Lottex Management Inc, Canada	For setting up a wholly owned subsidiary in India which will establish and operate a manufacturing Facility for computer terminals	9701	17.50	252.00

Based on Official Press Releases released through Press Information Bureau.

multilateral bodies have been playing an important role in this development. For the stock markets to attract the general public it is obvious that shares of good promising companies need to be listed on the markets. TNCs with their superior qualities are, therefore, expected to play an important role in the development of the market. Though, a few foreign companies were listed on the Indian stock markets even during the 'sixties, implementation of FERA during the 'seventies and 'eighties resulted in the emergence of a good number of blue chip TNC scrips. These include a number of pharmaceutical TNC affiliates (listed on the stock exchanges during the 'seventies and 'early 'eighties) like Abbott Labs, Burroughs Wellcome, E Merck, Eskayef, Fulford, Hoechst, May & Baker, Organon, Parke Davis and Wyeth. Thanks to the entry of such companies with substantial foreign equity -- then popularly known as FERA companies -- foreign collaboration, especially participation in equity capital, was perceived as a qualification by the investors. For FERA companies, however, stock market entry came handy for most companies that were reluctant to decrease the stakes of their parent entities in the enterprises and to take advantage of liberal licensing provisions. Instead of decreasing the absolute volume of foreign held shares, the companies met the requirements of FERA by issuing fresh capital to the Indian shareholders. Thus, local investors and institutions got a chance to own a substantial part (up to 60 per cent) of the affiliates. The Capital Issue guidelines also played an important role by prescribing wide dispersal of shareholding among small investors at the time of public issues.

Stock exchange listing becomes necessary for raising capital from the public. Listing entails sharing profits and information with the locals. TNCs, with vast resources at their command would not, in the ordinary course, require to raise risk capital locally. It is significant that after the initial public issues at the time of FERA dilution, a vast majority of these companies did not make any further public issue of equity capital. Thus, the chief objective of offering shares to the public by the affiliates could not be to raise fresh capital from the public but was only as a strategy of diluting foreign equity without reducing their foreign parent's quantum of investment. In the post-liberalisation period, the wheel has turned full circle. At the first available opportunity many foreign affiliates raised foreign equity to majority levels, often at heavily discounted prices taking advantage of policy vacuum. Only after much damage was done, the government tightened the relevant provisions by relating issue price with prevailing market prices. In this context, a question arises: when one does not find the need for public money could the next goal be de-listing?

We have seen earlier that compared to the pre-liberalisation period, the number of cases where majority foreign equity was sought and approved has increased substantially. Indeed, many joint ventures (JVs) preferred 50:50 or 51:49 form or other combinations in which both the partners together hold 100 per cent ownership of the JV to the exclusion of ordinary Indian shareholders. These include the ventures of GE, IBM, General Motors, Daimler-Benz and Coca-Cola. As of now indications are that very few of the major new ventures in the automobile sector have plans to offer shares to the public. Indeed, the trend is in the reverse direction. In Daewoo Motors local shareholders have already been marginalised. The proposed changes in the Companies Act to allow buy-backs and buy-out of shares can only help speed up the process of marginalising local shareholders.

Further indications of the future role of financial collaboration (FC) projects in the stock market are available from the primary market developments. Apart from share price movements, number of public issues and the amount raised are important indicators of the state of the market. It is significant to note that in spite of the buoyant market conditions for a considerable period after 1991, not many companies with foreign financial collaboration have come to the market. In an earlier exercise it was estimated that their contribution to the new equity capital raised was only about 4 per cent in 1992-93.[47] The position did not seem to have improved subsequently too as can be seen from Table-13. Not only the number of companies with financial collaboration are limited, their contribution to new capital raised through public issues by companies coming to the market for the first time (IPOs) is very low.[48] One will be hard pressed to name even 10 major TNCs that were associated with new issues during the past four years. More importantly, it appears unlikely that the market will see the entry of any major TNC. Slow pace of implementation of collaboration projects does not seem to be responsible for this phenomenon as the trends at setting up parallel -- often 100% owned operations -- by large TNCs, and increasing share of foreign majority cases indicate a general tendency to avoid the stock market. Needless to say, the parallel operations will have direct implications for the future growth of their listed affiliates. Notable examples in this regard are: Unilever, P&G, Groupe Danone, Bayer, Hoechst, Knoll, Merck, Sandoz, Smith Kline Beecham, Monsanto, Phillip Morris, ABB, American Cyanamid, Astra, BASF, Cadbury Schweppes, Ciba-Geigy, Coats Viyella, Hoffman La-Roche, Warner Lambert, Ferodo, and Timex. Some of these specify the objective of the WOS as conducting R&D. This implies that the local listed subsidiary will not come to `own' the outcome of the research. This situation can be interpreted in two ways: one that the FC projects add net capital to investment and do not compete with the local entrepreneurs. Another way of looking at the same is that the local investors do not get a chance to benefit from the new projects promoted by foreign investors which are expected to have a better success rate.[49]

Table – 13

Foreign Financial Collaborations and the Primary Capital Market

Year	Public Issues (Nos.)	Foreign Collaborator's Equity in IPOs Total Issue (Rs. Cr.)	IPOs' Total Issue (Rs. Cr.)	Share of Foreign Collaborator in Total Issue of IPOs (%)
(1)	(2)	(3)	(4)	(5)
1992-93	528 (29)	29.22	750.32	3.89
1993-94	770 (53)	68.55	10,297.29	0.67
1994-95	1,343 (90)	245.89	15,928.11	1.54
1995-96	1,428 (57)	133.94	7,775.47	1.72
1996-97	753 (26)	26.93	5,795.31	0.46

Note: Figures in brackets in Column 2 are the number of companies having foreign financial collaboration.

Source: Based on *Prime Annual Report*, Praxis Consulting & Information Services, New Delhi, various years.

TNCs are sidestepping stock market in yet another manner. Some of the TNCs in the pharmaceutical industry have attempted to sell-off the existing units to locals and promote new wholly owned foreign subsidiaries (WOS) or to transfer certain divisions/products to wholly owned subsidiaries of the parent company. For example, Pfizer Ltd is reported to be planning to sell 51% of its stake in Duchem, a 100% subsidiary, to its parent Pfizer Inc. This is expected to help the foreign parent to garner a larger slice of the dividend from the sales of Becosules vitamin pills, Pfizer Ltd's top brand. Becosules is reported to be the highest-selling brand in the pharmaceutical industry and the distribution of the product is now handled by Duchem.

Some of the possible implications of these developments are:

a) TNCs will be out of the regulatory system of the Indian stock market;
b) dividend outflow will increase;
c) the development of the stock market may get affected adversely with large and well-known TNCs staying away from it and limiting the future growth prospects of listed affiiliates;

d) foreign shares can be increased without bringing in additional capital from abroad with the help of buy-outs and buy-backs;
e) information on the operation of large TNCs would not be available to the public; and
f) entry of TNCs, competing with listed domestic companies, may adversely affect the latter's attractiveness for investors.

What ultimately may influence TNCs' de-listing decision could be the amount of money which they will have to bring if the Indian shareholders' equity has to be bought up (till the time buy-back is not permitted), the adverse public opinion de-listing might generate and the still lingering restrictions on foreign shares.

Technical Collaborations

The official policy emphasis has been on attracting large amount of foreign investment. It is, therefore, not surprising that while the number of foreign investment approvals increased from 1355 in 1995 to 1559 in 1996, the number of approved technical collaborations (TCs) declined from 982 to 744 which is even less than the figure for 1992. The reported technical collaboration agreements are an underestimate because, a number of financial collaboration agreements are accompanied by payments for technology in the form of lump sum and/or royalty payments. Such approvals can be classified as financial-cum-technical. On the other hand, filing of a formal collaboration agreement becomes necessary only when payments have to be made abroad. An examination of the technical collaboration approvals reveals that a significant number of these were in fact entered into by the very joint venture companies that were approved in the new policy period. A few others could also be traced to the older/earlier JVs. It was also noticed that some of the foreign companies that initially entered into only technology licensing agreements have later on acquired equity shares in such collaboration projects later on. In other words, a purely technology transfer arrangement was later converted into a financial collaboration.

If these factors are taken into account, the actual number of independent technical collaboration agreements in the new policy regime may turn out to be fewer than during the 'eighties. These observations tend to indicate the decreasing importance of arms-length transfer of technology which is giving way to technology transfer among affiliates. Technology will then remain closely held by foreign companies with little chance of further local development. For each improvement, they will have to depend on the foreign parent.

Some of the technical collaborations approved in the case of large TNCs shed doubts on the real purpose of the agreement as also the possible behaviour of TNC subsidiaries. Some of these collaborations involve companies which have been operating in the country for many years, and which even now charge royalties on products which these companies have already been manufacturing. For instance, there is a collaboration involving Nestle India and Nestec (a subsidiary of Nestle) for the manufacture of infant weaning food. What is noteworthy here is not that Nestle India is manufacturing infant food -- it has been doing that for a long time -- but the Indian subsidiary has been allowed to pay royalty (3.5% on domestic sales, and 5% on external sales).[50] Another interesting case is that of Colgate. The list of collaboration approvals shows five TCs and one FC against Colgate Palmolive USA. The financial collaboration was in respect of increasing the foreign equity from 40 to 51% in Colgate Palmolive India. One of the TCs was to impart technology for the manufacture of toilet soaps to the Indian subsidiary. Out of the remaining four TCs involving royalty payments to the US company, at least three were for toothpaste. Incidentally, Colgate Palmolive (India) markets the toothaste manufactured by at least three of the four Indian collaborators. Not only Colgate Palmolive (India), a leader in the Indian tooth paste market, cannot pass on technology even to its supporting manufacturers, since the payments go the US company, Indian shareholders (owning 49 per cent of Colgate Palmolive India) do not also share these royalties.

Thus, technology and brand names are so closely controlled by the foreign parent companies that the local subsidiaries in spite of producing the items for years on, cannot pass on the technology horizontally. The fact that companies with substantial foreign holdings will continue to look towards their foreign parent companies and follow in their footsteps, even if it is not in the best interest of the local affiliate, is evident from the TNC restructuring that is taking place in India (e.g. Levers and Glaxo). The observations of Glaxo Chairman are telling:

> "The parent company, Glaxo Holdings had divested its milk based products more than a decade ago to concentrate on pharmaceuticals and had achieved great success. Therefore, there was no support for Family Products Division (FPD) either in products or in marketing from the parent. For any subsidiary it is very risky to go out on a limb on its own." (emphasis added)[51]

Payment of royalties in case of fully owned subsidiaries was another point of debate. In certain cases the government allowed such payments with the hope of encouraging R&D by TNCs. But it leaves the question as to who would benefit from such R&D.

Technology does not come freely. There are significant direct costs associated with it. The main forms in which payments are made for imported technology are through pre-determined lump sum payments and royalties on sales. Royalty rates are generally higher for exports and would add to the cost of exports as far as the domestic manufacturer is concerned. This additional cost could either inhibit exports due to higher costs, or the domestic company may be prepared for lower profits on exports, or keep away from exports altogether. That the approved collaborations imply an increasing and large foreign exchange outgo is reflected in the figures given in Table-14. The lump sum payments for purchase of technology increased more than seven times during the period 1991 to 1995, far too rapidly compared to the trends in number of collaborations. From Rs. 980 crores in 1991, the approved payment increased to Rs. 7,198 crores by 1995. To get a more realistic picture, one has to add the out go on account of royalties but this cannot be given here, as royalties are dependent on actual sales -- both domestic and exports.

Table -14
Approved Lump sum Payments (1981-1995)

Year	Approved Lump sum Payments (Rs. Cr.)
1981	56
1982	142
1983	150
1984	300
1985	421
1986	588
1987	418
1988	584
1989	699
1990	574
1991	980
1992	2281
1993	3690
1994	2300
1995	7198

Source: Murthy, M.R., and Ranganathan, K.V.K., "Foreign Private Capital: Penetration Through Collaborations", *Young Indian*, Vol. 8, No. 10, October 11, 1997, pp. 3-9.

In the new era when the emphasis is on size of foreign investment, approvals for foreign direct investment marked a significant rise compared to the immediately preceding phase. The cumulative approvals during the six years since mid-1991 when the process of liberalisation was initiated, are of the order of Rs. 1,28,000 crores. The approval data reveals that while infrastructure sectors attracted maximum investment, consumer goods sectors have also had an important place in the approvals. The broad category of services accounted for almost one-third of the total. The main factors behind the large amount of approvals seem to be the de-reservation of public sector reserved areas; de-licensing; allowing larger share for foreign investors; and the general boom in global investment flows.

The steep increase in the approved amount since 1995, especially during 1997, is a reflection of further relaxation in the official policy towards foreign investment. The increase is accompanied by approvals for increasing number of foreign subsidiaries, notably for wholly owned ones. Thus, the larger amount seems to have been obtained by conceding control - often absolute - to foreign investors. In contrast, the experience on the technology import front indicates that the scope for independent transfer of technology has reduced drastically. One main implication is that purchasing technology on market terms may become increasingly difficult. For the local manufacturer, due to liberal foreign investment policy, acquisition of technology (which would have enabled him to withstand competition) has become that much difficult. In the liberal policy environment, the foreign investors are preferring sole or joint ventures to one time sale of technology. Another corollary is that once foreign companies acquire control, their local affiliates may neither have the freedom nor the incentive to invest in R&D in the host country. They will continue to look towards their parent companies for technology improvements. Even if they conduct any R&D, it is difficult to visualise that the local subsidiaries will be given the right over their innovations. This will entail continuous outflow on account of royalties and lump sum payments. That this amount is not insignificant is evident from the fact that during 1996 the U.S. received about $30 bn. as royalties and license fees while the outgo was only $7.3 bn. The trends on the technology acquisition front, therefore, warrant a careful review.

Size and sector-wise distribution of the approvals suggests that relatively small number of proposals falling under power, fuel and telecommunications sectors account for almost half of the approved investment. However, in view of the large investments and importance of the infrastructure sector, pricing would remain a crucial factor. Considerable sums can be siphoned-off both at the implementation stage and after the project goes on stream. Downward revision of cost estimates by power sector projects in response to severe public criticism suggests the need for a cautious and transparent approach in case of large projects. Besides dividends, in case of infrastructure projects the interest of foreign companies would focus on long term equipment and/or fuel supply. Since the infrastructure ventures are generally majority/wholly foreign owned, dividends would have lesser significance compared to the long term assured flows to parents and affiliates. Unlike manufactured goods, in the case of infrastructure and to some extent services, the usual argument of competition and contestability of markets do not apply as much. Hence, the approach that the foreign investors should be best left to themselves since they bear the entire risk is not prudential. Unlike manufacturing industries, services and infrastructure are such that the foreign investor will have to have local presence in order to serve the local markets. National policy should seek to exploit this compulsion to its advantage instead of acceding to foreign investors' demands in pursuit of large investments.

Further, the importance of infrastructure and service sectors in approvals implies huge servicing burden in the coming years as these (except a few like software) cannot generate direct foreign exchange earnings on their own. The examination of FDI approvals conducted by us suggests that the scope for substantial export earnings through the new FDI is rather limited. It is, therefore, imperative that if only certain sectors are going to contribute to export earnings, such sectors can be dealt with on different footing instead of having a uniform approach to foreign investment. Denial of permission to a consumer goods TNC should not affect investment in the infrastructure sector. The so-called cheap labour may not attract export-oriented foreign investment is further evident again from UNCTAD's observations. According to UNCTAD, "accessing markets will remain the principal motive for investing abroad: survey respondents placed twice as much weight on production for local markets than on labour-cost factors."[52]

The sector-wise distribution of approvals enabled the government to claim that FDI is coming into infrastructure sectors in a big way and to underplay its role in consumer goods sectors. Pattern of inflows, however, give an altogether different picture with infrastructure not figuring prominently. Increasing dominance of foreign companies in consumer goods sectors is a reality. Some quarters indeed welcome such a development in view of the unhappy experience in the past with the domestic manufacturers. The official stance on this count is, however, ambiguous. Details of inflows reported by official agencies suggest that the government is not prepared to admit that inflows have been more prominent in consumer goods industries. If the idea is to promote competition in the domestic industry through greater involvement of foreign companies -- more so because the Indian industrialist has fleeced the consumer in terms of quality, service and price -- why should the government hesitate to accept the fact of their increasing dominance?

In spite of the importance attached to attracting foreign investments, the manner in which the information on inflows and approvals is (not) being monitored leaves one astounded. The problem is not because developing a monitoring and reporting system of approvals and inflows is not within the capabilities of the official machinery. In this context, the RBI's decision to free automatic approvals from the mandatory filing of prior application with them by the foreign investors is likely to make matters worse particularly when approvals through the automatic route have picked up after the 1997 policy change. Indeed, important functionaries of the government even made statements to the effect that the Foreign Investment Promotion Board (FIPB) should be dismantled.

The need for establishing an appropriate mechanism to understand the role, place and contribution of foreign investments is best illustrated by the example of U.S. Following the public outcry against take-over of American companies by foreign companies, the US Congress passed the International Investment and Trade in Services Survey Act, in 1976, as it felt:

> ... accurate and comprehensive information on international investment is needed by Congress to develop an informed U.S. policy...

and

> ... the potential consequences of international investment cannot be evaluated accurately because the United States Government lacks sufficient information..[53]

Thus extensive information on US enterprises acquired or established by foreign investors and balance of payments flows (of capital, income, royalties, etc.) gets collected and analysed regularly. There is a specific emphasis on foreign acquisitions. In the case of India, however, it is doubtful if accurate information is available about the operation of existing subsidiaries and affiliates not to speak of the newly established ones. The latest available study of finances of foreign-controlled rupee companies (FCRCs) is for 1990-91! Probably, regarding the Indian investments abroad less said the better.

Is it that there is no need for having a regular monitoring of the activities of foreign affiliates? Is the international evidence as put forward by developed countries and multilateral bodies sufficient to convince oneself that there are no negative effects of foreign investments? Why should the government feel shy of having an honest estimate of their role and place in the Indian economy? Is the government afraid that the reality will be embarrassing? Have the FCRCs turned less export-oriented or more foreign exchange goes out on their count? Our estimates indicate that in the new regime, the 100 large TNCs did not show any perceptible improvement in export orientation. What is more important is that while foreign companies did not become more export-oriented, they definitely have become more import dependent. As a result, the trade deficit on their account has widened sharply. If the expenditure on account of royalties, dividends, etc. is also taken into account, the adverse effect on balance of payments becomes sharper - from net earning of Rs. 270 crores in 1991-92 to a net loss of almost Rs. 1,600 crores in 1995-96. Interestingly, even the international bodies no longer emphasise the export benefits flowing through FDI to developing countries. If the developed countries have their way, insistence on exports (a so-called performance requirement) will be a thing of the past. The present emphasis is on competition, efficiency and consumer welfare. Exports may follow at a later stage. According to an OECD official:

> Trade reform implies that (foreign) affiliates must be able to compete not only against local firms but also against exporting firms located in other countries. To achieve this, the parent firm must transfer the latest technologies to its affiliate, which in turn makes it more likely that the affiliate will begin exporting itself. (emphasis added)[54]

The message is that if you wish to get the best out of FDI you will have to loosen all strings.

In relative terms approved FDI in consumer goods sectors is low, but by its sheer size it proved to be crucial in affecting market structures. Take-over of Indian companies has been going on in a subtle and gradual manner. In the liberalised environment, many Indian businessmen are finding it difficult to remain in control of their enterprises. Take-over, however, need not always reflect the weakness of Indian companies and brands. Indian businessmen seem to have got intimidated by the sheer capacity of large TNCs to sustain for longer periods backed by massive funds. A good part of the new investment resulted in either consolidation of control by TNCs in their affiliates or in acquiring control over Indian companies. There is a steady stream of reports in the press about foreign investors acquiring or strengthening their hold over one or the other local company. An important recent case is that of Hindustan Lever deciding to buyout the stake of Lakme in their joint venture Lakme-Lever Ltd which itself was formed to take over the brands of Lakme Ltd. It is expected that gradually the manufacturing operations of Lakme will also be taken over by the Levers. Interestingly, Voltas secured a deal to supply 1 lakh refrigerators to LG Electronics (a South Korean company) to be marketed by the latter in India. This is in addition to its similar arrangement with Electrolux. Will the once-large Indian companies be doing what the small-scale sector has been doing all the while - reduced to mere supporting manufacturers without their own identity? Another case which appeared recently and which seem to have important ramifications is the reported move of Novartis to take over Althrocin, the main brand of Alembic Chemicals and also the second-highest selling brand in the country. This case, coupled with Coca-Cola's failure to kill Thums-Up indicate that it is not the weakness of the product/brand per se but the Indian entrepreneur's fear that he may not survive in the new environment and the lure of large money are responsible for handing over their companies.

Often, the amount involved in take-overs will not be large in relative terms but certain segments get dominated by foreign companies through take-overs. The affected industries include many consumer items ranging from mosquito mats to soft drinks to durables. It would, therefore, be wrong to look at investments in the consumer goods sector in relative terms. In spite of the increasing trend at TNC take-overs, the government hardly seems to be concerned about the developments but for some ad hoc reactions as in the case of ICI's entry into Asian Paints. Interestingly, the MRTP Act was rendered ineffective in the initial days of liberalisation and the need for setting up a watchdog for overseeing competition in the domestic industry is not even being discussed. Probably attracting foreign investment is of immediate priority than being concerned with competition and who owns the industry. It will, however, not be unhelpful if certain rules of competition are put in place. For instance, take-over of any concern in India, if it leads to control over market share exceeding 25 per cent, can be subjected to special scrutiny by an appropriate authority.

Given the nature of Indian industry, the sooner the family control over large industry is relieved the better. Otherwise, instead of strengthening companies, it seems to affect their continuity and performance. Many large companies suffered during the recent past due to family squabbles. While one cannot paint all business families with the black paint, the fact remains that there are as many bad performers and manipulators as there good ones. Once the key man in the family disappears from the scene or his hold over the group weakens, the companies of the group get affected severely. Far from treating the stake of financial institutions as a trade investment, it could still be made as a policy instrument. It needs to be emphasised that maximising shareholder wealth, the maxim for corporate governance, in the case of foreign companies, can only work to the best advantage of foreign owner rather than the Indian subsidiary. In this context, the government by itself or through financial institutions under its control should seek to acquire strategic shares in all corporations of significance. These investments should be used in such a manner that company managements get fully professionalised.

At one level, the take-over phenomenon seems inevitable because the worldwide boom in foreign direct investment is fuelled by mergers and acquisitions. Indian experience probably should not come as a surprise since take-overs and privatisation are gaining importance as a form of capital flows. For instance, in USA, acquisitions represented 85 per cent of foreign investment in 1995 with new establishments contributing only 15 per cent.[55] According to UNCTAD, cross-border mergers and acquisitions involving majority control accounted for almost half of global FDI flows in 1996. For some of the developing countries FDI from privatisation was an important component of total FDI received by them during 1970-95 -- forty per cent of total FDI in Eastern Europe and Central Asia and 21 per cent in the case of Latin America.[56] This only shows that FDI has been substituting local ownership. That even ordinary local shareholders may not get a chance to share in the benefits of FDI projects is apparent from the fact that the Indian stock market is not attracting new FDI in any appreciable manner.

Not withstanding the reported increased role played by developing countries in foreign investment outflows, the fact remains that world's largest TNCs (ranked on their foreign assets) are based almost entirely in US, Western Europe and Japan. Given the nature of TNC investments it is difficult to unravel the indirect role of developed country TNCs in investments flowing from developing country bases. In this background, would competition mean only competition among developed country TNCs? If it is argued that in such circumstances new vigorous local companies would emerge, how long will it take and can the individual developing country governments need to do some thing which can speed up the process? Also in this context, the increasing role for FDI means growing concentration of ownership of world's assets in the hands of developed country TNCs. Being active pursuers of developing country markets for trade and investment will the developed countries give an assurance that they would refrain from exploiting such dominance to serve political goals? While making all out efforts at attracting FDI, these concerns need also be given due importance. Not only the quantum but also the quality of investment needs to be paid attention by developing country policy makers.

Notes and References

1. During 1980-1982 India ranked eleventh among 18 Asian and Pacific countries according to the annual average investment inflows. *See: UN, World Investment Directory 1992 : Foreign*

Direct Investment, Legal Framework and Corporate Data, Volume I, Asia and the Pacific, 1992, p. 15.

2. Only six areas remain reserved for the public sector. Notable omissions are: generation and distribution of electricity; mining of metallic ores, gypsum, sulphur and diamonds; irons & steel; ship building; aircrafts and air transport; and telephones and telephone cables.
3. Inclusion of industries under licensing is stated to be related to "security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption". *See: Statement on Industrial Policy*, July 24, 1991, para 23.
4. Chief among these are: (i) S.K. Goyal, et. al., "Foreign Investment Approvals: An Analysis (August 1991--July 1993), 1994; and (ii) S.K. Goyal, et. al., "Foreign Investment Approvals & Implementation Status: A Review (August 1991 -- December 1994)", Institute for Studies in Industrial Development, March 1995. Both the reports were submitted to the Ministry of Finance.
5. The present limit for lump sum payments is US$2 million and for royalty payments 5% on domestic sales and 8% on exports.
6. In 1992-93 one US $ was equivalent to Rs. 30.649 which by 1996-97 reached Rs. 35.5.
7. Fore the sake of convenience, hereinafter we shall refer to these as GDR issues.
8. UNCTAD defines foreign direct investment as "an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy ... in an enterprise resident in an economy other than that of the foreign direct investor... Foreign direct investment implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy". *See: UNCTAD, World Investment Report 1997: Transnational Corporations, Market Structures and Competition Policy*, United Nations, 1997.
9. Since it is not possible for us to classify each FC approval as portfolio or otherwise, we are unable to further classify the investment figures.
10. UNCTAD (1997), *op.cit*.
11. The number of Indian subsidiaries of foreign companies came down from 202 in 1973 to 66 by March 1988. The number of foreign branches was reduced to nearly 300 by 1981 compared to 541 in 1972. See: S.K. Goyal, "Directory of Statistics of International Investment and Production in India", a study prepared from the United Nations Centre on Transnational Corporations (UNCTC), 1990.
12. These companies could, however, retain full control over their Indian affiliates through restrictive clauses in the Articles of Association of the affiliates.
13. See RBI, "India's Foreign Liabilities and Assets: As on March 31, 1990", *RBI Bulletin*, August 1993, pp. 1031-1051.
14. Indeed, an attempt was made to justify the approval given to Coca-Cola on these lines.
15. If information on individual approvals carried industry classification, one could have a more detailed and additional cross-tabulations.
16. Murthy, M.R.,and Ranganathan, K.V.K. "Foreign Private Capital: Penetration Through Collaborations", *Young Indian*, Vol. 8, No. 10, October 11, 1997, pp. 3-9.
17. In the case of earlier, even the traditional argument of tariff-jumping is not applicable and in the case of manufacturing industries it is becoming irrelevant due to falling tariffs.
18. RBI (1993), *op. cit*.
19. Indeed, even Singapore and Hong Kong are used for tax saving purposes. This might explain why some of the US TNCs and NRIs sought approvals through these countries.
20. See for instance: S.K. Goyal, "Impact of Foreign Subsidiaries on India's Balance of Payments", a report prepared for the CTC-ESCAP Joint Unit, Bangkok, 1979.
21. It is reported that the government was planning to associate an American consultant with foreign investment approval machinery to help improve the situation.
22. See for instance, *Economic Survey* 1996-97, Table 6.11 and *RBI Annual Report* 1996-97, Table 6.5.
23. See *RBI, Annual Report* 1996-97, Tables 6.5, 6.6 & 6.7.
24. These figures should be read with some caution because the source for CMIE is not known. Moreover the figures for 1994-95 for which one can make a comparison with RBI the totals differ. One is not sure if it is due to inclusion of NRI investment. Even if it is so, it is difficult to understand how CMIE could get access to this information which even RBI was unable to classify. For the CMIE tabulation one may refer CMIE, *Monthly Review of Investment Projects,* Investments Intelligence Service, September 1997.
25. This also means that exchange rate differences will not unduly affect the approval figures in rupee terms.
26. "Andhra set to sign PPA for Hinduja Project", *Business Standard*, October 4, 1997.
27. See: PPA for Cogentrix project to be signed in a week", *Business Standard*, October 25, 1997.
28. Based on a reply in the Parliament it was estimated that Consumer Goods accounted for 28.5 per cent of the inflows till March 1996. In addition, automobiles accounted for another 7.1 per cent of the Rs. 10,000 crore inflows recorded till that time. See: Cheema, C.S., "Foreign Direct

Investment in Indian Economy", paper presented at the National Seminar *Emerging Trends in the Indian Economy*, held during March 28-29, 1997 at Punjab School of Economics, Guru Nanak Dev University, Amritsar.

29. For instance, during 1977-81 infructuous collaboration proposals formed 43 per cent of the effective agreements. Inability of the parties to agree on the terms of collaboration, failure of the collaborators to fulfil their commitments and emergence of unfavourable conditions such as imposition of emergency, financial stringency and raw material difficulties were the main reasons cited in this regard. See: RBI, *Foreign Collaboration in Indian Industry: Fourth Survey Report,* 1985.
30. "Volvo in JV with Modi Motors for Sales Centre", *Financial Express*, October 16, 1997.
31. Even though, Sony has set up its operations in the country, its Managing Director said in an interview that "It will make sense to manufacture in India only if we make not less than half a million sets in India, which will take time". See: *Indian Express*, (Mumbai Edition) September 8, 1997.
32. We do not see any other reason for including GDR issues in FDI approvals. The official approach is "to ensure maximum foreign direct investment into the country".
33. The points of contention were: (i) demand for higher share by Hindujas, (ii) tying up crude purchases with private promoters' group companies and (iii) using the joint venture for marketing the products of private promoters.
34. De Beers, which was initially tipped to get the assignment, is known to market all the produce under their control through their London-based Central Selling Organisation for which they earn a commission. The company controls over 70 per cent of world rough diamond supply. They regulate supply of roughs and in the process are known to delay development of new mines and to cut back production. Russia has been having a tough time in arriving an agreement with the group and has decided for open tender for some of its mines.
35. Caparo group was unhappy with IDBI for not agreeing to the higher debt-equity ratio (3:1) suggested by them for financing the project.
36. Press reports (1993) on the project reflect the hollowness of the claims of the promoters.
37. In case of some NRI projects we have observed that the foreign promoter tried to unduly benefit from the venture at the cost of local shareholders. The inflows on their count may indeed be notional. See: S.K. Goyal, et. al. (1994) *op. cit*.
38. This, however, does not mean that the taken over companies would not get new technology and production capabilities in the future.
39. S.K. Goyal, et. al., (1994), *op. cit..*
40. The problems in dealing with large TNCs are highlighted by a recent case. Dabur India entered into a joint venture agreement with Osem of Israel. Osem agreed to take up a minority stake of 40% leaving the remaining to Dabur and also to allow the joint venture to make all the products manufactured by itself. In the meantime Osem was taken over by Nestle. Nestle is reported to be insisting for a majority stake in the joint venture (Excelsia Foods). See: "Nestle wants Dabur to give majority stake in JV to Osem", *Economic Times*, August , 24,1997.
41. At one time Pepsi's entry into *bhujia* marketing was seen as stepping on the traditional Indian terrain. But when Nestle entered pickles and sweets (advertised heavily during the current festive season as *Mithai Magic*) no adverse reaction was noticed probably because Nestle refrained from using Bandar *Mithai or Bengali Sweets* unlike Pepsi which called its product *Bikaneri Bhujia* after a place in Rajasthan famous for the item.
42. See for instance: S.K. Goyal (1979), *op. cit.;* IIFT (1981), *Role of Transnational Corporations in India's Exports*, Indian Institute of Foreign Trade, New Delhi; Nagesh Kumar, *Multinational Enterprises and Industrial Organisation*, Sage, New Delhi, 1994; K.K. Subrahmanian K.K. and P. Mohanan Pillai, "Multinationals and Indian Export", Sardar Patel Institute of Economic and Social Research, Ahmedabad (mimeo), 1978; and Pitou von Dijck and K.S. Chalapati Rao, *India's Export Policy and Export Performance of Industry*, Sage, New Delhi, 1994.
43. "Commodities account for 85% of Coca-Cola India's Exports", *Economic Times*, November 9, 1995.
44. S.K. Goyal, et. al., "Economic Policies and Indian Development: A Discussion Paper", Institute for Studies in Industrial Development, April 1997.
45. Preliminary findings of an on-going project.
46. von Dijck & Rao (1994), *op. cit*..
47. S.K. Goyal, et. al. (1994), *op. cit*.
48. These calculations suffer from certain limitations in the form of activity-wise distribution of issues and nature of issue (equity, debentures, etc). However, in 1996-97 only 5 issues offered securities other than equity and their share in total issue amount was less than six per cent. Also in 1996-97 as many as 8 out of 26 were non-manufacturing ones engaged in mushrooms and floriculture.
49. While can argue that they might offer shares to the Indian public when the project goes on stream, given the preference for higher equity levels, such a possibility seem to be quite low.
50. S.K. Goyal, et. al. (1994), *op. cit.*

51. See: Glaxo (India) Ltd., Chairman's Speech, 1996. One can always find justification for the local unit's actions.
52. UNCTAD, World Investment Report 1997: Overview,
53. James K. Jackson, "Foreign Direct Investment in the United States, Congressional Research Service, Library of Congress, updated: September 23, 1996.
54. "Foreign Direct Investment and Economic Development", speech by Rainer Geiger, Dy. Director, Financial, Fiscal and Enterprise Affairs at the OECD.
55. OECD, *Financial Market Trends*, June 1997, p. 21.
56. Lawrence Bouton & Mariusz A. Sumlinkski, "Trends in Private Investment in Developing Countries: Statistics for 1970-95, IFC Discussion Paper No. 31, February 1997 (revised).