THE FINANCIAL EXPRESS
SUNDAY, JANUARY 12, 1997

MNCs not in lieu of Indian corporates

Uttam Gupta assails the Government for letting the global giants overwhelm local producers in several areas

DURING the first half of the 90s, the MNCs increased their presence in the consumer goods sector since the Congress regime gave them a warm welcome in the name of liberalisation. The MNCs that were in a minority in Indian joint ventures (JVs) until the end of the 80s increased their stake beyond 50 per cent to achieve majority control. In recent years, they have come mainly through the 100 per cent subsidiary route. The MNCs have even made forays into the small-scale sector despite the policy of reservation, by taking advantage of enabling provisions like 75 per cent export obligation or exploiting loopholes in the definition of reserved items.

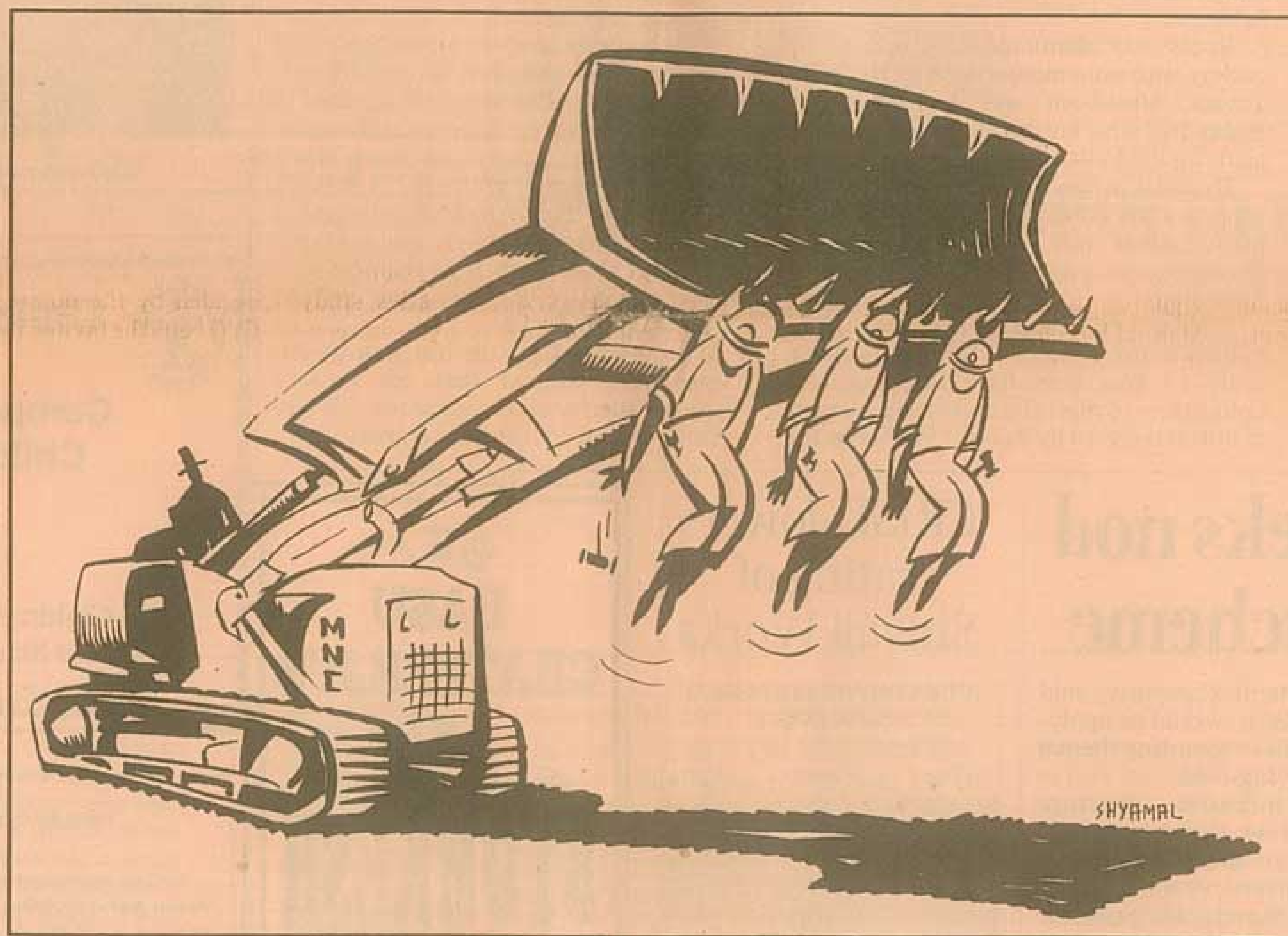
The present Government's approach to the MNCs is no different. By clearly stating in the Common Minimum Programme (CMP) that, "the MNCs already in will not only be allowed to stay, but, even expand and diversify" it has provided legitimacy to what the previous regime did. In the recent past, the FIPS has given a spate of approvals for setting up 100 per cent foreign subsidiaries. These include the Coca Cola South Asia for investing US $ 700 million over 10 years through two fully-owned subsidiaries, another soft drink giant Pepsi, the breakfast cereal company Kellogg, Philip Morris of US and Samsung Electronics of Korea.

In a belated move, the Government decided to append a rider that all such proposals would have to dilute their equity stake to 49 per cent over a period of time. But this is proving to be just an eyewash. For, if the intention was genuine, then it should consistently stipulate a minority equity holding by MNCs and should not let any of them or the domestic partners bypass the stipulation.

It has not done any such thing. Rather the Government has sought to justify allowing MNCs 100 per cent now on the basis that Indian companies might not be in a position to arrange funds to pick up the required stake. This does not make sense, for if the Indian partner does not have the capacity now, how will it be able to bring the required capital as and when the MNC offloads? This is especially when such offloading would be at the prevailing market price which would inevitably be higher. As of now, such offloading is only hypothetical, considering that Indian corporates are giving up their stake in favour of the foreign partners.

There have been umpteen instances of the MNCs having violated the conditions of entry. This is especially true of MNCs operating in the SSI sector. None of them have been punished and asked to go back. Against this backdrop, it is difficult to believe that the concerned MNCs will be forced to reduce their stake. It may well be that the Government does not want to send wrong signals to the foreign investors by deviating from the policies of the previous regime. But, by letting MNCs overwhelm the locals, what signal is it sending to the common man, especially the poor? There is need to assess the impact of MNC entry on the poor.

The common/poor man's well being is linked to employment for which there is maximum scope in the small-scale industries (SSIs). Even the medium and large industries owned entirely by Indians offer good potential. This also holds for JVs with majority equity holding by Indian companies. A large, modern and fully automated plant set up by an MNC is capable of annihilating thousands of SSI units and throwing lakhs of workers out of jobs. Already , about 205 lakh jobs have been lost in the SSI sector because of the entry of multinationals. This trend will aggravate as



they further tighten their grip, fully aided and abetted by the Government's policy. The SSIs account for about 40 per cent of the total foreign exchange earnings from exports. This provides enormous support for essential imports like crude, POL, fertilisers, industrial raw materials, components and capital goods. Displacement of SSIs will then make a deep cut in foreign currency earnings.

The MNCs come to India primarily to sell here, not for exporting. It is also no secret that they make huge profits on their operations resulting in a heavy outgo of foreign exchange. Against this, inflow of foreign exchange by way of investment is peanuts. Consequently, even the direct effect of MNCs operating in India on the BoP position is substantially negative. Industries in the medium and large-scale sector too do not remain unaffected in view of the technological strength of MNCs and their unlimited access to cheap funds. Even as the cost of funds in India is more than double, Indian companies cannot even borrow abroad because of their lack of exposure. The flopping of several GDR issues warns against too much optimism on this score.

The 100 per cent foreign companies are capable of bulldozing even big Indian corporates. For instance, the P&G-Home Products and Whirl Pool have marginalised companies like Godrej and Kelvinator, respectively. Large-scale lay off/retrenchment is thus inevitable. In the context of the hire and fire culture that comes with the MNCs, unlike the developed countries we do not have a system of social security. In view of this, any worker thrown out of job will have virtually no option to make his living. The impact on the social fabric is much too grave to be ignored. The salaries paid by MNCs for the same jobs are several times more than what Indian companies can pay. These income disparities give rise to class conflict and spread of consumerism.

In the SSI sector, investment requirements are small. The existing ceiling was Rs 60 lakhs and even after revision, this stands at Rs 2 crore. It cannot be anybody's case that SSI manufacturers cannot undertake this investment. Wherever they need support, funds can be made available by financial institutions and banks. Even in regard to technological capabilities, the Abid Hussain Committee, which recommended retaining the 936 items exclusively reserved for the SSI sector, has laid the blame for the failure to bring technological advancements in product patterns, in the past, on non-availability of funds and not because it lacked expertise.

The policy towards the MNCs should be suitably dovetailed to meet the objective of growth with social justice. In the SSI sector, they should be completely debarred from coming. This will require a categorical commitment to continued reservation for SSIs. The MNCs that have already come, taking advantage of the loopholes, should be asked to go back. Our endeavour should be to remove all bottlenecks to SSI units performing better. Apart from increasing availability of institutional finance, the Government should take measures to ensure that they are paid in time by the buyers both in the public and private sectors. The present syndrome of first blunting the abilities of SSI units and, then, making the way for entry of MNCs must be demolished.

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