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Souring joint ventures

In the consumer goods sector, the MNCs may be allowed only as joint ventures, says **Uttam Gupta**

IN the recent past, the government has given a spate of approvals for setting up 100 per cent foreign subsidiaries in the highly lucrative consumer good sector. These include the Coca Cola (beverages), Kellogg (breakfast cereals), Philip Morris (cigarettes) and Samsung Electronics (entertainment electronics) etc.

The government's claim that the concerned MNCs have been told to dilute their equity holding over a period of time, has been contested by some of them, e g Coca Cola. The latter companies are of the view that negotiations with them were conducted on the basis of their having 100 per cent stake throughout the life of the project. Therefore, the government's decision to put this condition now is unilateral, arbitrary and unjustified.

There is some confusion about the level of disinvestment sought by the government. Although it has publicity stated that the MNCs will have to offload 51 per cent, there are other conflicting reports also. According to these, while in some cases the proposed disinvestment is much less (e g Coca Cola), in others this has not been spelt out.

On balance, it appears unlikely that even after offloading over a period of time, the MNCs would have majority control shed. It is a different matter that they are not willing to give even a small portion of the equity stake to the Indian company.

Whether we should have the MNCs do business in India as majority partners, or allow them to have only minority stake is a question on which the government needs to take a clear stand. However, still more important is whether it is genuinely interested in promoting joint ventures (JVs) with the Indian companies at all? The underlying facts lead to doubts even on this score.

The government has argued that the Indian companies are unable to arrange for funds to pick up the required stake in the JVs. This does not make sense, for if the Indian partners do not have the capacity now, how will they be able to garner the required capital when the MNCs will be offloading, and that too when such offloading will be at the higher market price, requiring much more money than now.

There have been several instances of the MNCs having violated the conditions of entry especially in the SSI sector, e g 75 per cent export obligations. Such violations are not so difficult to prove and punish. And yet, no action has been taken. On the contrary, the concerned MNCs have plants for further expansion and growth.

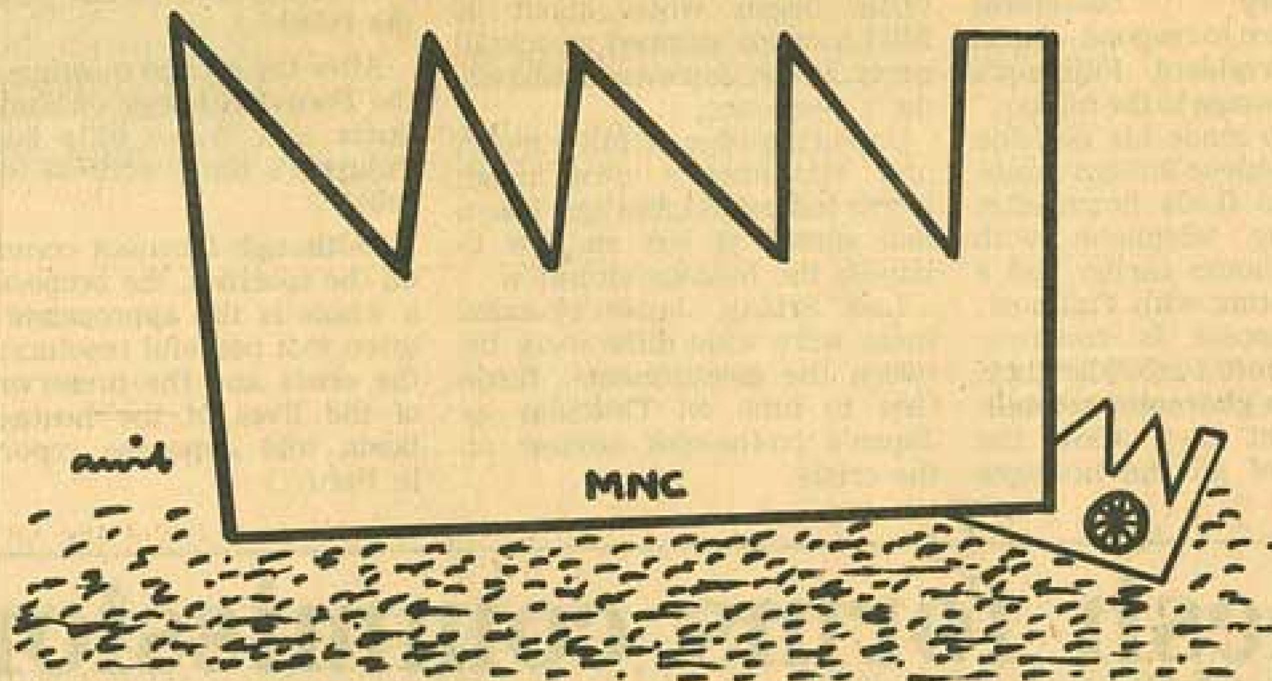
In the present case, it is virtually impossible to even establish any violation of disinvestment by the MNCs. In fact, they could conveniently pass on the buck to the potential Indian buyer.

The government's dislike for Indian companies in JVs with MNCs as minor partners is also apparent from a number of approvals that the Foreign Investment Promotion Board (FIPB) has recently given allowing the latter to increase their stake in existing JVs to majority holdings (e g, DCM-Daewoo). The justification for this also is the same as for permitting 100 per cent Indian subsidiary in the first place, i e the Indian partners cannot contribute the required capital to get along with the MNCs.

The government is not even averse to the idea of MNCs operating in areas reserved for the SSI sector, where the investment limit is Rs 2 crore. This again is an offspring of the mind-set that the Indian entrepreneur cannot even arrange for small capital, and therefore, not capable of producing quality goods.

In a nutshell, the present approach is to allow the MNCs to have a broad sweep over the entire industrial landscape in India. This will displace the Indian industry even in areas where it is capable of going all alone such as in the SSI sector, or with some support as in the medium and large scale industries.

Undoubtedly, the MNCs have an edge over the Indian industries in terms of technology and capital. However, we cannot allow the latter to be completely run over by the former as that would lead to increasing unemployment and inequalities in income. Unlike the developed countries, we do not have the system of social security. This means that workers thrown out of employment will not only be denied the right to livelihood, but also, constitute a potential threat to the socio-economic order.



The 100 per cent foreign subsidiaries, and even JVs in which MNCs have majority stakes, are a drain on foreign exchange resources. This is because the outgo on repatriation of profits is much more than the inflow by way of investment. This, in turn, seriously affects essential imports like PoL, fertilisers etc, thus hampering growth of industry and agriculture.

While carving out a suitable role for the MNCs, we cannot afford to be indifferent to the national priorities. We need growth, but with increasing employment. Next to agriculture, the SSI sector is the most suited from the employment angle. In fact, with diminishing prospects in the government and public sector, the SSI is the sole dependable and growing source.

The government should urgently act on the recommendations of the Abid Hussain Committee by not only categorically spelling out its commitment to continued reservation, but also taking concrete measures to help SSI units perform better. Apart from increasing availability of institutional finance, it should ensure that they are paid in time by the buyers, both in the public and private sector.

In the consumer goods sector, the MNCs may be allowed only through the JV route, preferably with majority equity resting with the Indian companies. No doubt, presently the resource position of the latter is constrained. We should not, however, allow this to distort the policy thrust and instead, concentrate on measures to help improve the financial strength of Indian corporates for effective and meaningful participation in the JVs.

Considering the overall profit margins, the MNCs will be too willing to come even on the above terms. Presently, they do not find the JV route so attractive because the 100 per cent subsidiary alternative is available to them. Their perception will automatically change once the government decides to close the latter option.

To ensure that during the course of running the business the Indian company does not face any problem, leading to erosion of its share in the ownership, clear-cut guidelines need to be laid down in respect of financing further expansion and growth either through reserves/borrowings or tapping the capital market. In the case of Maruti, the government has insisted precisely on this, and the same should be made applicable to all JVs.

MNCs' help is needed most in building infrastructure, i e power, roads, port, telecom etc, and other core industries like oil, gas, refineries etc. In these areas, they may be allowed as JVs with Indian companies, giving them majority equity and if need be, even 100 per cent.