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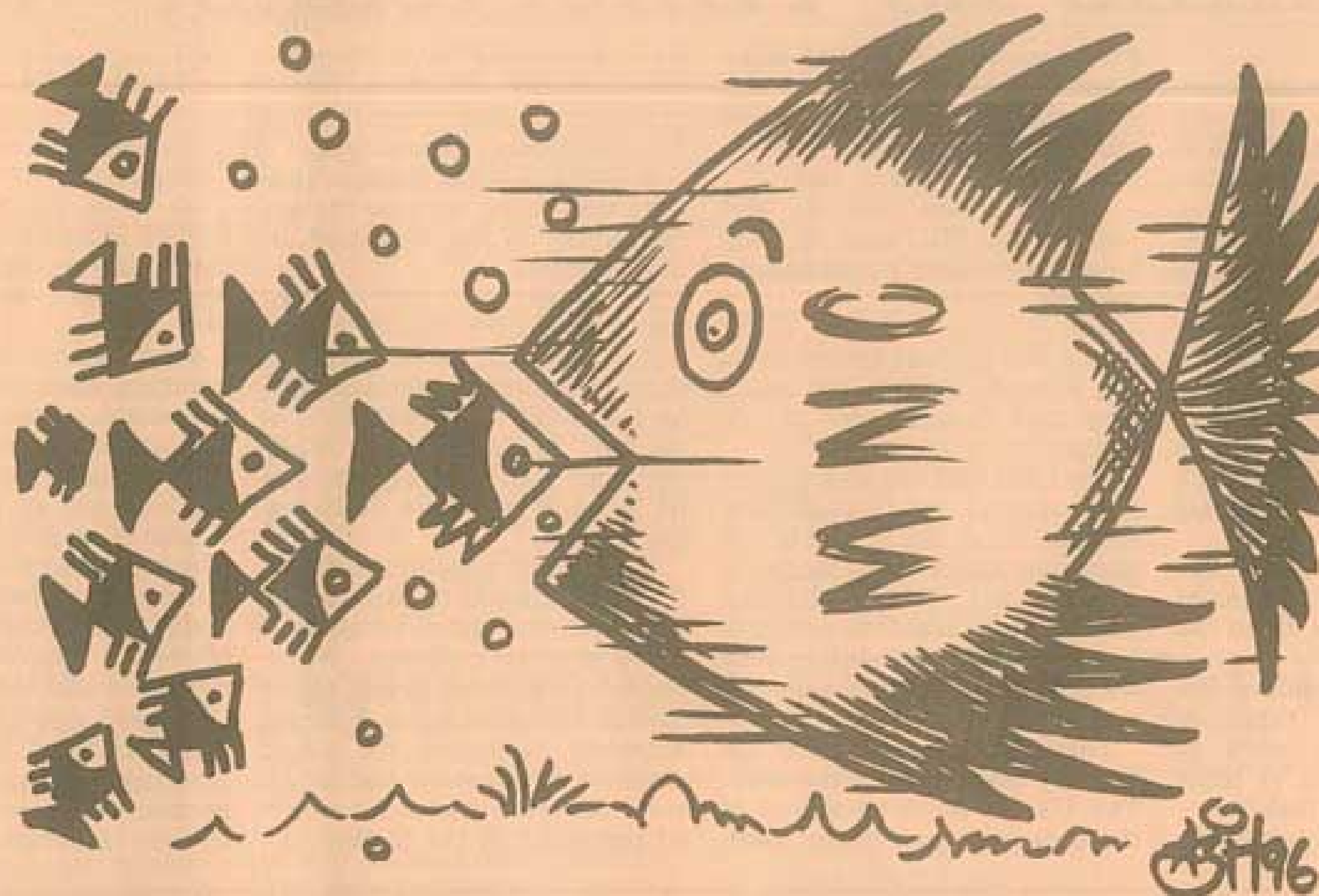

Say no to MNCs in consumer goods sector

MNC entry areas reserved for small industries will have serious implications for future employment growth, says Uttam Gupta

THE constituents of the United Front and its allies have consistently opposed the entry of multinationals in the consumer goods sector. However, on assuming the reigns of power, they have taken a U-turn. This will be clear from a close scrutiny of the Common Minimum Programme (CMP).

With regard to foreign investment, the CMP assures the MNCs that they will not only be allowed to stay, but, can even expand and diversify. The multinationals having already made inroads under the previous policy regime are bound to have a profound influence on the Indian economy particularly keeping in view their large scale operations and unlimited potential to expand and grow. Consequently, the government cannot afford to take a casual view about them.

During the last five years, the MNCs have come in a big way in the consumer goods sector, made forays into the small scale sector despite the policy of reservation and made virtually no investment in the infrastructure. Presence of the MNCs in the SSI sector is disastrous from the employment angle. 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. According to one estimate, already about 250 thousand jobs have been lost in the SSI sector because of the entry of the multinationals.

The SSI sector is the largest provider of employment next only to agriculture. Besides, it helps the overall economy by earning the maximum amount of foreign exchange needed to support essential imports like crude, POL, fertilisers, industrial raw materials, components and capital goods. If the government allows MNCs to continue and even grow, this would spell disaster for the SSI units and adversely affect the existing employment levels, let alone creating more jobs.

Ironically, even the commitment to continue reservation for the SSI sector is missing. The CMP only talks about the need for giving incentives for increasing employment and income in the SSIs. This is too vague to inspire any confidence. In a recent interview, the industry minister is reported to have drawn a line between the village and home based industries on the one hand and the small industries located in urban areas on the other. The signal is that whereas the government may protect the former, it would not be averse to entry of the MNCs in the latter. This is an unwarranted distortion of the main objective of maximizing employment by promoting and protecting SSI units wherever they are located.

In the consumer goods sector, the entry of the 100 per cent foreign subsidiaries during the last one year is a major concern. Apart from harming the 100 per cent Indian companies, these have not spared even the joint ventures (JV) in which Indian companies have significant equity holding. They have done this by denying the JVs access to the latest technologies, new products, brand names and in, several cases, even appropriating the marketing and distribution networks. If these 100 per cent foreign shops are not contained, they will play havoc with the Indian economy.

Even with regard to investment by MNCs waiting in the wings, the CMP does not say a categorical 'no'. It merely states that foreign investment in the consumer goods sector will be "discouraged" by using fiscal and credit instruments. On the face of it, fiscal disincentives may be a deterrent. But these need not result in keeping MNCs at bay especially keeping in view the enormous opportunities for profit making available with the consumer goods sector.

Moreover, the government should also consider whether it would be able to implement a dual fiscal regime, i e one set of measures for the MNCs that already came in and another for those which will be permitted under the new policy dispensation.

Much has been said in the programme about the government's resolve to provide a level playing field to the domestic industry. But, how? This question has not been addressed.

In this context, Indian industry has sought government's help by way of facilitating merger or amalgamations, doing away with restrictions on intercorporate investment, and introduction of non-voting shares, etc. Even assuming that the government speedily brings about desired changes in the relevant laws, can the Indian industry match the strength of the MNCs ? The answer is a clear 'no'.

Apart from their technological superiority, the MNCs have unlimited access to cheap funds. In sharp contrast, the domestic industry has to live with limited and high cost funds from even as access to foreign funds is restricted with government authorising external commercial borrowings (ECB) on a case-to-case basis.

Moreover, the MNCs offer salaries and perks that can attract the best manpower. Already, during the last five years, some of the best talents in the Indian Industry have moved into the MNCs, thus adding to the latter's comparative advantage. The situation will only worsen further.

Infrastructure is most critical to high growth and employment. It is here that the available domestic resources are meagre in relation to the requirements. And yet, FDI flows so far have been negligible despite the open door policy of the previous regime, the high voltage campaign to attract MNCs and the promise of attractive and guaranteed return. The main problem is lack of a smooth passage. The plethora of approvals and clearances —there are about 39 of them in the power sector —, the antiquated laws and legislations, unclear and uncertain policies and, above all, noncooperative attitude of the bureaucracy have virtually stifled their initiatives to invest in India. The CMP is silent on the paramount need for removing these bottlenecks.

Shorn of rhetoric, there is no sincere attempt by the UF government to make a departure from the existing dispensation in regard to FDI. The continuation of this dispensation will lead to unsustainable growth, irreparable damage to Indian industries and unprecedented loss of employment. Bold initiatives are required to bring the pattern of FDI in line with the need to ensure rapid and sustainable growth that leads to increasing employment and adequate incomes especially amongst the poor. To this end, the following three-pronged strategy is suggested.

First, the government should endeavour to get the MNCs in setting up power plants, building roads, ports, telecom networks, etc. While, they may be allowed investment upto 100 per cent, it would be desirable if Indian agencies or companies, including the PSUs, could also join hands with them in implementing these projects. Similar dispensation may apply to investment in other core areas, like oil, gas, fertilisers, refineries, etc. For ensuring smooth passage to the MNCs in these areas, the government should streamline the procedure of approvals and make the process transparent. To facilitate meaningful and effective Indian tie-ups with MNCs, the PSUs will have to be liberated from all controls and the management given freedom to act.

Second, in the small scale sector, government should completely debar the MNCs. This will require a categorical commitment to continued reservation for the SSIs. The MNCs which have already come in taking advantage of the loopholes, be identified and asked to go back.

Third, in the consumer good sector, the government should allow the MNCs only through the JV with Indian companies preferably with majority equity resting with the latter. Investment upto 100 per cent by the MNCs in this sector should be banned.