Symposium on

Framing of India's Industrial Policy: A Domestic Industry Perspective

Drastically Reframe FDI Policy to Use it as A Catalyst & Rejuvenate Domestic Industry

A Presentation based on the Research at ISID

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****Disclaimer: Views Personal.***

Changing Perceptions of the Policymakers about FDI since 1991

1991

Statement on Industrial Policy :

- "[F]oreign investment and **technology collaboration** will be welcomed to obtain higher technology, to increase exports and to expand the production base".
- "will … welcome foreign investment which is in the interest of the country's industrial development" due to its attendant **advantages of technology transfer**, managerial techniques, marketing expertise **and export potential**.
- The Indian entrepreneur has now come of age so that he **no longer needs such bureaucratic clearances of his commercial technology relationships with foreign technology suppliers**.

Budget Speech 1991-92 (*final*) :

- After four decades of planning for industrialisation, we have now reached a stage of development where **we should welcome**, **rather than fear**, **foreign investment. Our entrepreneurs are second to none**. Our industry has come of age.
- Direct foreign investment … would **expose our industrial sector to competition** from abroad in a phased manner. Cost, efficiency, and quality would **begin to receive the attention they deserve**. We have, therefore, decided to liberalise the policy regime for direct foreign investment …

The Next Stages in Perception

2013

- This year, and perhaps next year too, we have to find over USD 75 billion to finance the CAD. There are only three ways before us: FDI, FII or External Commercial Borrowing (ECB).

  That is why I have been at pains to state over and over again that India, at the present juncture, **does not have the choice between welcoming and spurning foreign investment**. If I may be frank, foreign investment is an imperative. What we can do is to encourage foreign investment that is consistent with our economic objectives.

  - Budget Speech. 2013-14

2016

- FDI reforms reflect a decisive change in philosophy, **from viewing FDI as a tolerable necessity to something to welcome**.
- Decided to "put more and more FDI proposals on automatic route instead of government route where **time and energy of the investors is wasted**".

- Economic Survey, 2015-16

Liberalisation Has Not Been Accompanied by Development of a Reliable and Suitable Knowledge Base

The Committee finds this argument [that data maintained by the RBI, does not distinguish between greenfield and brownfield investments] naive and desires that **the government should stop behaving like an ostrich** but instead take cognizance of the ground reality. Absence of such a mechanism is a handicap for the government while formulating policies for the sector. It is, therefore, high time that suitable mechanism be established to keep track of the nature of Foreign Direct Investments (brownfield and Greenfield investments) coming in the country.

Rajya Sabha, *One Hundred and Ninth Report on FDI in Pharmaceutical Sector*, presented on 13th August, 2013, pp. 8-9

Outsourcing Knowledge from Consultants Turned out to be a Quick and Easy Option

Q. (a) Whether Government is aware of the **acquisition of some pharma companies by MNCs**; (b) whether the Ministry has examined the impact of such acquisitions on the prices of medicines in future and also on the consumers;

A. (a) & (b): The Department of Pharmaceuticals had requested Department of Commerce to make an appropriate assessment on the issue of recent takeovers/acquisitions of domestic pharmaceutical industries so that the required policy change to save guard our general sectoral interest could be taken.

The Department of Commerce had entrusted the work of study on the recent taken over of domestic pharma industry to Ernst & Young. **Ernst & Young have since submitted their report** to Department of Commerce. Department of Commerce has informed that the report has **recommended continuation of the current FDI policy** in pharmaceutical sector.

Rajya Sabha, Unstarred Question No. 1450, 24th August 2012.

Faith Continues Across Regimes w/o Facts

Q. whether Government has studied the impact of such a move [raising of FDI limit in various sectors] on domestic industries and consumers; (d) if so, the sector-wise details thereof; and (e) if not, the reasons therefor?

A. The Government reviews the FDI policy on an ongoing basis, to ensure that India remains an attractive & investor friendly destination. .... **FDI directly supplements the domestic capital, technology and skills in the sectors of direct entry. It has indirect multiplier effects on other related sectors also thereby stimulating economic growth.**

Rajya Sabha, Unstarred Question No. 335, **August 7, 2013.**

Q. Whether employment percentage has registered a growth as a result of increase in foreign direct investment and if so, the percentage increased in employment in the country, State-wise including Rajasthan;

A. ... **Data is not maintained centrally** for assessing the impact of increased FDI on the employment generation. However, **FDI directly supplements the domestic capital and brings technology and skill in the sectors of direct entry. It has indirect multiplier effects on other related sectors also thereby stimulating economic growth** leading to increased production, exports and employment generation.

Lok Sabha, Unstarred Question No. 1371, **December 7, 2015**.

Some of the Acknowledged Costs of FDI for Host Developing Countries

The prominent ones

- Displacing and/or inhibiting domestic enterprises
- Non-transfer of Technology / Technology Dependency
- Heavy Loss of Revenue for the Exchequer
- Serious Negative BoP Implications
- Loss of control over critical sectors of the economy
- Adverse effects on environment, health and society
- Loss of policy space due to pressure from advanced home countries

They might have said many other things. But, they also Emphasised the Importance of Domestic Capabilities

… **FDI cannot drive industrial growth without local capabilities**… Some upgrading does take place [through free market forces], but is slower and more limited than with the promotion of local capabilities. -- Sanjaya Lall and Rajneesh Narula

… [host countries] **cannot look toward FDI as the principal engine for their growth** and development; such investment can be a catalyst for growth and development, it can help and, in a few sectors, even make a crucial contribution – but the principal engine is, as a rule, a vibrant domestic enterprise sector.

… the international investment law and policy regime – **which, deliberately, had developed primarily with foreign investors in mind** – needs to give **more attention to the policy interest of host countries** -- Karl P. Sauvant (Columbia Univ/ex-UNCTAD)

… The crowding out [domestic enterprises] is more likely when foreign rivals are technologically sophisticated or when **domestic firms have limited absorptive capacity.** -- Cristina Jude

… whether technologies are acquired and mastered by local firms depends not only on the quality of the interfaces between TNCs and local firms, but also on the **absorptive capacities of the latter**. -- UNCTAD

… in the long-term, the best strategy for attracting and maximizing the benefits from FDI is to **develop a dynamic and vibrant domestic private sector**. – UNCTAD

These are just a few. The list is quite long. Probably the best that puts the issue in a nut shell, is:

… countries which manage their FDI are likely to benefit more than those which are managed by their FDI. **… Eric Rugraff (et. al. 2009)**

Vietnamese Economists warn Against "Addiction" to Foreign Investment

- The country is opening its doors wider to attract foreign investment hoping that will help its economy recover, but the country's economists warn against undue dependence on overseas investors.
- Nguyen Dinh Cung, head of the Central Institute for Economic Management (CIEM)#, said: "It is now the time to review what negative and positive impacts FDI has on the country ."
- Economist Pham Chi Lan concurred: "The development of an economy cannot rely on foreign firms, only local ones. Current policies only benefit foreign firms and cause difficulties to local private businesses. "We should review our policies, cutting out too generous incentives for foreign investors and providing equal treatment to local private firms."
- Another economist Bui Kien Thanh said many provinces, which want to compete with others in attracting FDI, offer them too many incentives but do not know if the projects are useful. "They are exempt from corporate tax and get thousands of square meters of land free in industrial parks for many years. "On the other hand, local firms find it hard to get even 100 sq.m. for their workshops.
- "Our firms are being crushed by foreign firms." Unable to compete with foreign rivals, many local firms have disappeared from the market. Some firms with good brand names have been bought up by foreign rivals.
- Economist Nguyen Minh Phong said the biggest disappointment with FDI projects is that they have done very little technology transfer to benefit the country. Foreign investors tend to keep their technologies secret while local authorities do not demand them, he said.

#The Institute is attached to the Ministry of Planning and Investment of Vietnam. http://www.thanhniennews.com/business/vietnam-economists-warn-against-addiction-to-foreign-investment-24860.html

China Realised the Importance of Developing Indigenous Capabilities

- … one should be clearly aware that importation of technology without emphasizing assimilation, absorption, and re-innovation is bound to weaken the nation's indigenous R&D capability, which in turn widens the gap with world advanced levels.
- Facts have proved that**, in areas critical to the national economy and security, core technologies cannot be purchased**. If our country wants to take the initiative in the fierce international competition, it has to **enhance its indigenous innovation capability, master core technologies in some critical areas, own proprietary intellectual property rights, and build a number of internationally competitive enterprises**.
- In a word, **the improvement of indigenous innovation capability must be made a national strategy** that is implemented in all sectors, industries, and regions so as to drastically **enhance the nation's competitiveness.**

"National Medium- & Long-Term Programme for Science & Technology Development (2006-2020)"

There Have Been Concerns in India Too

2008: NMCC (Krishnamurthy Committee)

- Purchase of technology is increasingly becoming costly and in view of liberal FDI policies, companies from abroad are **reluctant to part with technology even for purchasing**.
- The benefits that accrued to the economy in terms of transfer of technology, if any, is rarely highlighted possibly because no such assessments have been made.
- …, there is clearly a need to **have a relook at our FDI policy** in terms of the technological benefits the country needs to derive.

2017: DIPP

- Concerns have been raised about …, significantly low value addition done in India and the **minimal positive externalities** from FDI.
- Benefits of retaining investment and accessing technology have not been harnessed to the extent possible.
- FDI policy **requires a review** to ensure that it facilitates greater technology transfer, leverages strategic linkages and innovation. "Industrial Policy – 2017: A Discussion Paper"

2017: RBI

- ... robust FDI inflows which were at the forefront in financing CAD in the previous three years, **entail servicing through higher income payments** which could have implications for CAD.

-*Annual Report*, 2016-17.

2018: Niti Aayog

For India to become the world's workshop, we should encourage further FDI in manufacturing, **particularly when it is supported with buybacks and export orders**.

-*Strategy for New India @75*, November 2018.

The Draft Industrial Policy Reportedly wants the Situation to be Improved. But, is it Possible in a Liberal FDI Regime?

- Declining share of manufacture.
- A foreign collaborator who is permitted to repatriate royalty abroad perpetually, has **little incentive to enter into technology collaboration** with Indian partner or make investments in R&D facilities in India.
- Enhance the quantum of investments and also the quality of FDI by **focusing on greenfield investments**, transfer of technology and priority sectors.
- Encourage transfer of technology.
- Existing regime will be reviewed to make it more **suitable for collaboration and transfer of latest technologies**.

Retained Earnings Give a False Sense of the Size of FDI "Inflows"

			Amount in $ bn.
Year	Total Inflows	Retained Earnings	Inflows Net of Retained Earnings
2004-05	6.0	1.9	4.1
2009-10	37.7	8.7	29.0
2010-11	34.8	11.9	22.9
2011-12	46.6	8.2	38.4
2012-13	34.3	9.9	24.4
2013-14	36.0	9.0	27.0
2014-15	45.1	10.0	35.1
2015-16	55.6	10.4	45.2
2016-17	60.2	12.3	47.9
2017-18	61.0	12.5	48.5
2018-19	62.0	13.7	48.3
2019-20 (Apr-Nov)	44.6	8.8	35.8

Inflows Have Grown. But the Share of the Manufacturing Sector Declined even while FDI has Practically Free Entry into Manufacturing since Two Decades

Amount in $ bn.		
Year	Equity Inflows (Approval+ Automatic+ Acquisition)	Share of Manufacturing Sector in Equity Inflows (%)
2004-05		61.0
2009-10	25.6	18.6
2010-11	21.4	28.1
2011-12	34.8	43.0
2012-13	21.8	34.7
2013-14	24.3	49.2
2014-15	30.9	36.6
2015-16	40.0	23.8
2016-17	43.5	32.0
2017-18	44.8	20.7
2018-19	44.4	24.2
Oct 2014 - Mar 2019	187.7	27.0

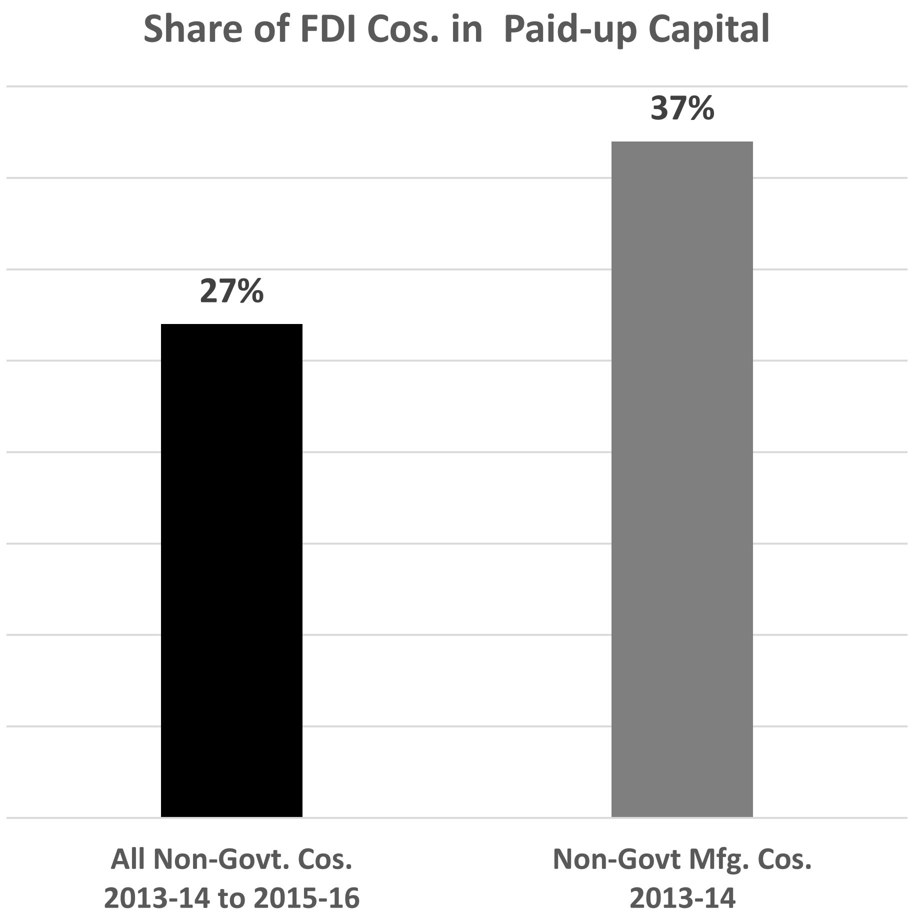
There have been very serious reporting, conceptual and classification issues. See for instance: http://isid.org.in/pdf/Assessing_India's_Inward_FDI.pdf

However, FDI Acquired an Important Position in the Indian Corporate Sector

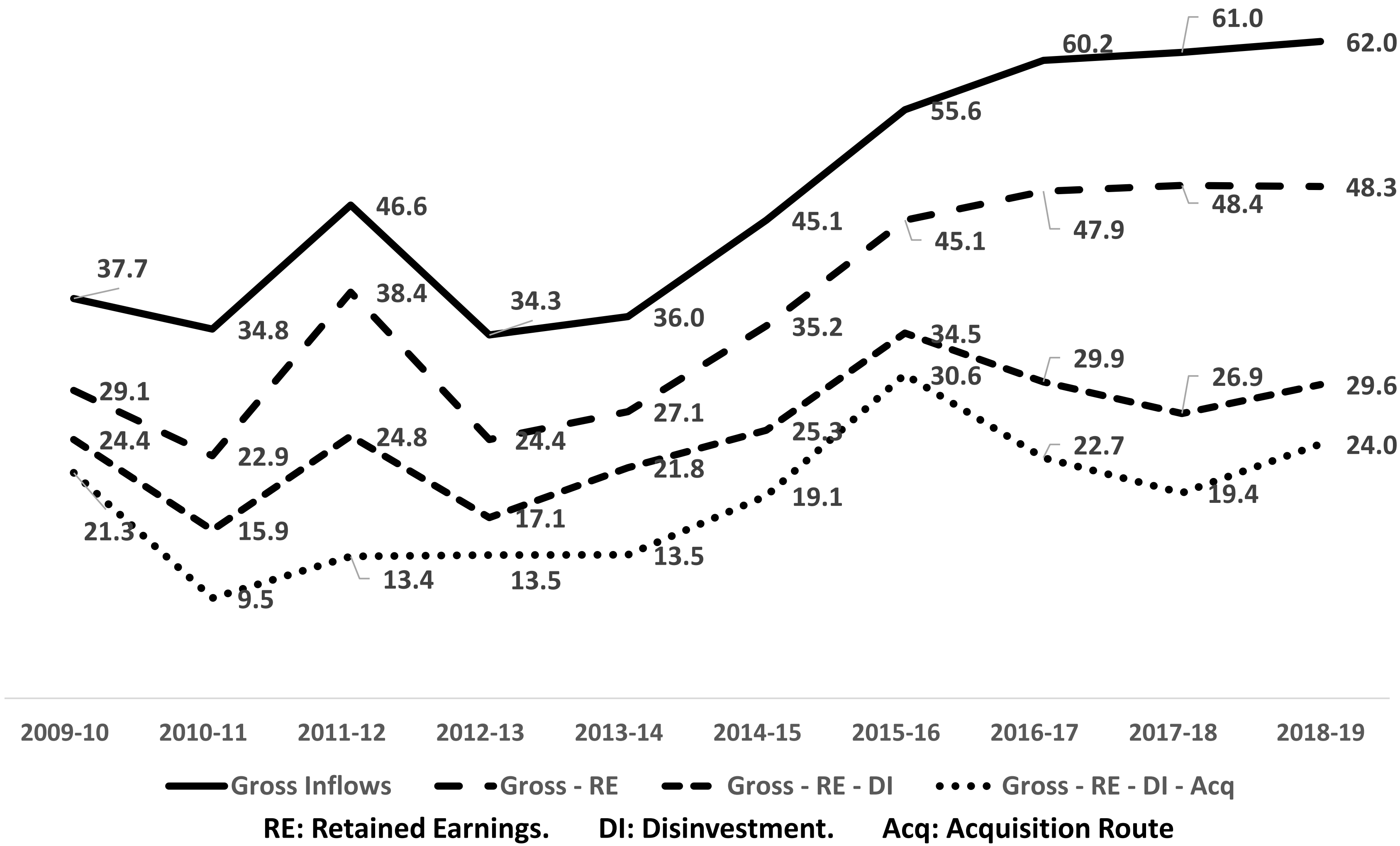
- The annual FDI inflows accounted for less than 7 per cent of the fixed capital formation during 2016-2018.
- However, in the private corporate sector, which is the more relevant organisational form for FDI
  - Companies with FDI accounted for about 27% of the paid-up capital of non-government companies during 2013-14 to 2015-16.
  - The corresponding shares for the manufacturing sector* for the year 2013-14# were much higher at 37%.
  - The shares would turn out even higher when downstream investments and the existence of large number of shell companies are taken into account.

* Subject to serious activity misclassification of companies.

\# Latest year for which sectoral PUC data are available.



There is More to Gross Inflows than What Meets the Eye



A Substantial Portion of the Inflows are Neutralised by Outflows Even if other forms of Outgo are not taken into Account

	Gross Equity Inflows	Equity Repatriation/Disinvestment	Dividends Payments#	Payments For use of IP	Outgo* (3)+(4)+[(5)/2]	Ratio of Outgo to Gross Equity Inflows (%)
1	2	3	5	4	6	7
2014-15	31.9	9.6	3.8	4.8	15.8	49.6
2015-16	41.1	10.5	4.5	4.9	17.4	42.4
2016-17	44.7	17.3	6.6	5.7	26.8	60.0
2017-18	45.5	21.3	8.8	6.9	33.5	73.6
2018-19	45.1	18.5	8.0	8.0	30.5	67.7
2014-15 – 2018-19	208.3	77.2	31.7	30.3	124.1	59.6

Direct investment income nett of retained earnings.

* Disinvestment/repatriation + Dividend Payments + half of IP Payments

A More Nuanced Approach is Required to Understand FDI and Its Impact

Studies that seek to find a single answer to "what is the impact of FDI on development in emerging markets around the world?" are implicitly aggregating investigations of what is the impact of oil FDI in Angola with what is the impact in power projects in Indonesia, with what is the impact of semiconductor FDI in Costa Rica, with what is the impact when Wal-mart enters the Mexican retail services sector.

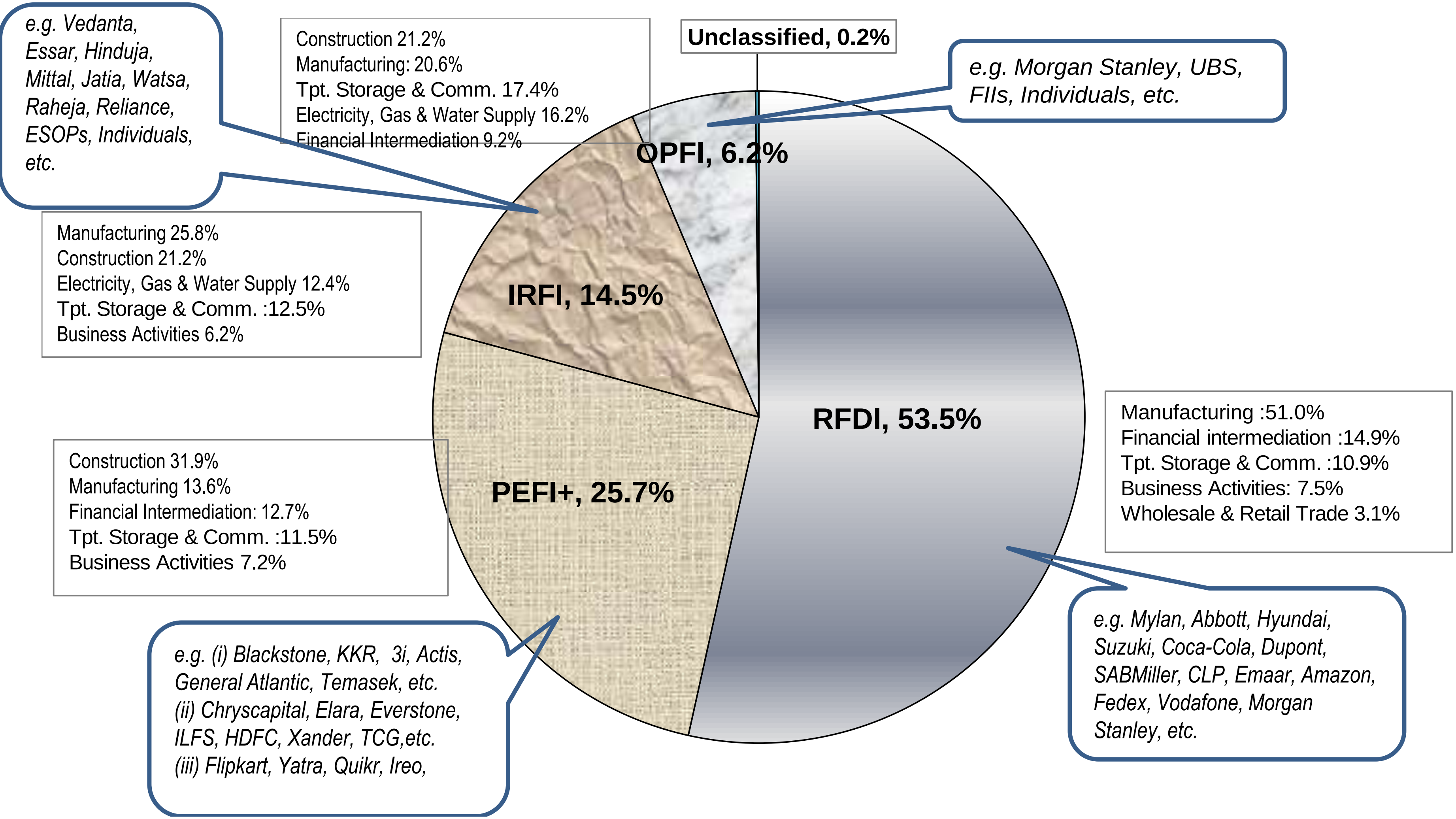
Those researchers who have tried to find a single answer to the "what is the impact of FDI on development?" question via a significant correlation between aggregate FDI flows and host growth, welfare, or other measures of indigenous economic performance **have been beset by mistakes and inaccuracies**.

--Theodore Moran

Give more attention to the thesis that not all incoming FDI is created equal: Any given foreign subsidiary can make invaluable contributions to domestic economic growth ..., and any given subsidiary can be more harmful than beneficial. ... Governments, especially those of (...) developing countries, should formulate policies that (1) distinguish between the types of FDI that are appropriate for their individual circumstances; (2) **encourage the entry of FDI considered desirable**, while discouraging or disallowing FDI considered less appropriate to the country; and (3) make FDI policies serve wider national objectives and development needs.

– Stephen Cohen

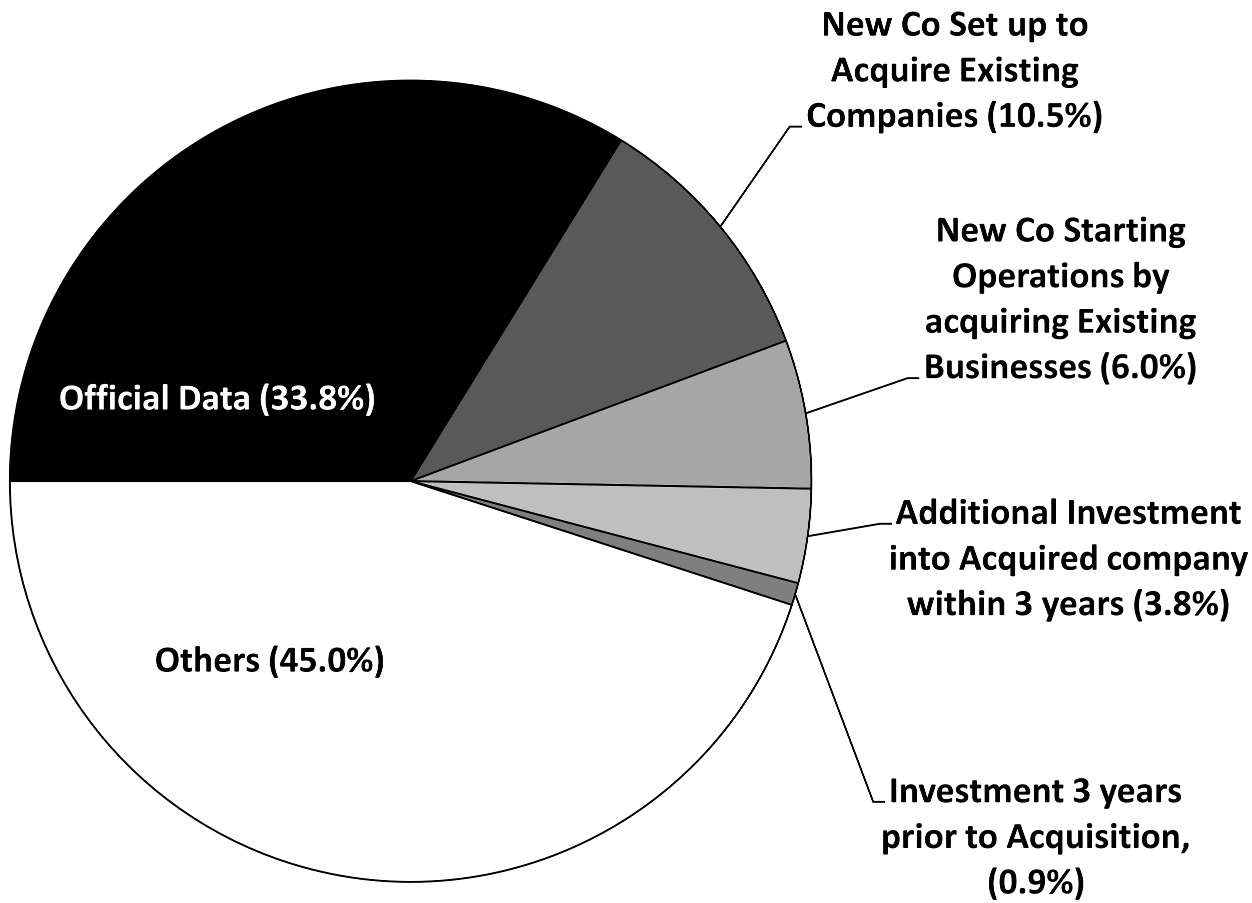
Not All FDI would have the Expected Attributes.
Investor-wise Analysis of Large Inflows: 2004-05 – 2013-14



Distribution of Top FDI 8,973 Equity Inflows according to the Nature of Foreign Investor. 2004-05 – 2013-14
Source: ISID, *India's Inward FDI Experience during the Post-liberalisation Period with Emphasis on the Manufacturing Sector*, a study sponsored by the Indian Council of Social Science Research, 2016. Hereafter ISID-ICSSR Study.

Acquisition-related Inflows Accounted for Majority of the RFDI into Mfg. Cos. 2004-05—2013-14

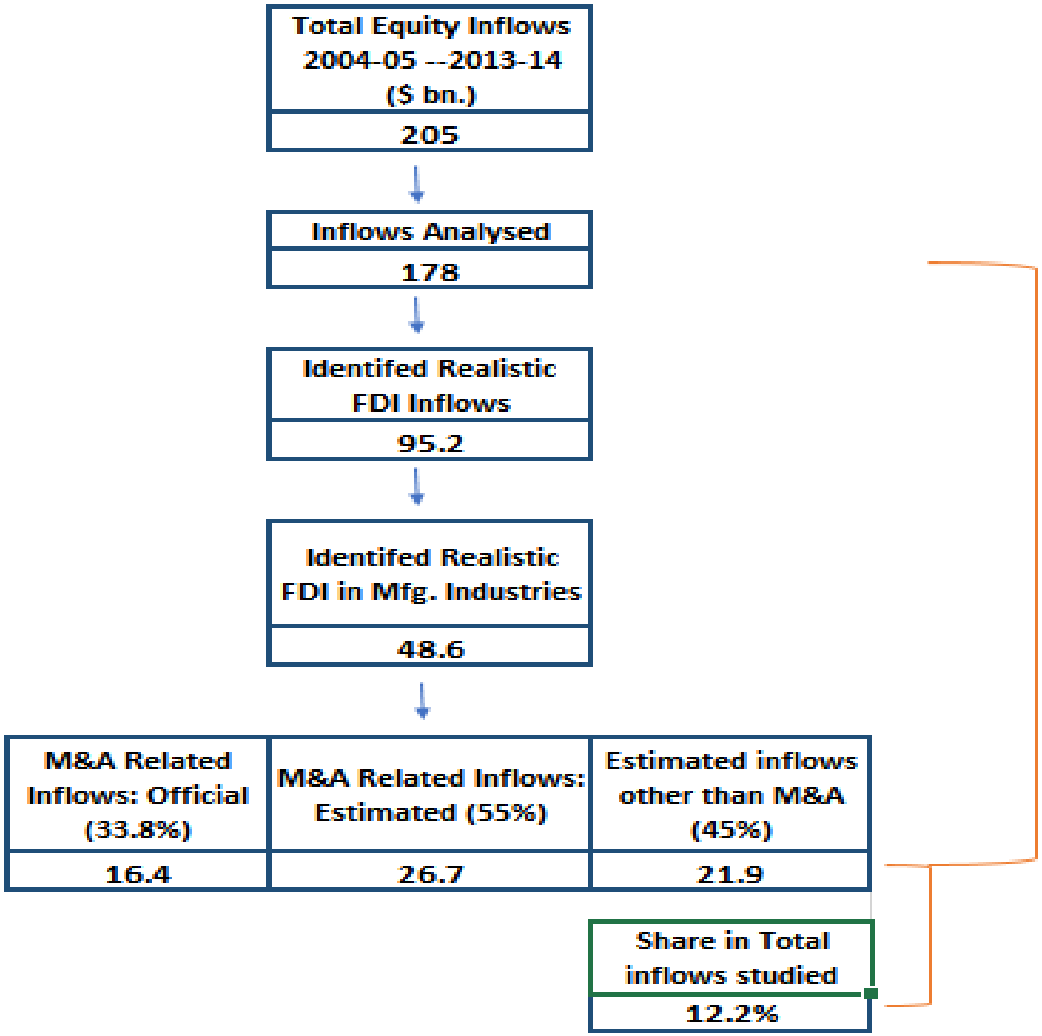
A similar picture emerges when RFDI during 2010-11 to 2013-14 is analysed.



*** Figures in brackets are the shares in total RFDI**

Source: ISID-ICSSR FDI Study

What Went into Creating New capacities in Mfg. Sector Is Relatively Quite Small (2004-05 -- 2013-14)



Source: Based on ISID-ICSSR FDI Study

Heavy concentration within Mfg. Sector FDI.
M&As Dominate in Many Sectors (2004-05 – 2013-14)

ISIC Division/Class	*RFDI Inflow ($ mn.)*	*Estimated Share of Acquisitions (%)*	*Share in Inflows (%)*
24. Chemicals and chemical products (incl Pharma)	**15,749**	**82.0**	**32.4**
34 Motor vehicles, trailers and semi-trailers	**6,676**	**15.2**	**13.7**
15. Food products and beverages	**4,900**	**38.5**	**10.1**
1551 Distilling, rectifying and blending of spirits; etc.	*1,779*	*62.9*	
31. Electrical machinery & apparatus n.e.c.	**4,562**	**88.0**	**9.4**
26. Other non-metallic mineral products	**3,674**	**85.0**	**7.6**
29. Machinery and equipment n.e.c.	**3,576**	**42.9**	**7.4**
27. Basic metals	**2,874**	**10.9**	**5.9**

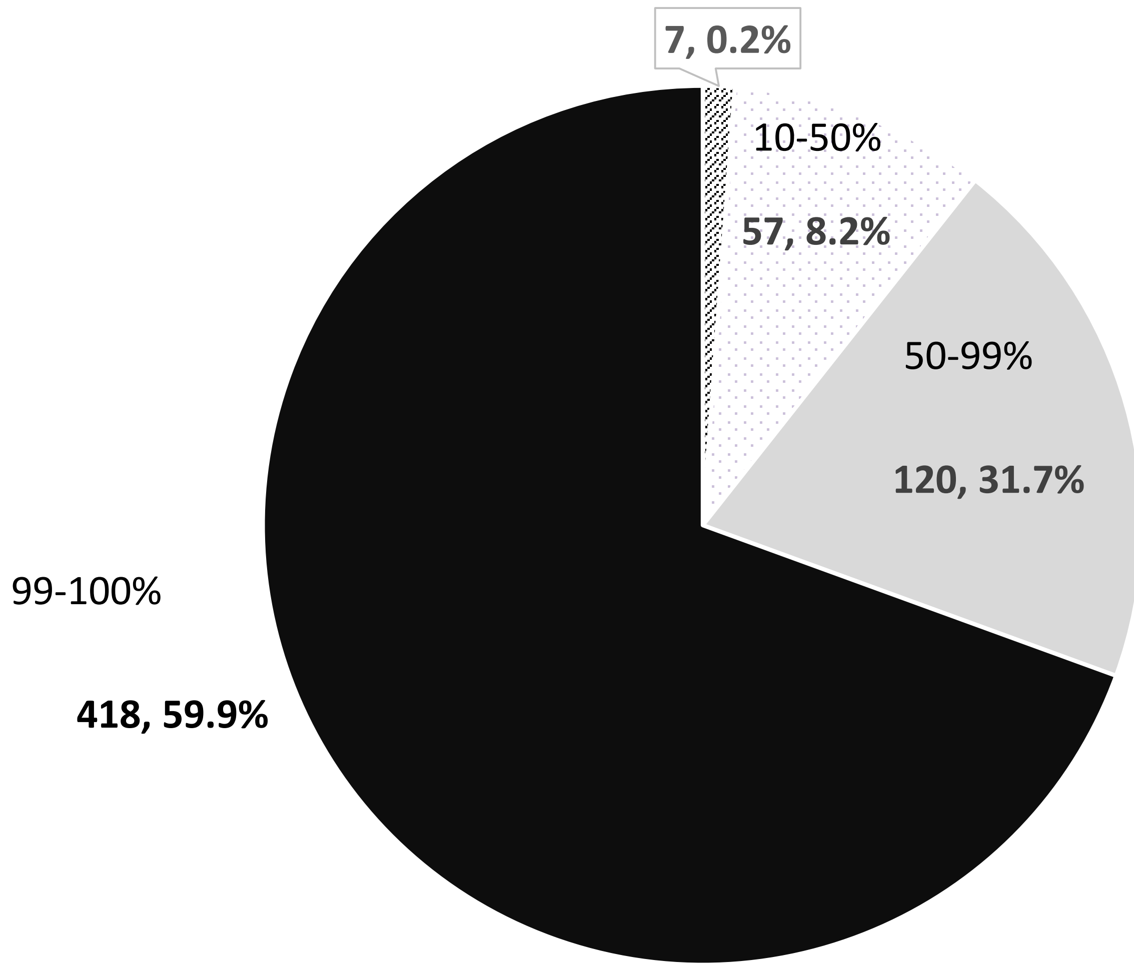
Only the Divisions each of which accounted for at least 5% of the total RFDI into the manufacturing sector are shown here. These seven Divisions accounted for 86.5% of the total.
Source: ISID-ICSSR FDI Study.

Sectoral Composition of Cross-border M&As in India: 2004-05 – 2014-15: It has been Mostly One-way Sell-off. Cuts Across Various Technology Categories

Industry	Indian Firms	Indian JVs	Foreign Firms	Total	Share of Indian Firms & JVs in Industry Total
Pharmaceutical & Biotech	46	4	4	54	92
Chemicals	35	5	5	45	89
Food and Beverages	27	12	5	44	88
Auto components	17	22	2	41	95
Machinery	27	11	3	41	93
Electronics & Dom. Appl.	26	1	3	30	90
Electrical Equipment	21	3	1	25	96
Engineering	21	2	1	24	96
Basic Metals	9	4	1	14	93
Textiles	10	4	0	14	100
Automobiles	1	11	1	13	93
Cement and Plastic	9	3	0	12	100
Non-metallic Minerals	8	2	0	10	100
Power & Energy	1	0	0	1	100
Miscellaneous	4	0	1	5	80
Total	262	84	27	373	93

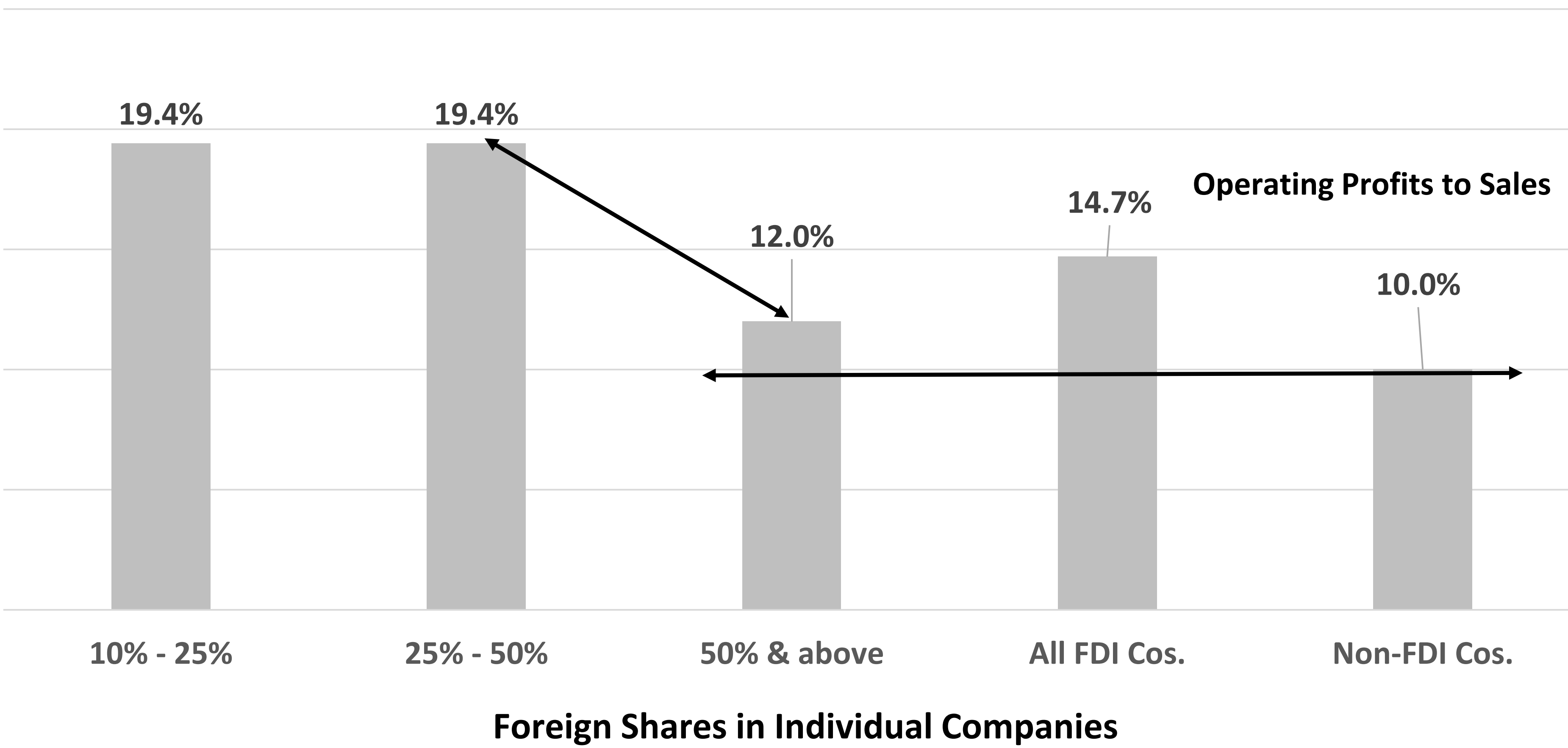
Taken from: Beena Saraswathy, "An Analysis of Foreign Acquisitions in India's Manufacturing Sector", ISID Working Paper No. 193, August 2016.

As Good Business Enterprises, MNCs Prefer to go Alone instead of forming JVs with Locals



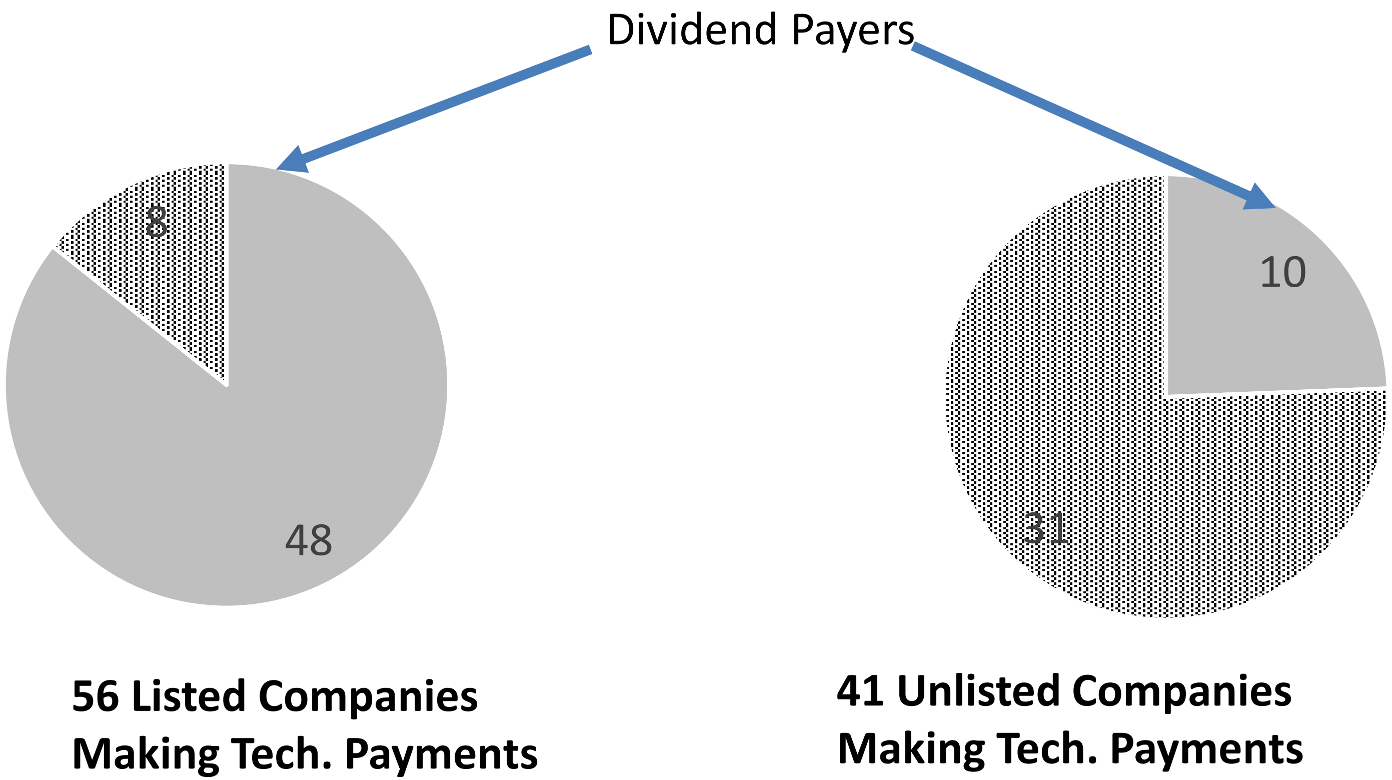
Analysis of 602 mfg. cos. which received at least $5mn. RFDI during 2004-05 – 2013-14.
Foreign Equity Range, Number of companies and the share in total number of cos. Are depicted in the chart.
Source: ISID-ICSSR Study on FDI

Lower the FDI Share & Higher the Profitability: Paradox?



Source: “Finances of Foreign Direct Investment Companies 2015-16”, *RBI Bulletin*, July 2017

Listed MNCs Have Obligation to Pay Dividends in India. Unlisted Ones Are Free to Decide



Each of these companies had Rs. 500 cr. turnover in 2011-12

Source: ISID-ICSSR Study on FDI

Do Unlisted Foreign Cos Suppress Profits More than the Listed Ones?

		Number of Companies
PBT to Sales Ratio Range (%)	Listed	Unlisted
Loss	3	13
Less than 5	8	13
Sub-Total	**11** *(17.7)*	**26** *(52.0)*
5 to 10	15	11
10 to 25	34	11
25+	2	2
All Companies	**62**	**50**

Each of these companies had Rs. 500 cr. turnover in 2011-12

Source: ISID-ICSSR Study on FDI

Illustrative List of Large Unlisted Foreign Subsidiaries Incurring Losses (2017-18)

Company Name	Total income (Rs. Cr.)	Reported PAT (Rs. Cr.)	PAT as % of Total Income
Abbott Healthcare Pvt. Ltd.	5,039.5	-753.4	-15.0
Alstom Transport India Ltd.	2,221.3	-202.1	-9.1
B S H Household Appliances Mfg. Pvt. Ltd.	806.7	-83.3	-10.3
Bacardi India Pvt. Ltd.	1,110.7	-9.8	-0.9
Cargill India Pvt. Ltd.	7,144.0	-288.9	-4.0
Ferrero India Pvt. Ltd.	1,538.0	-91.3	-5.9
Hindustan Coca Cola Beverages Pvt. Ltd.	9,091.4	-117.8	-1.3
Mars International India Pvt. Ltd.	752.6	-194.8	-25.9
Michelin India Pvt. Ltd.	1,520.5	-343.2	-22.6
Microsoft India (R & D) Pvt. Ltd.	3,655.0	-82.2	-2.3
Monsanto Holdings Pvt. Ltd.	552.8	-68.7	-12.4
Mylan Laboratories Ltd.	10,066.4	-335.9	-3.3
Nike India Pvt. Ltd.	828.5	-52.9	-6.4
Oppo Mobiles India Pvt. Ltd.	12,048.5	-357.8	-3.0
Panasonic India Pvt. Ltd.	5,409.2	-131.9	-2.4
Pfizer Healthcare India Pvt. Ltd.	1,408.9	-494.8	-35.1
Roquette India Pvt. Ltd.	1,714.9	-127.6	-7.4
Vivo Mobile India Pvt. Ltd.	11,197.4	-124.3	-1.1
Xiaomi Technology India Pvt Ltd (2017-18)	22,947.3	301.6	1.3
Xiaomi Technology India Pvt Ltd (2018-19)	35,426.9	-148.5	-0.4

Source: CMIE Prowess IQ and Company Annual Reports

Perpetual Payments for Technology

Age of the Company	No. of FDI Companies# Paying Royalty, etc				All Companies	
	Nil	Less than Rs. 10 cr.	Rs. 10 cr.+	Sub-Total (3)+(4)	Nos.	(5)/(6)*100
(1)	(2)	(3)	(4)	(5)	(6)	**(7)**
Less than 10 Years	3	2	1	3	6	**50.0**
10 to 20 years	5	11	13	24	29	**82.8**
20 to 50 years	2	15	17	32	34	**94.1**
50 years & above	6	11	26	37	43	**86.0**
Total	16	39	57	96	112	**85.7**

Each of these companies had Rs. 500 cr. turnover in 2011-12

Source: ISID-ICSSR Study on FDI

Glimpses of AoAs in Defence JVs: Tight-fisted MNCs

Supremacy of the Agreements

The terms and conditions of the [JV] Agreement are binding on the Parties and the Company. **The Company fully adopts, ratifies and consents to be fully bound by the Agreement and neither the Company nor the Board, nor any officer of the Company shall take a decision which violates the Agreement.** In the event of any conflict between the provisions of the Agreement and the Memorandum and/or these Articles or other constitutional document of the Company, the Agreement shall prevail.

…BAE-Mahindra JV

JV Partners will retain their respective IPRs

Intellectual Property provided, licensed, and, or otherwise transferred to the Company by BAE Systems or any Affiliate of BAE Systems **will always remain the property of BAE Systems** or the respective Affiliate of BAE Systems (…) and the Company [JV] will: (i) use such Intellectual Property in accordance with the terms of the BAE Systems Technology Licence and Consultancy Agreements; and (ii) will not claim any rights or title to or in such Intellectual Property except as may be set out in the BAE Systems Technology Licence and Consultancy Agreements.

…BEL-Thales JV

Foreign Partner's Control over Technology, Production and Marketing, in *ex*-Tata-Timken JV. Even Tatas took the Back Seat

The articles of association of Tata Timken Ltd with respect to financial and administrative matters stated that such matters shall be decided by a majority of the Board of Directors which majority shall mean the affirmative votes of the directors nominated by TIMKEN as well as TATA STEEL.

However, with respect to matters relating to technology and marketing, the articles gave sole power to TIMKEN, albeit indirectly. The relevant extracts from Tata Timken's prospectus are as follows:

- 109b Notwithstanding anything contained in any of the Articles, the matters specified below shall be decided **by majority of the Board of Directors, which majority shall include the affirmative votes of the Directors nominated by TIMKEN**.

  Matters regarding any and all aspects concerning or relating to the manufacturing process and production, operation, product specifications and quality, technology and the marketing, sales, and or distribution of the products including but not limited to the following :

  (i) The establishment of and change to the short, medium and long term marketing plans;

  (ii) The expansion or contraction of production operations including the establishment of new production capacity whether at existing business sites or new business sites and the contraction of production capacity;

Tata-Timken JV … contd.

(iii) The establishment of subsidiaries;

(iv) The Start-up of manufacture or discontinuance of manufacture of products;

(v) Sales, marketing and/or distribution plans, agreements or arrangements;

(vi) The use by the Company of or the assignment licence or any other transfer by the Company to any other party of technology transferred by TIMKEN to the company and/or technology derived from the technology transferred by TIMKEN to the company or the use by the company of any other technology;

(vii) The product specifications and quality of the product manufactured including the materials and components used in its manufacture and whether the product raw materials and components satisfy the specifications established for the products;

(viii) The Manufacturing process used to produce the products;

(ix) The method and service employed or used to service the products; and

(x) Any other matter relating to or affecting either directly or indirectly the matters listed in this article.

Source : Prospectus of Tata Timken Ltd.

Voltas' JV with Koc Group of Turkey

Voltbek Home Appliances Private Limited

9. Shareholders would be happy to know that, Voltas and Ardutch B.V. (a subsidiary of Arçelik A.Ş.; part of the Koç Group (Revenue of USD 21 billion approx in 2017) – Turkey's largest industrial and services group), have established a Joint Venture company (JVC) in India, to enter the consumer durables market in the country. The new company incorporated in India in the name of Voltbek Home Appliances Private Limited (Voltbek) is an equal partnership joint venture.

10. The JVC is working towards launching refrigerators, washing machines, microwaves and other white goods / domestic appliances under the brand name Voltas-Beko. Beko, the global brand of Arçelik A.Ş., has been the fastest growing home appliances brand of Europe. The brand is the market leader in UK and the No. 1 freestanding white goods brand of Europe. The complementary strengths of the two partners will help build a sustainable consumer durables business in India. A manufacturing facility will be set up in the country, and the JVC will also source products from Arçelik's global manufacturing facilities and vendor base.

Will Tata's Croma be the Main Outlet?

Some Terms of the JV between Voltas- Koc Group of Turkey: Foreign Partner will Control Mfg., Finance & Purchases

Voltas: to identify and shortlist the parcels of land required for the Manufacturing Facility; in applying for, procuring and obtaining all the requisite approvals, licenses and permits, as may be required under applicable Laws,

ABV: assist the Company in finalizing the layout of the Manufacturing Facility;

The Company **cooperate with ABV** in facilitating the maintenance of **the quality standard by permitting ABV** … to inspect the Company's Manufacturing Facilities and/or providing with the specimens of the Products for testing

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If the Company wishes to sell any finished Products not manufactured by the Company, **it shall purchase such finished Products from ABV or ABV's** Affiliates provided such finished Products are manufactured by ABV or ABV's Affiliates.

Secondments: ABV shall identify individual **employees of itself** and its Affiliates from time to time **for secondment to the Company**.

ABV shall nominate the individuals to be appointed to the following positions (i) CFO, (ii) **Chief of Manufacturing; and (iii) Chief of Purchasing**.

Voltas shall nominate the individuals to be appointed to the following positions (i) CEO, (ii) Chief of Marketing; and (iii) Chief of Sales.

All These, Including the Laptop Table, are Imported

No Free Technology Lunches …1

China’s Experience in Acquiring [Extracting]Train Network Control System from Alstom

In January, 2007, Chang led a seven-member work team in a two-month-long training program on train control systems at an Alstom factory in Italy. The team's major task was to learn the mechanisms of the train network control system and its interaction with various sub-systems.

However, Alstom did not include this into the training plan for the visiting Chinese engineers, despite it being stipulated in the contract the two sides signed.

"**After several rounds of negotiation, we finally acquired the 3,000 pages of research materials that illustrated the mechanism of the train network control system, but it was in Italian**," said Chang.

It was the first time Chang had come into contact with the core technology of the world's most advanced MU train. But he[sic] first they had to tackle the **problem of deciphering the Italian wording.**

For confidentiality reasons, they were **not allowed to hire translators**. The seven Chinese technicians, who had never studied Italian before, armed themselves with an Italian-Chinese dictionary and cracked the toughest nut of their careers. It took them **eight months to read all the materials**.

www.chinatoday.com.cn/english/report/2015-12/29/content_710569.htm

No Free Technology Lunches …2

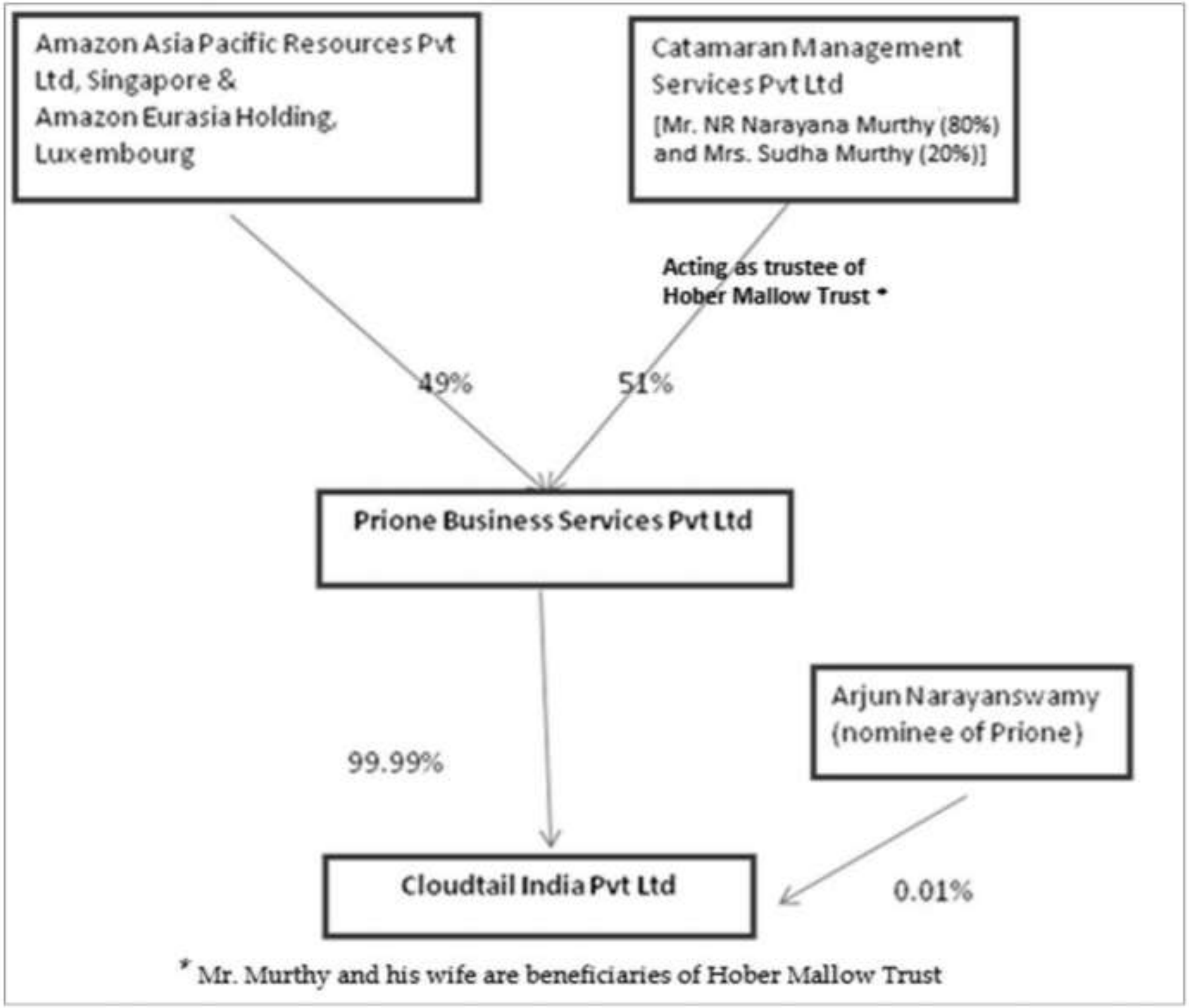
Theodore Moran explained to the United States-China Economic Security Review Mission how after collaborating with different foreign companies like Bombardier, Kawasaki and Alstom in 2004 and subsequently with Siemens and Mitsubishi for producing trains that could reach 200 kmh China went ahead and built even faster trains.

> ***In less than four years of "digestion"*, CSR (Chinese South Car) mastered and improved what it received from Kawasaki, finally cancelling its cooperation agreement. CSR proceeded further to build trains with a maximum velocity of 300-350 kmh. …**

The US Chamber of Commerce noted:

> Indigenous innovation seems to be a policy borne as much of China's fear of foreign domination as China's pride in its great accomplishments and ***desire to be a leader in the rules-based international system*.**
>
> When it comes to technology transfers, **Chinese officials believe foreign companies have been duplicitous and stingy. I**n their view, the bargain was market access in exchange for know-how and technology, and **foreign companies *held back their best to contain China's rise*.**

Caps on FDI Shares will not Work by Themselves.
It Depends A Lot on Who the Indian Partners Are.
Even the Rules on Indirect FDI are Flawed.



Taken from Rahul Nath Choudhury, "India's FDI Policy on E-commerce: Some Observations", ISID Discussion Note DN2015/03. … ISID-ICSSR Study on FDI.

R&D Spending & Technology Imports
Distribution of Different Types of Mfg. Cos 2014-15#

Percentages

	No R&D & No Technology Payments	No R&D. But Report Tech Payments	Spend on R&D but Make No Payments for Technology	Spend on R&D Also Pay for Technology	Total
FDI Companies	40.6	12.3	27.8	19.3	**100.0**
Others (Predominantly Indian)	**82.1**	13.1	2.6	2.2	**100.0**
- Technology Intensive Sectors	72.8	20.9	2.6	3.7	**100.0**
- Others	87.9	8.3	2.6	1.2	**100.0**
All Companies	77.6	13.1	5.3	4.0	100.0

Based on CMIE Prowess data. Estimates are preliminary.

Indian Domestic Cos. Way Down in the Global Pecking Order

Fortune 500: 2019		25 New Entrants in 2019	
US	121	China	12
China	119	US	4
Taiwan	10	France	3
Brazil	8		
India	7		

Global Rank	Indian Company
106	Reliance Industries
117	Indian Oil
160	Oil & Natural Gas
236	State Bank of India
265	Tata Motors (JLR, UK is the basis)
275	Bharat Petroleum
495	Rajesh Exports (Its Swiss Gold Refinery is the basis)

Based on information collected from fortune.com

Some Points to Ponder …1

- In 1991, the task was cut out for the policymakers : to exorcise the economy of the License-Permit Raj and discipline its product, the inefficient domestic private sector. The **prescriptions were then readily available**, off the shelf.
- Today the situation is vastly different. The task is to devise constructive steps.
- Belying the expectations of the policymakers of 1991, in the new regime, the relationship between Indian and foreign private corporate sectors changed drastically. It is more of competition and far less of **technology collaboration**. The Indian private sector has not shown the necessary will to fight.
- It has been almost two decades since FDI has been allowed to invest in the mfg. sector with practically no restrictions. Apparently, while the foreign sector gained a strong hold in many consumer goods, relatively speaking, it also dominates the technology sectors. Simultaneously, it skipped many important core sectors.
- There have been many behavioural **aspects of FDI which went against India's interest**. Even the reported FDI inflows are grossly misleading. There is **no point in blaming FDI/MNCs**. They will only act in their best commercial interest.
- Given the behaviour of foreign companies in terms of weak local linkages, adverse trade balances, perpetual dependence on technology from parents, transfer of resources (in many forms), relatively far less investment in manufacturing sector (and much less in new capacity creation), **can India continue to rely on FDI** to achieve the goal of creating an internationally competitive manufacturing sector?

Some Points to Ponder …2

- It is inevitable that the focus should shift to better understand the constraints faced by the domestic industry.
- Can the difficulties in Doing Business and the trade agreements fully explain Indian entrepreneurs' behaviour – across the board? Or, **are there some inherent deficiencies** in Indian entrepreneurship? If latter is the main problem how to inculcate it?
- What is preventing most Indian companies from investing in R&D even while realising that technology is not readily available for purchase? Do they find the future bleak?
- It is not only the lack of investment in R&D. Exit from many industry leaders and potential winners both in technology intensive industries and in consumer goods, is also a major concern. If this continues, will India ever see the emergence of **National Champions?** The phenomenon can be called **Base Erosion and Advantage Shifting (BEAS).**
- On the other hand, given the difficulties in acquiring technology, lack of emphasis on R&D and intense import competition, can the domestic sector be the saviour, if it is business as usual in the absence of a level playing field?
- India has experimented with far too liberal FDI regime long enough**. It is time to change**. Even a World Bank Paper told that

  Investment policy formulation requires a framework **sophisticated enough to differentiate between the various kinds of foreign direct investment**, as well as potential challenges and benefits for development. (World Bank Policy Research Working Paper No. 7437, October 2015).

- It is also worth revisiting the **long forgotten NMCC Report** of the Prime Minister's Group: 'Measures for Ensuring Sustained Growth of the Indian Manufacturing Sector', 2008.

Some Points to Ponder …3

- Excessive involvement of MNCs work to their advantage as it helps them strengthen their hold over global markets. Also, sheer common sense tells that **no one promotes competitors!**
- There is no harm in trying a nuanced approach to **rejuvenate the domestic sector.** There are obviously many big challenges.
- Tightening of the FDI policy **would not automatically lead** to the development of the domestic sector. Positive steps have to be devised keeping the sectoral needs in focus to encourage domestic enterprises and without making them complacent.
- The confidence expressed in the Industrial Policy Statement of 1991 that the

  The Indian entrepreneur has now come of age so that **he no longer needs such bureaucratic clearances of his commercial technology relationships with foreign technology suppliers**.

  has been proven to be misplaced.
- The **one-sided technology/JV agreements** which favour foreign partners have to be discouraged say, by disallowing certain payments. Equally important is to devise ways to keep out non-serious/obliging domestic partners who will defeat the purpose of caps on foreign shares. Indian parties with weak bargaining power cannot secure better terms. In fact, there were such instances in the earlier period too involving even large houses.
- The present practice of facilitating development of specialised clusters (so-called cities) by foreign majors may indeed be preventing formation of backward linkages with domestic players.

Some Points to Ponder …4

- **MNCs' declared-profits** do not truly reflect the advantages transferred to the parent companies. Large payments for technology (royalties, etc.) are only one facet of it. If ceilings are placed on royalties, they will use other forms to maximise their benefit. It would be wrong to the problem only from the point of non-promoter shareholders of listed companies.
- India is losing on two counts: loss of revenue and loss of precious foreign exchange. India, even while joining the international efforts at solving the massive problem of **Base Erosion and Profit Shifting (BEPS)**, has to devise its own mechanism to safeguard its interests.
- There is yet another related major problem. If the MNCs are able to sustain losses/ extremely low profitability over extended periods, they must be having other support mechanism. In the absence of such a mechanism can domestic companies compete with them or take a long term view, especially those that are exposed to the pressures of the stock market?
- On the other hand, **private equity** investors, as they had operated in India, led to sell-offs of many promising start-ups and emerging leaders by forcing the enterprises to resort to **accelerated inorganic growth**.
- Besides re-introducing sectoral limits, India may even have to disincentivise FDI in some sectors.
- Liberal FDI policy and technology transfer to Indian companies do not go together. Incentives, concessions & relaxations should be tied to tangible performance. In parallel, **incentivising R&D by domestic enterprises** should be the top priority. Reverse the decision regarding mandatory **CSR-related spending**.

Some Points to Ponder …5

- Cross-border acquisition of domestic companies should be treated separately. In the absence of leading Indian companies, promising start-ups cannot be prevented from selling off to MNCs. The Competition Act may, therefore, be suitably amended or a new mechanism devised to prevent India from losing advantage in critical areas. There is, indeed a **case for a separate body** to oversee FDI's operations including M&As.
- There should be better scrutiny of outward FDI (OFDI) so that liberal OFDI policy is applicable only to such OFDI which aims at acquiring technology, expanding markets and secure resources.
- It would be **suicidal to kill the public sector**, as is being demanded by some, particularly when the domestic private sector is unable to display the necessary strength and dynamism. The managers of the economy have to introspect: has the public sector failed India or it is a victim of the step-motherly treatment meted out to it. It cannot be used simultaneously as a cash cow and also be blamed as a drain on the exchequer. Let PSEs be run as **Enterprises**... not as **Departmental Undertakings**.
- Monitoring of the corporate sector in general and of FDI in particular is necessary to minimise FDI's ill-effects which has taken deep roots in many branches of manufacturing and services. At present there is excessive focus on attracting FDI instead of extracting the best from it. Equally important is that there are many unsubstantiated beliefs and expectations.

Some Points to Ponder …6

- The **disclosures** have to be purposeful and their analysis swift and continuous. To facilitate monitoring, the existing data system (of MCA, CSO, RBI, DGCI&S, etc.), which is grossly inadequate and at times deeply flawed, should be revamped. **CSO could be the main coordinating body** with seamless access to the required information from all the data generating/collating organisations.
  - DST, MCA, CSO unit-wise data and RBI come out with different R&D figures. Office of the Principal Scientific Adviser to GOI, was forced to underline that

    > This huge discrepancy [between DST data and those supplied by MCA: Rs. 43,995 cr. against Rs. 3,918 cr.] needs to be addressed by examining the financial statements of each R&D incurring company.
- The undue **reliance on commercial agencies** for policy inputs should pave way to utilisation of the services of national institutions and universities by making them available relevant official data, with appropriate safeguards. A positive externality of this approach is that research in public think tanks will be more policy-oriented.
- It is indeed debatable to what extent the industry bodies are in a position to project and promote the interests of domestic industry as many of them have sizable number of MNC members and also rely on **global consultants**.
- **Research contracts** awarded based on **bidding** need not give the best and most suitable inputs. The same task could be assigned to more than one organisation so that policy alternatives could emerge.