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Safeguarding local joint ventures

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IN a representation to the government, CII has suggested that a foreign company should given approval to set up a 100 per cent subsidiary only after two years - euphemistically described as the cooling period - from the day joint venture (JV) in which it is already involved gives its nod for the same.

Apprehending serious threat to JV and consequential adverse effect on Indian partner and other shareholders, CII opines that the cooling period will give adequate time to the JV to consolidate and put itself in the position of being able to meet the challenge posed by 100 per cent subsidiary. This is mere wishful thinking, to say the least.

Access to latest technology/know-how and innovative ways of doing things is a prerequisite for the survival of any company and its growth. Til now, JVs got all these from MNCs without much problem.

This was because the latter stood to gain from whatever equity was offered - in some cases, exceeding 50 per cent - even as the 100 per cent subsidiary route was not available.

Now, if an MNC is allowed to set up a 100 per cent subsidiary, it is most unlikely that it would take any interest in the affairs of the JV. This is especially true, if the former intends to operate in the same area as the latter. In fact, the MNC's prime goal would be to ensure closure of the JV in order to establish complete hold of its 100 per cent subsidiary in the market. The fact of its being privy to sensitive information about the JV will help it achieve this goal faster.

Thus, talk of so-called cooling period is inconsequential. Even if demand is conceded, this would only mean postponement of Doomsday by a few more years.

The JV could survive only if the Indian partner is reasonably confident that it can continue without the support of the MNC. But such cases are few. Indeed, these are what one may describe as Indian multinationals, which can take on foreign companies not only in India, but in overseas markets too. However, no policy decision can be taken with such a narrow focus.

A suitable approach towards foreign investment should take into account the need for maintaining the viability of the majority of JVs. These include ventures where even though no Indian company is involved, but, significant equity is held by the public and financial institutions (for instance, Pfizer India). And, finally, we must also not forget the impact on companies which are 100 per cent Indian-owned. In the event of unfettered and large-scale entry of 100 per cent subsidiaries, survival of companies in all these categories will be endangered. Given the MNC approach and ways of doing things, large-scale loss of employment and income is inevitable. Which means unprecedented socio-economic problems as well. Additionally, we have to consider the impact on the country's BOP situation due to increase in outgo of foreign exchange towards repatriation of profits etc.

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What is the gain in permitting 100 per cent subsidiaries of MNC? Why are our policy makers so keen to give them a red carpet welcome, even at the cost of knocking out our own companies? Is there something more to it than just a globalisation mania or for that matter, psychological satisfaction of getting words of appreciation from developed countries? The pro-MNC lobby often talks of consumer welfare. It argues that the so-called intense competition due to the presence of 100 per cent foreign owned companies will result in the supply of high quality goods and services at low prices. This is a myth.

The writing on the wall is clear. Once JVs and wholly-owned Indian companies are annihilated, 100 per cent foreign-owned companies will take even consumers for a ride. The government needs to do serious introspection on the question of allowing 100 per cent subsidiaries of MNCs. It should muster the courage of saying 'No' to them, as this is the only viable way of protecting/safeguarding the interests of the JV and wholly-owned Indian companies. In the absence of more attractive options (read 100 per cent foreign-owned), MNCs would remain wedded to JV. ◆