# Foreign Direct Investments in the Post-Liberalisation Period: An Overview

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# FOREIGN DIRECT INVESTMENTS IN THE POST-LIBERALISATION PERIOD: AN OVERVIEW

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*For a long time India's approach towards foreign direct investment was governed by the multiple objectives of self-reliance, protection of national industry and entrepreneurs, import of select technologies and export promotion. As a part of the Structural Adjustment Programme, along with virtually dismantling the industrial regulatory system, India sought to attract FDI with special favours and persuasion. While the new regime places heavy emphasis on attracting large amount of FDI, there is very little discussion on the various facets of actual implementation. This paper seeks to provide empirical content to the developments during the first seven years of liberalisation.*

*Introduction*

For more than three decades after independence, India maintained a selective approach towards foreign direct investment (FDI) [Kidron, 1965; Goyal, 1979; India, 1969]. The approach was governed by multiple objectives of self-reliance, protection of national industry and entrepreneurs, import of select technologies and export promotion. The emphasis was on technology imports without financial participation by the technology supplier. This was intended to give the much needed boost to technological development as the recipients of foreign technology were expected to absorb the technology and modify and develop further with the help of their own R&D. It was believed that this could help India move on the road to technological self-reliance. Foreign investment in low technology areas was not encouraged in order to shelter local industry and to conserve foreign exchange. The policy regime since 1991 has been altered and the rationale for restrictions on and regulation of foreign investments in India that made India a partially closed economy have been given up. It was argued, that restrictions on Foreign Direct Investment (FDI) and imports and strict internal regulations Monopoly and Restrictive Trade Practices Act (MRTPA) and Industries (Development and Regulation) Act, 1951, (IDRA), enabled local manufactures to exploit monopoly rent, produce poor quality goods and services, gave high profits with no obligation or concern for the average consumer. From a position of selectivity, the transition to the present position is one of welcome to FDI and treating with special favours and persuasion. Drastic changes in Indian economic policies have been initiated to permit entry of foreign capital and free flow of international trade.

Beginning with July 1991, the government introduced a number of changes in the country's regulatory policies under the general acceptance of the policy package known widely as the Structural Adjustment Programme (SAP). The important departure from the past was in the form of: revision of the Industrial Policy Resolution, 1956 and Schedules A & B, resulting in the opening up of many a public sector reserved area;[1] drastic revision of IDRA with the objective of removing a major entry point hurdle[2] [GOI, para 23], doing away with the registration requirements under MRTPA; removal of the general ceiling of 40 per cent on foreign-held equity under Foreign Exchange Regulation Act (FERA); lifting of the restrictions on use of foreign brand names in the local market; removal of the restrictions on FDI entry into low technology consumer goods; abandonment of the phased manufacturing programme (PMP); dilution of the

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dividend balancing condition and export obligations; liberalisation of the terms for import of technology and royalty payments; permission to invest up to 24 per cent in the equity of small scale units; reduction in tax rates; etc. In the new policy regime, proposals for foreign investment need not necessarily be accompanied by foreign technology agreements.

The new regime placed special emphasis on attracting a large amount of foreign capital. To understand the significance of the change, one needs to examine the number, the size and the nature of the newly approved investments, actual capital inflows, take-over of local companies by FDI and performance in terms of net foreign exchange earnings by FDI enterprises. These issues are interrelated. Very often in the policy making circles and in the general discussion on the state of the economy, concern is expressed at the wide gap between foreign investment approvals and actual inflows. This study makes an attempt to obtain empirical content to these questions. The paper draws extensively from the studies completed as also under progress at the Institute for Studies in Industrial Development [Goyal et al., 1994 and 1995]. We make use of the aggregate data and information on individual approvals reported by the Secretariat for Industrial Assistance (SIA), Indian Investment Centre and other official agencies. Our attempt is a limited one, i.e., to provide a broad picture of the flow of FDI and indicate the possible factors at play. We hope the insights into the operations of the new policy regime would help promote informed debate on the subject.

FDI refers to the participation of a foreign investor in the risk capital of an existing or a new undertaking. FDI does not always imply holding of the entire risk capital by a foreign undertaking though this used to be true when Foreign Company Branches operated in India and held a dominant position in tea, coffee and rubber plantations. The most common system of FDI flows is through participation in risk capital and gaining a say in management and control of the host country enterprise. In contrast, foreign portfolio investments are not associated with management control and are basically aimed at benefitting from capital appreciation and share in profits in the form of dividends. Financial participation is generally accompanied by the foreign partner providing technology support as well. This may be by way of process know-how, design and drawings of equipment or responsibility to provide managerial skills or evolve new marketing skills. Generally, there are no agreements which can be strictly classified as financial or technical. In select industries government approvals are automatic and subject to general limits on foreign equity levels and the size of payments for technology. The liberalisation of industrial policy in 1991 introduced a two-way approval process for foreign direct investment. First is the automatic approval route which is applicable to the industries listed in Annexure-III of the Industrial Policy Statement of July 1991 and is subject to limits on foreign equity participation. The initial limit on foreign investment was 51 per cent. Those seeking to invest under the automatic approval process, were required to formally inform the Reserve Bank of India (RBI). This requirement has since been dispensed with and companies need only to inform the RBI after issue of shares to a foreign company. The upper limit for foreign equity participation under automatic approval was raised from 51 to 74 per cent of the equity capital (and 100 per cent in case of Non-residential Indian (NRI)) in select industries in January 1997. The list of industries open for automatic approval was also expanded. In the Budget Speech 1999-2000 it was announced that the scope of automatic approval would be expanded further. If the foreign investors wish to enter other industries or feel the need to secure higher percentage of foreign equity for themselves, they need to go through a formal process of case by case approval, with the Foreign Investment Promotion Board (FIPB) playing the main role.

As a result of the policy changes in 1991 and active promotion of India as a destination, the amount of FDI approved and received rose sharply. The total number of technical and financial collaborations approved during 1995, 1996 and 1997 did not appear to change but there is a clear trend for more financial collaborations and a decline in pure technical collaborations. (See Table-1). In terms of the amounts approved, the FIPB occupies a more important position compared to the RBI. While the RBI gave automatic approval in nearly one-fourth of the financial collaboration cases, the foreign investment associated with these proposals was only six per cent of the total investments approved. But for the change in policy in January 1997, RBI approvals would have accounted for even a still lesser share. In the context of the liberalisation of industrial policy, it is thus significant that much of the investment approved went through a formal procedure of approval unlike the automatic approval case where the investors might not have been so serious. During the initial period, equity hikes undertaken by many of the companies already under foreign control were approved automatically. After a sharp public criticism of the manner in which the hikes in the extent of foreign-held equity were affected at ridiculously low prices as compared to the prevailing market prices, the terms of issue were tightened[3] [Goyal, 1997].

The automatic procedure is, however, more effective in technical collaboration agreements. Out of the 5,791 technical collaborations approved up to August 1998, the RBI granted 3,248 approvals, i.e., nearly 56 per cent. The relative significance of financial collaborations in the total approvals has increased rapidly during the 'nineties. From about 10 to 15 per cent of the total collaborations approved during the latter half of the 'seventies, the financial collaborations (FCs) accounted for a little less than one-third of the total towards the end of the 'eighties. The share of the FCs increased further after liberalisation of industrial policy and exceeded half of the total since 1993. During 1997 financial collaborations accounted for nearly two-thirds of the total, i.e., double of their share in the late 'eighties. (Table 1)

*Approved Foreign Investment*

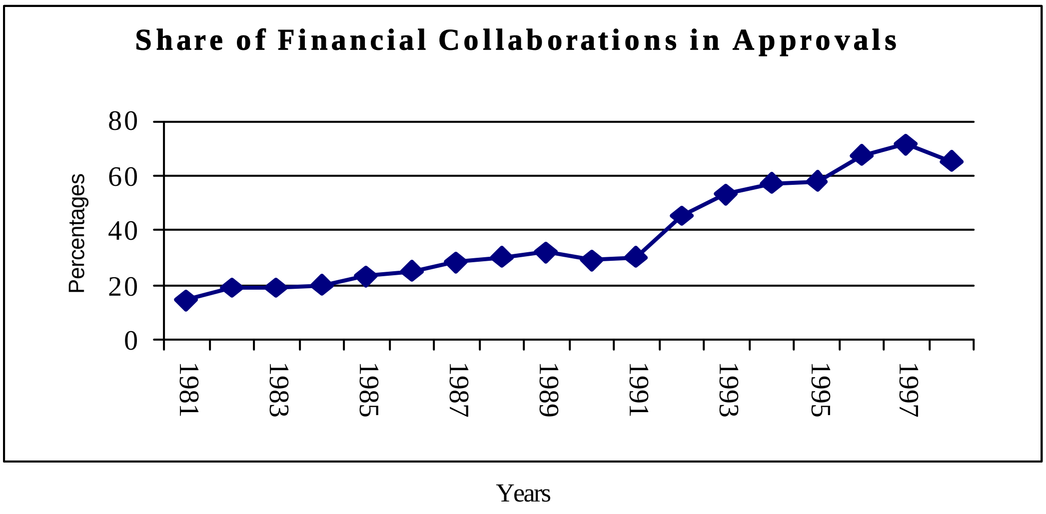
The overall value of the investment proposals and their approval by the government increased substantially since the adoption of new economic policies in 1991 (Table 1 and Figure 1). The size of foreign investments approved in 1981 was nearly Rs 10.9 crore. The peak year during the 'eighties was 1989 when the approvals aggregated Rs 316.7 crore. During the first year after adoption of the SAP, i.e., 1991, size of approved foreign investment shot up to Rs 534.1 crore from the low of Rs 128.3 crore in 1990. Till August 1998, i.e., during the seven years since adoption of the SAP package, official estimates place the gross value of the approvals at Rs 1,73,510 crore. This amounts to nearly Rs 25,000 crore per year. Out of this as much as Rs 1,46,040 crore or more than four-fifths was approved during 1995 to August 1998. Approvals since 1994 include GDR issues and Foreign Currency Convertible Bonds.[4] GDR issues are portfolio investments and lack the essential criteria of control over the enterprise; strictly speaking GDRs should not be treated as direct investment except for purpose of reporting[5] [UNCTAD, 1997]. If the GDR amount of about Rs 18,729 crore is taken out, the size of approved investments works out to Rs 1,54,781 crore for the seven years. There is a possibility of some other approvals also being included as FDI though these would not strictly qualify as direct investments since they lack the essential characteristic of control.[6] The approvals have grown significantly over the past seven years. Yet, India's share in total global inflows continues to

**Table 1. Financial and Technical Collaborations: 1981 to August 1998**

| Year | No. of Approved Collaborations | | | Relative Share of Financial Collaborations (Col. 2 as % of Col 4) | Investment Approved (Rs Crore) |
|---|---|---|---|---|---|
| | Financial | Technical | Total | | |
| (I) | (2) | (3) | (4) | (5) | (6) |
| 1981 | 57 | 332 | 389 | 14.65 | 10.9 |
| 1982 | 113 | 477 | 590 | 19.15 | 62.8 |
| 1983 | 129 | 544 | 673 | 19.17 | 61.9 |
| 1984 | 151 | 601 | 752 | 20.08 | 113.0 |
| 1985 | 238 | 786 | 1,024 | 23.24 | 126.1 |
| 1986 | 242 | 715 | 957 | 25.29 | 106.9 |
| 1987 | 242 | 611 | 853 | 28.37 | 107.7 |
| 1988 | 282 | 644 | 926 | 30.45 | 239.8 |
| 1989 | 194 | 411 | 605 | 32.06 | 316.7 |
| 1990 | 194 | 472 | 666 | 29.13 | 128.3 |
| 1991 | 289 | 661 | 950 | 30.42 | 534.1 |
| 1992 | 692 | 828 | 1,520 | 45.53 | 3,879.1 |
| 1993 | 785 | 691 | 1,476 | 53.18 | 8,861.8 |
| 1994 | 1,062 | 792 | 1,854 | 57.28 | 14.190.0 |
| 1995 | 1,355 | 982 | 2,337 | 57.98 | 32,070.0 |
| 1996 | 1,559 | 744 | 2,303 | 67.69 | 36,150.0 |
| 1997 | 1,665 | 660 | 2.325 | 71.61 | 54,890.0 |
| 1998 | 820 | 433 | 1,253 | 65.44 | 22,930.0 |
| (up to 1991-Aug'98 | 8,227 | 5,791 | 14,018 | 58.69 | 1,73,510.0 |

Note: Foreign investment includes Global/American Depository Receipts (GDRs) and FCCBs amounting to Rs 18,729 crore. Source: (i) India, Department of Scientific & Industrial Research, Ministry of Science & Technology, *Foreign Collaborations: A Cdinpildtiim.* (ii) India, Ministry of Industry, *Handbook of Industrial Statistics,* and (iii) 1991 onwards: India, Ministry of Industry, *SIA Newsletter,* September 1998.

**Figure 1. Share of Financial Collaborations in Approvals**



remain small. Even within South, East and South-East Asia, India's share was only 2.27 per cent. It is, however a significant improvement over the earlier level of 1.37 per cent during 1985-1990 [UNCTAD, 1997].

*Extent of Foreign Ownership*

As mentioned earlier, restrictions on the maximum percentage share of equity normally allowed to foreign investors (40 per cent, as stipulated under the FERA) were seen as a deterrent to foreign companies to invest in India. Removal of FERA restrictions on holding of majority stake should thus be expected to encourage foreign direct investment inflows, especially from large transnational corporations (TNCs). It should, therefore, be a justifiable expectation that the distribution of companies in different shareholding ranges would undergo changes. One may recall that a number of branches and subsidiaries of foreign companies were operating in India prior to the enactment of FERA. The number of foreign subsidiaries came down substantially due to the implementation of FERA[7] [Goyal, 1990]. This was in spite of the fact that majority foreign equity was not banned in cases of high technology and export-oriented companies. Some of the companies, notably those in the drugs and pharmaceutical sector, voluntarily diluted their foreign equity to 40 per cent [Goyal, 1982].[8] In the liberalised industrial policy environment the preference for gaining higher stake in equity becomes visible both in the case of new entrants and also for those which had earlier opted for equity dilution and shed the foreign subsidiary status. The extent of foreign equity shares in an enterprise would also reflect the foreign investor's perception of the need for a local partner. Foreign investors would normally prefer to have an Indian counterpart instead of going alone in a nationally regulated environment. The political sensitivities do not permit full foreign ownership. But, by having a national collaborator one can find easy and convenient routes to administrative patronage. This would be particularly true for new foreign investors. By associating Indian collaborators, foreign investors also obtain access to the local network of contacts, political support, business and a variety of operational advantages [Goyal, 1979]. Avoiding discrimination at the administrative level could be another motive for associating a local, preferably a large industrial house.

Table 2 provides the pattern of the distribution of approvals over the seven-year period 1991 to 1998 as compared to the three years 1981 to 1983. The shift in the pattern of approvals is only too obvious. In the early 'eighties, the distribution was overwhelmingly in favour of the percentage ranges up to 40 per cent. Out of the total amount of Rs 218 crore, as much as 89 per cent fell in this category. The share of 100 per cent subsidiaries in the approved investment was a mere 0.62 per cent. In contrast, 100 per cent foreign-owned subsidiaries accounted for more than one-third of the approved investment during the 'nineties, the post-liberalisation period. Subsidiaries of foreign companies accounted for nearly 65 per cent of the total approved investment during 1991-97. Those settling for up to 40 per cent foreign share accounted for nearly 13 per cent of the new investments.[9]

Table 3 shows that out of the 7,694 approval cases, 1,334 were for proposals with 100 per cent foreign ownership. Nearly three-fourths of these were approved during the post-1995 period. Further, the proportion of approvals for majority ownership (subsidiary status) increased gradually over the period. From a little less than one-third during the first one and a half years to 37.37 during the middle period (1993 to 1995) and to 58.77 per cent in the last two and a half years. In the last period, one-fourth of the approvals are for 100 per cent foreign owned enterprises.

**Table 2. Distribution of Approved Investments According to Foreign Share**

| Foreign Equity Share Offered (Per cent) | No. of Approvals | Percentage in Nos. | Approved Amount (Rs Cr.) | Percentage in Amount |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| A: August 1991 to August 1998 | | | | |
| Less than 10 per cent | 324 | 4.21 | 547.08 | 0.37 |
| 10 to 24.99 | 869 | 11.29 | 4,856.58 | 3.25 |
| 25 to 40 | 1,229 | 15.97 | 14,768.54 | 9.87 |
| 40.01 to 50 | 1,629 | 21.17 | 32,949.27 | 22.03 |
| 50.01 to 73.99 | 1,669 | 21.69 | 26,370.64 | 17.63 |
| 74 to 99.99 | 640 | 8.32 | 14,238.93 | 9.52 |
| 100 per cent | 1,334 | 17.35 | 55,839.60 | 37.33 |
| All Cases$ | 7,694 | 100.00 | 1,49,570.63 | 100.00 |
| B: 1981 to 1983 | | | | |
| Less than 10 | 6 | 2.19 | 1.11 | 0.51 |
| 10.0 to 25.0 | 70 | 25.55 | 24.95 | 11.45 |
| 25.0 to 40.0 | 160 | 58.39 | 168.31 | 77.22 |
| 40.0 to 50.0 | 9 | 3.28 | 10.65 | 4.89 |
| 50.0 to 74.0 | 22 | 8.03 | 11.20 | 5.14 |
| 74.0 to 99.99 | 5 | 1.82 | 0.38 | 0.17 |
| 100 | 2 | 0.73 | 1.35 | 0.62 |
| All Cases | 274 | 100.00 | 217.95 | 100.00 |

$ Excludes GDR Issues and cases for which information on foreign share/investment was not available.

Source: A: Generated from a database developed at the Institute using collaboration approvals reported in Indian Investment Centre, *Monthly Newsletter* and Ministry of Industry, *SIA Newsletter*, various issues.
B: [Goyal, et al., 1994].

**Table 3. Increasing Share of Foreign Subsidiaries in FC Approvals**

| Period | Total No. of Approvals | Of Which Foreign Ownership | | Percentage in Total | |
|---|---|---|---|---|---|
| | | Above 50 Per cent | 100 per cent Owned | Above 50 per cent | 100 per cent Owned |
| (1) | (2) | (3) | (4) | (5) | (6) |
| August 1991 to 1992 | 810 | 249 | 33 | 30.74 | 4.07 |
| 1993 to 1995 | 3,045 | 1,138 | 335 | 37.37 | 11.00 |
| 1996 to August 1998 | 3,839 | 2,256 | 966 | 58.77 | 25.16 |
| Total Since 1991 | 7,694 | 3,643 | 1,334 | 47.35 | 17.34 |

Note: Excludes GDRs and cases where foreign share or amount of investment were not available.

### *Industry-wise Pattern of Approvals*

FERA was enacted with multiple objectives in mind. In the scheme to permit higher equity share in high technology and export-oriented enterprises it was implied that FERA would help channelise foreign investments into priority areas. Even while retaining the basic concept of selectiveness, the post-July 1991 phase enlarged the scope for foreign investment. At the end of 1989-90, the manufacturing sector accounted for 85 per cent of the total FDI stock of Rs 2,705 crore

[RBI, 1993a, Pp. 1,031-51]. Plantations had a share of 9.5 per cent. Within the manufacturing sector, Chemicals & Allied Products stood at the top followed by Machinery & Machine Tools, and Electrical Goods & Machinery in that order. Liberalisation of industrial licensing in the form of freeing public sector reserved areas has been the single most important policy decision that influenced the sectoral pattern of FDI. It also appears that to generate a demonstrative effect, certain high profile collaborations like Coca-Cola had to be approved initially. With the emphasis on non-traditional exports and those hitherto treated as low-technology based industries, the change in industry composition of foreign investment was bound to take place. A major policy change in the new regime is with regard to drastic contraction in the public sector reserved areas, notably power and telecommunications.

Industrial policy changes, especially with regard to public sector led to a dramatic upsurge in approvals for new projects in power, oil and telecommunications. Nearly half of the total approved foreign capital was proposed in these sectors[10] (Table 4). If Iron & Steel and Air Transport are also taken into consideration, nearly half of the new investment proposals approved happen to be in areas formerly reserved for development in the public sector.

**Table 4. Shares of Different Sectors in Approved Foreign Direct Investment (August 1991 to August 1998)**

| Industry/Sector (1) | No. of Approvals (2) | Approved Investment (Rs. Cr.) (3) | Share in Total ( per cent) (4) |
|---|---|---|---|
| Power & Fuels | 339 | 54,103.93 | 31.20 |
| Telecommunications | 346 | 31,466.12 | 18.15 |
| Chemicals (other than Fertilizers) | 645 | 11,034.00 | 6.36 |
| Metallurgical Industries | 233 | 10,981.97 | 6.33 |
| Service Sector | 528 | 10,962.05 | 6.32 |
| Transportation Sector | 425 | 10,631.77 | 6.13 |
| Electrical Equipments (incl. Software) | 1,407 | 8,986.87 | 5.18 |
| Food Processing Industries | 546 | 8,132.39 | 4.69 |
| Hotel & Tourism | 212 | 3,488.61 | 2.01 |
| Textiles (include Dyed, Printed) | 417 | 2,764.04 | 1.59 |
| Paper & Pulp (incl. Paper Products) | 85 | 2,265.11 | 1.31 |
| Industrial Machinery | 413 | 1,931.02 | 1.11 |
| Fermentation Industries | 41 | 1,125.51 | 0.65 |
| Sugar | 6 | 1,000.75 | 0.58 |
| Others | 2,497 | 1,453.87 | 8.38 |
| Total | 8,140 | 1,73,413.31 | 100.00 |

Source: Based on data provided in Ministry of Industry, SIA Newsletter, September 1998.

During the initial two years of the adoption of the liberalisation package, fuel and power projects accounted for 40 per cent of the approved investments [Goyal et al., 1994]. But by 1996, telecommunications was at the top position with 23.55 per cent in total [SIA Newletter, 1996]. Next in importance is the `Service Sector'. However, since most of the investment in the telecommunications sector was directed at cellular mobile and basic phone services, this investment could as well be treated as a part of the services sector. If the service sector is regrouped taking into account the other service categories like Hotels & Tourism, the service sector would come to occupy the top position with as much as one-third share of the total investment. A regrouping in case of Food and Agro products brings its share to 6.33 per cent.[11] This sector is dominated by TNCs like Coca-Cola, Pepsi, Kellogg, Heinz and Seagram.

Industrial machinery accounted for 1.11 per cent only of the approved investment. The sectoral investments also includes increase due to enhanced foreign equity stake in the existing foreign controlled companies. In this background, new foreign investment leading to expansion of production capabilities in the machinery sector could be even lower. It has also been observed that the sector is not receiving much attention even in technical collaborations. Compared to the 1986-1990 period, the average number of approved technical collaborations declined by 5.95 per cent for the Industrial Machinery group and by 38.84 per cent for the Machine Tools sector during 1991-1995 [Murthy and Ranganathan, 1997, Pp. 3-9].

Due to the inclusion of GDR issues, official tabulations at times tend to be misleading. The attempt at adjusting the official sectoral totals for GDR approvals could not be carried further due to the vagueness in the product classification of some GDR issues as also to the non-standard nature of the official classification itself. If the industry distribution is adjusted for GDR approvals to the extent possible, the inter se ranking does not get affected in any significant manner within the top sectors.[12]

Discussion on foreign investments in India generally reflects the concern about their role in consumer goods industries. *The Economic Survey, 1996-97* placed the share of consumer goods sector at 15.31 per cent and that of capital goods and machinery at 13.14 per cent and that of core and infrastructure sectors at 49.13 per cent in the FDI approved during August 1991 to October 1996. However, while in relative terms the share of consumer goods industries may look to be small, in volume terms it is big enough to cause significant changes in the structure of many products. While food processing sector occupies the seventh position with less than six per cent share, the total approvals amount to Rs 7,500 crore of investment. Coca-Cola alone received approvals of nearly Rs 2,700 crore and approvals on account of Pepsi and its group companies work out to more than 1,000 crore. The changes that occurred in the Indian soft drink industry since liberalisation are of significant importance.[13] A number of consumer goods foreign companies are setting up holding companies in India. The approved foreign investment figures do not reflect the full potential of the investments involved in these approvals for influencing market structures. For instance, most of the takeovers, joint ventures and alliances of the Unilever group in India do not figure in the approved list: take over of Tata Oil Mills and its subsidiaries, Kwality ice cream, Kissan, Lakme and other enterprises does not get reflected in the size of new foreign investments. These were cases of Hindustan Lever (incl. the merged Brookebond Lipton) alone, which is a subsidiaries of Dutch-British Unilever. This holds true of many other existing large foreign controlled companies.

A point that remains very in-adequately debated is whether it is essential to relax the FDI policy with regard to consumer goods industries if the purpose of inviting FDI is to develop the core and infrastructure sectors with foreign participation. The character of infrastructure and service sectors is such that the foreign investors have to physically set up their operations in the country if they wish to extend their operations to the country. In contrast, in the manufacturing sector, be they consumer goods or others, the investor has the option of exporting to India instead of taking up local manufacture. Due to the rapidly falling trade barriers, this possibility has become more real. The possibility of treating the two broad spheres, namely, the manufacturing sector and others independently for policy purposes is obvious.

*Size-distribution of Approvals*

We have seen in the above that approved investment is concentrated in Power & Fuel and Telecommunications. These being heavy investment sectors, their share in the number of approvals is small compared to the share in the overall investment approvals. The two sectors together accounted for 685 approvals or a little more than 8 per cent of the total approvals. Understandably, this sectoral character of the approvals will have its reflection in the size distribution of investments as well. From Table 5, it can be seen that the proposals with Rs 500.00 crore and higher investment each were only 58 out of 7,694, i.e., less than 1 per cent. But these claimed 38 per cent of the approved investments. If the approvals in the Rs 100 -- 500 crore range are also included, 296 approvals accounted for more than 72 per cent of the total investment. At the other extreme are the projects in the less than Rs 1 cr. bracket, which, while constituting a little less than half of the approvals, accounted for less than 1 per cent of the total investment. The pattern of the approvals makes it clear that the success or failure of the expectations with regard to inflow of foreign investment would be determined by a limited number of large projects and their industry characteristics.

**Table 5. Distribution of FCs According to Size of Foreign Investment (August 1991 to August 1998)**

(Amount in Rs Crore)

| Investment Range (Rs Crore) (1) | No. of Approvals (2) | Amount Approved (3) | Per cent of Col. 2 (4) | Per cent of Col. 3 (5) |
|---|---|---|---|---|
| 0 to 1 cr. | 3,678 | 1,092.27 | 47.80 | 0.73 |
| 1 to 5 cr. | 2,074 | 4,770.43 | 26.96 | 3.19 |
| 5 to 25 cr. | 1,175 | 13,150.37 | 15.27 | 8.79 |
| 25 to 50 cr. | 288 | 10,141.58 | 3.74 | 6.78 |
| 50 to 100 cr. | 183 | 12,548.66 | 2.38 | 8.39 |
| 100 to 500 cr. | 238 | 50,886.13 | 3.09 | 34.02 |
| 500 cr. & above | 58 | 56,981.19 | 0.75 | 38.10 |
| All Cases | 7,694 | 1,49,570.63 | 100.00 | 100.00 |

Note: Excludes GDRs and cases where the investment figures and foreign shares are not available.

*Country-wise Distribution of Approvals*

Given the relative freedom now offered to foreign investors, one should expect that the sources of foreign investments would get further diversified. At the same time, since many large TNCs are based in the USA, the country may gain even a better foothold in India. At the end of 1989-90, US occupied the highest position with nearly half of the FDI stock. UK was in the second position with 19 per cent share followed by West Germany and Japan.[14] The four countries had a combined share of 83 per cent [RBI, 1993a]. As better or higher technology does not appear to be a special consideration for permitting new investments, one might witness a diversification of sources of investment. From Table 6 it can be seen that while USA stands at the top with a 27.48 per cent, share of the former top four countries (USA, UK, Germany and Japan) came down substantially to 44 per cent. Europe takes the second position with a 24.41 per cent share. In all, the developed countries account for two-thirds of the investment.

**Table 6. Sources of Approved FDI (August 1991 to August 1998)**

| Country/Group (1) | Amount (Rs Cr). (2) | Per cent Share in Total (3) |
|---|---|---|
| USA | 42,029.72 | 27.48 |
| Europe | 37,340.48 | 24.41 |
| - U.K. | 11,980.65 | 7.83 |
| - Germany | 6,460.80 | 4.22 |
| - Belgium | 3,904.68 | 2.55 |
| - Netherlands | 3,723.80 | 2.43 |
| - France | 3,337.42 | 2.18 |
| - Italy | 2,632.74 | 1.72 |
| - Switzerland | 2,362.18 | 1.54 |
| - Sweden | 1,420.25 | 0.93 |
| Other Developed Countries | 18,658.14 | 12.20 |
| - Japan | 7,213.34 | 4.72 |
| - Israel | 4,226.51 | 2.76 |
| - Australia | 3,336.88 | 2.18 |
| - Canada | 2,042.77 | 1.34 |
| - South Africa | 1,746.88 | 1.14 |
| South, East & South East Asia | 19,674.89 | 12.86 |
| - Korea (South) | 6,031.17 | 3.94 |
| - Malaysia | 5,443.56 | 3.56 |
| - Singapore | 2,987.98 | 1.95 |
| - Thailand | 2,451.82 | 1.60 |
| - Hongkong | 1,742.10 | 1.14 |
| Tax Shelters | 23,199.64 | 15.17 |
| - Mauritius | 17,940.94 | 11.73 |
| - Cayman Island | 3,621.37 | 2.37 |
| - Panama | 621.44 | 0.41 |
| - Bermuda | 506.37 | 0.33 |
| - Luxembourg | 239.54 | 0.16 |
| - Isle of Man | 156.97 | 0.10 |
| NRIs | 7,424.69 | 4.85 |
| West Asia | 2,703.88 | 1.77 |
| - Saudi Arabia | 672.58 | 0.44 |
| - U.A.E. | 638.54 | 0.42 |
| - Kuwait | 584.28 | 0.38 |
| - Oman | 569.72 | 0.37 |
| - Baharin | 122.57 | 0.08 |
| Erstwhile Socialist Bloc | 988.10 | 0.65 |
| - China | 685.05 | 0.45 |
| - Russia | 257.73 | 0.17 |
| - Slovakia | 0.13 | Negl. |
| - Byelorussia | 0.05 | Negl. |
| - Vietnam | 0.03 | Negl. |
| Latin America | 787.90 | 0.52 |
| - West Indies | 515.43 | 0.34 |
| - Mexico | 252.43 | 0.17 |
| - Argentina | 18.40 | 0.01 |
| - Jamaica | 1.00 | Negl. |
| - Brazil | 0.63 | Negl. |
| - Uruguay | 0.01 | Negl. |
| Africa | 147.89 | 0.10 |
| - Nigeria | 147.54 | 0.10 |
| Others | 2.05 | 0.00 |
| Total | 152,957.37 | 100.00 |
| Euro Issue (GDRs/FCCBs) | 18,748.83 | |
| Total | 173,508.31 | |

A notable feature of the country-wise distribution is that Korea took the lead over Japan which played an important role in the 'eighties. Next important category is that of South, East and South-East Asian countries led by South Korea. These countries contributed nearly 13 per cent to the approved investment representing diversification of sources of FDI. A surprising case is that of small countries led by Mauritius, which are known as tax havens or tax shelters.[15] Many of the investments routed through Mauritius can be traced to US companies. Similarly, some of the investments from Mauritius as also Switzerland were found to have NRI association. Notable among these are the Rs 600 crore investment by Parmars whose proposal was approved in the name of International Petroleum, Switzerland and a project with Rs 300 crore investment approval for Chatterjee Petrochem (Mauritius). This is in addition to the officially reported Rs 5,900 crore investment by other NRIs. In the past too, certain TNCs from advanced countries invested in India through their subsidiaries and associates in locations other than their home country. For instance, foreign equity in Nestle India was held from Bahamas Islands and in Pfizer it was from Panama though their respective parent companies belong to Switzerland and USA respectively [Goyal, 1979]. If these factors are taken into account, the share of USA and NRIs could turn out to be more substantial.

The substantial share of NRIs in the total investment approved may resemble the experience of China. A significant portion of the huge investment in China is reported to have been contributed, over the years, by people of Chinese origin. Does it happen to be the case in India too? It remains an open question for further enquiry.

*State-wise Location of New Foreign Investments*

States have been showing considerable interest in attracting foreign investments. In this context and in the context of wide inter-state disparities in industrialisation, location of projects with foreign investments has assumed significance. Given the nature of approvals, however, the available information has serious limitations in reflecting the actual amounts that are likely to flow to different states. If one goes by the official figures, Delhi will be receiving the maximum amount of foreign investment followed by Maharashtra (Table 7). More importantly, in about 30 per cent of the cases, location was not indicated at the time of the approval. These projects account for approximately one-third of the total investment. While Delhi stands at the top, it is obvious that most of the corresponding 458 projects will not be located in Delhi. Delhi, in all probability, must be representing the neighbouring states or the foreign investors might have used the services of local agents for communication and for doing the initial spadework. Depending upon the nature of the project the actual location could be somewhere else in the country. Also, in case of the services sector, location will not carry the same meaning and equal significance when compared to the manufacturing ventures. Incidentally, most of the approvals for Cellular and Basic Phone services carry Delhi, Bombay, Bangalore and Madras as the locations for these approvals. For all practical purposes Delhi should also be clubbed with the others (un-indicated) category. It, therefore, means that for almost half of the investment, the location is not known in advance. In view of the importance of a few large projects in the approved investment, even a couple of projects can make a large difference to a state's share. And if for any reason, the projects do not materialise, the share in actuals could slump significantly. For instance, in the case of Orissa, the number of approvals is quite small and its high position is mainly due to a few major projects.

### *Actual Inflows of Approved Investment*

While the investment approvals show a promising picture, at least in comparison to India's past experience, considerable anxiety is expressed in different quarters over the slow pace of inflows.[16] Given that the inflows do not start flowing immediately after the approval, one should expect a time lag between approvals and inflows, especially for large and long gestation projects. In these cases it is reasonable to assume that actual flows of capital would be gradual and vary with the project's progress. The number of approvals against which inflows have been recorded would, probably, give a better indication of the extent of likely implementation of approved foreign investment projects. This information is not, however, available. Official figures indicate that inflows constitute about one-fifth of the approvals [*Economic Survey*, 1999, p. 87].

**Table 7. State-wise Distribution of Approved Foreign Investment (August 1991 to January 1997)**

| State (1) | No. of Approvals (2) | Amount (Rs Cr.) (3) | Share in Total Investment (per cent) (4) |
|---|---|---|---|
| Delhi | 458 | 17,330.36 | 17.08 |
| Maharashtra | 832 | 12,676.39 | 12.49 |
| Karnataka | 434 | 5,493.90 | 5.41 |
| Tamil Nadu | 543 | 5,468.75 | 5.39 |
| Madhya Pradesh | 110 | 5,268.33 | 5.19 |
| West Bengal | 179 | 5,249.55 | 5.17 |
| Orissa | 49 | 3,790.79 | 3.73 |
| Gujarat | 251 | 3,762.54 | 3.71 |
| Andhra Pradesh | 295 | 2,511.27 | 2.47 |
| Uttar Pradesh | 219 | 2,444.52 | 2.41 |
| Haryana | 268 | 1,788.40 | 1.76 |
| Punjab | 66 | 821.20 | 0.81 |
| Rajasthan | 128 | 605.47 | 0.60 |
| Other States | 424 | 3,116.55 | 3.07 |
| Others (st ate not indicated) | 1,752 | 32,592.67 | 32.12 |
| Total | 5,814 | 1,01,494.02 | 100.00 |

Source: Based on Ministry of Industry, SIA Newsletter, February 1997.

Instead of the aggregate-level comparisons, a sector-wise comparison could give a better picture of inflows and project implementation. This is, however, possible if FDI inflow data is available for the industry groupings similar to the ones followed in the case of approvals. Unfortunately, RBI for some reasons, followed its own classification and level of aggregation. It is difficult to understand why investment figures are not being made available in a standardised format, which would enable meaningful comparisons. In spite of these problems of comparison, the fact that infrastructure sectors received very little investment becomes evident from the inflow data released by the RBI for the past four years (1994-95 to 1997-98). The top most position was occupied by Engineering (23.5 per cent) followed by Electronics & Electrical Equipments (13.7 per cent), Chemicals & Allied Products (11.5 per cent), Finance (10 per cent) and Services (7.4 per cent) (Table 8). Power, Fuel and Telecommunications do not figure in the details offered by RBI.

**Table 8. Industry-wise Inflow of Foreign Investment: 1994-95 to 1997-98**

| Industry/Sector (1) | Amount US $ Mn. (2) | Percentage in Total (3) |
|---|---|---|
| Engineering | 1,693.6 | 23.5 |
| Electronics & Electrical Equipment | 984.2 | 13.7 |
| Chemical & Allied Products | 829.0 | 11.5 |
| Finance | 732.6 | 10.2 |
| Services | 530.3 | 7.4 |
| Food & Dairy Products | 395.7 | 5.5 |
| Computers | 260.2 | 3.6 |
| Domestic Appliances | 183.8 | 2.6 |
| Pharmaceuticals | 146.3 | 2.0 |
| Others | 1,447.3 | 20.1 |
| Total | 7203.0 | 100.0 |

Note: Exclude inflows under the NRI direct investments route through the RBI.

Source: Reserve Bank of India, *Annual Reports* for 1996-97 and 1997-98.

Another way of looking at the inflows is by the country of origin. In a scenario of slow rate of inflows, knowledge of better project implementation by investors of certain countries may enable them to form more realistic future expectations. However, as noticed earlier, the increasingly important role played by tax shelters has further distorted the country distribution to such an extent that during the past three years, Mauritius reached the top position in inflows with a one-third share. USA was a distant second with a share of less than one-fifth! (Table 9).

Three factors should be noted in a discussion on inflows. *Firstly*, approvals have picked up significantly during the last two and a half years and account for two-thirds of the approved investment. *Secondly*, a few approvals (296) account for a substantial portion (72 per cent) of the total investment. And, *lastly*, industry composition is such that Power, Fuel and Telecommunications sectors dominate the approvals to a large extent. The policy formulation in respect of these sectors has been very slow. Some of these projects are also surrounded by national controversies. The Enron and Cogentrix are cases in point. Telecom sector witnessed a major scam. Slow pace of implementation of large infrastructure projects is thus a major reason for the poor rate of inflows.

**Table 9. Country-wise Inflows of FDI (1994-95 to 1997-98)**

| Country (1) | Inflow (Rs Cr.) (2) | Share in Total (per cent) (3) |
|---|---|---|
| Mauritius | 8,666 | 33.62 |
| USA | 4,700 | 18.23 |
| Germany | 1,595 | 6.19 |
| Korea | 1,561 | 6.05 |
| Japan | 1,453 | 5.64 |
| UK | 1,348 | 5.23 |
| Netherlands | 1,337 | 5.18 |
| Others | 5,212 | 19.86 |
| Total | 25,779 | 100.00 |

Note: Figures do not include NRI direct investment routed through RBI.

Source: RBI, Annual Reports 1996-97 and 1997-98.

On the other hand, implementation appears to be quick in consumer goods industries [Cheema, 1997].[17] The official approvals enabled many consumer goods TNCs to hike their shares reversing the impact of the FERA. This probably explains the near 50 per cent realisation of the approved investments within a year. Inflows during the year 1991 were reported to be Rs 351 crore out of the approved amount of Rs 739 crore. In some cases, TNCs preferred to follow the take-over route (especially in consumer goods) to make a quick entry or to consolidate their position in the Indian market. In a few cases, the take-over factor was hidden. For instance, Heinz started its operations by taking over the food business of Glaxo and Modi-RJR's foray into manufacturing was through the take-over of a small cigarette manufacturer in Andhra Pradesh. Certain existing units were transferred to new joint venture companies while the original Indian companies continue to exist. We shall discuss this aspect further in the section on take-overs. The implementation also appears quick if it implies getting the products manufactured by local units and the foreign company marketing them under its own brand names (e.g., Laboratories Garnier promoted by L' Oreal of France).

There is a view prevailing that the sluggish pace of capital inflows is largely due to the slow moving and hurdle creating bureaucracy and its failure to free itself from the old mind set. The fact, however, is that this view need not necessarily be relevant in *all the cases of delay*. The investors could also be responsible for the delays in a number of projects [RBI, 1985].[18] A long-term investment demands close study of the market. This is perhaps the reason that McDonald took almost five years to open its first outlet. Inability to decide on the local partners is yet another reason for delays or even abandonment in some cases. For instance, since 1991, BMW tried different partners but till now one is not sure whether the company will go ahead with the projects (motor cycles and passenger cars). Similarly, LG Electronics' attempt at joining hands with either RPG or Birlas did not meet with any success. Finally, it seems to have opted for a 100 per cent owned unit. This is also related to the foreign investors' perception of the Indian market. The continuing sluggishness of the economy can be expected to lead to delays or even abandonment of certain proposals. In certain cases, even though the product is available in the Indian market, the operations may have not have been set up fully. For instance, the automobile manufacturers' insistence on importing CKDs and SKDs (completely knocked down and semi knocked down) kits implies that full manufacturing operations have not yet been established. This may also imply that the companies might be keeping the escape routes open.[19]

Since project location is not always specified in a large number of cases location studies and negotiations with state governments for better terms might take time. One also suspects that in the initial period there was a strong possibility of inflating the investment figures by the foreign collaborators to ensure quick approval. Indeed, such a practice suited the government's strategy also as it wished to project large amount of FDI approvals as a measure of the success of its policies. Had sectoral policies preceded approvals, the rate of implementation could in all probability have been faster. Also, in cases where the Indian partners or state governments tried to protect the local interests (e.g., Indian Oil Corp in case of East Coast Refinery,[20] Madhya Pradesh government in case of diamond mining in the state,[21] Industrial Development Bank of India (IDBI) in the case of steel plant in Orissa,[22] Gujarat Government in the case of Parmar Refinery[23]) which resulted in delays, or even abandonment of a project, official machinery may not be faulted. When it comes to extracting the maximum out of the ventures for themselves, NRIs did not seem to lag behind others.[24] Tikoos and Balsaras are the other prominent NRIs apart from Hindujas and Pauls who promised large investments but delivered too little.

### *Take-overs and Implementation of FCs*

Significantly, in spite of the low level of capital inflows, the structure of many consumer goods industries has got altered in a substantial manner. In the liberalised policy environment, the Indian entrepreneur seems to have lost his bargaining power and well-known Indian brands have been taken over by TNCs providing them a ready market with lesser competition from local industry. The process is continuing. Take-overs have the additional implication that they do not add to new production capacities or employment opportunities.[25] On the contrary, these can add to the growing outflow of foreign exchange. A survey conducted by us in 1993-94 revealed that the major consideration of the Indian parties in entering into a collaboration agreement was to get superior technology. `Access to foreign funds' was way below in the ranking [Goyal, et al., 1994]. One implication of these observations is that had the official policy not been liberalised, the Indian promoter could have refused foreign stake taking advantage of the fact that the policy prohibited foreign investment in many areas. This may be understandable because for many small and medium projects, raising funds from the public was not a problem given the promising stock market. As we shall see in the following, in a number of companies with foreign equity, the relative significance of foreign investment was quite small.

The controversy over ICI's (UK) attempted entry into Asian Paints, its major competitor in India, brought into sharp focus the phenomena of TNC take-over of Indian companies. When Parle's brands were sold to Coca-Cola not much debate was generated. Similar was the case when TOMCO was taken over by Hindustan Lever. One reason for this could be that in the latter two cases, the Indian promoters withdrew on their own while in the former, the promoters resisted the TNC's entry. The fact, however, is that in many other cases the ownership of Indian companies changed hands affecting market structures significantly. In this process, probably what has not attracted much attention is the transfer of units as distinct from take-over or merger of a whole company (Table 10 for an illustrative list). This route was adopted

**Table 10. Illustrative List of Unit/Division Transfers to Joint Ventures**

| Unit to be Transferred/Transferred (1) | Remark (2) |
|---|---|
| Apar Lighting Division | Transferred to the joint venture GE-Apar Lighting Ltd. |
| Compressor unit of Kirloskar Brothers | Transferred to Kirloskar Copeland |
| Compressor units of SIEL and Kelvinator | Taken over by Tecumseh Venture |
| Engine Valves Division of Kirloskar Oil Engines | Proposed to be transferred to a JV with MWP, subsidiary of Mahle, Germany |
| Halol Plant of Hindustan Motors | Being used by the joint venture with General Motors. |
| Hinditron Equipments Mfg Co. Ltd. and Hinditron Computers Pvt Ltd. (certain assets and know-how) and all the shares of Hinditron Information Technologies Ltd. | Acquired by Digital Equipment (India) Ltd., a JV between Hinditron Group and Digital Equipment. |
| India Linoleum Unit of Birla Jute | Transferred to Birla DLW Ltd., a 50:50 JV with DLW of Germany |
| Kalyani Plant of Premier Automobiles Ltd. | Transferred to Pal-Peugeot Ltd., a JV with Peugeot, France |
| Kirloskar Filters Division of Kirloskar Oil Engines | To be transferred to a JV with Knecht of Germany |
| Kurla Plant of Premier Automobiles Ltd. | To be transferred to a JV with FIAT. |
| Luxor Pen manufacturing facilities | Transferred to Luxor Writing Instruments India Pvt Ltd. a joint venture with Gillette |
| Electric Metres Division of VXL Ltd. | Transferred to VXL Landys Gyr Ltd. |
| Motor Cycle Division of Escorts | Transferred to Escorts Yamaha Ltd. |
| Motor Cycle Engine Division of Hero Motors | Proposed to be hived off to a 50:50 joint venture with Rotax of Austria |
| Oral Care Divn. of Parle | Acquired by Gillette |
| Refrigerator Division of Godrej & Boyce Mfg. | Transferred to the JV, Godrej-GE Appliances (with General Electric, USA) |
| Speciality Chemicals Divn. of Max India | Transferred to Max Atotech a 50:50 JV between Max and Atotech BV |
| Stabiliser Bar Division of Jamna Auto | To be taken over by NHK Jai Suspensions Ltd., a new joint venture in which the Japanese company will hold 74 per cent share. |
| Sugar Machinery Division of KCP Ltd. | To FCB-KCP Ltd., a JV with FCB of France |
| Two and Three Wheeler tyre plant of Ceat | Transferred to South Asian Tyres Ltd. a JV with Goodyear, USA |

for entry into consumer durables and machinery sectors. For instance, after the transfer of two plants Premier Automobiles is a pale reflection of its original self, even though it might remain a company `owned by Indians'. In a broader sense, hike in foreign share and entry of the hundred per cent foreign-owned companies, setting up of parallel operations by TNCs and even crowding of the Indian market with foreign companies (with possible reduction in number and size of operations of locally owned companies) could also be interpreted as leading to diminishing role of Indian entrepreneurs and general investors and consolidation of TNC control over Indian markets. Similar is the case with alliances whereby the competitors are turned into allies (e.g., transfer of Lakme's brands to a 50:50 joint venture with the Levers) followed by the purchase of Lakme's stake in the joint venture.

Had the Indian partners not resisted the foreign companies' attempts at consolidating their position, more joint ventures would have passed in to the latter's hands. TVS-Suzuki, Hero-Honda and Godrej-GE Appliances are the cases in point. While Honda raised its stake in Kinetic Honda to 51 per cent, it could not achieve the same in Hero Honda. GE is on a spree to consolidate its position in its joint ventures. It has already received approval for converting GE-Elpro Medical Systems into a wholly-owned one by acquiring Elpro's 49 per cent stake. It is also reported that GE is increasing its share in its joint venture with IPCL. After initial resistance, Birlas seem to have yielded to the pressure from their Swedish partners to allow majority stake in VXL Landys Gyr. Birlas are also at the receiving end in Birla 3M and Birla Kent Taylor. Whirlpool took over TVS Whirlpool and Fuller Intl took over Fuller-KCP. Suzuki's attempts at gaining majority control over Maruti Udyog are well known.

Some other relevant cases are: Mercedes Benz getting approval for increasing its share to 76 per cent in its venture with Telco; Bridgestone planning to increase its stake to from 51 to 74 per cent in its joint venture with ACC; Bausch & Lomb increasing its share in the Indian venture to 69 per cent; and Henkel hiking its share to 70 per cent in Henkel Spic. It may be interesting to recall that Pepsi was started as a joint venture of Voltas, Punjab Agro Industries Corp and Pepsico, USA. The two Indian partners are nowhere in the picture now. Blue Star got edged out of Motorola Blue Star and Hewlett Packard India. Similar was the experience of Hinditron group in Hinditron Tektronix and Digital Equipment, and Shrirams in SRF Nippondenso. Shrirams' share also got reduced in Shriram Honda Power.[26] One reason for these developments is that some of the joint ventures were formed either through transfer of units and hence did not involve any cash investments by local partners or they were formed prior to 1991 when restrictions on foreign stake prevailed. If the Indian partners initially obtained shares in lieu of the transferred units, they may not be in a position to provide necessary funds for expansion or bring in additional money to sustain the venture if it runs into trouble. On the other hand, after gaining experience, the foreign partner may find the local partner to be dispensable. For a joint venture to be meaningful, both partners should have some strengths to offer to the venture.

At one level, the take-over phenomenon seems inevitable because the worldwide boom in foreign direct investment is fuelled by mergers and acquisitions. Indian experience probably should not come as a surprise since take-overs and privatisation are gaining importance as a form of capital flows. For instance, in USA, acquisitions represented 85 per cent of foreign investment in 1995 with new establishments contributing only 15 per cent [OECD, 1997, p. 21]. According to

UNCTAD, cross-border mergers and acquisitions involving majority control accounted for almost half of global FDI flows in 1996. For some of the developing countries FDI from privatisation was an important component of the total FDI received by them during 1970-95 -- forty per cent of total FDI in Eastern Europe and Central Asia and 21 per cent in the case of Latin America [Bouton and Sumlinkski, 1997]. This shows that FDI has been substituting local ownership. One might thus say that FDI inflows could have been probably faster for India if there was a greater degree of privatisation and freer take-overs.

Public attention gets attracted more to happenings in the consumer goods sector. The illustrative list of consumer product companies given in Table 11 might help in understanding the popular perception of TNC takeover of the markets.27 These cases illustrate the extent of new foreign entry in different consumer products. Visibility of TNC products increased in the market both through entry of new TNCs as also new brands/products introduced by the older ones.

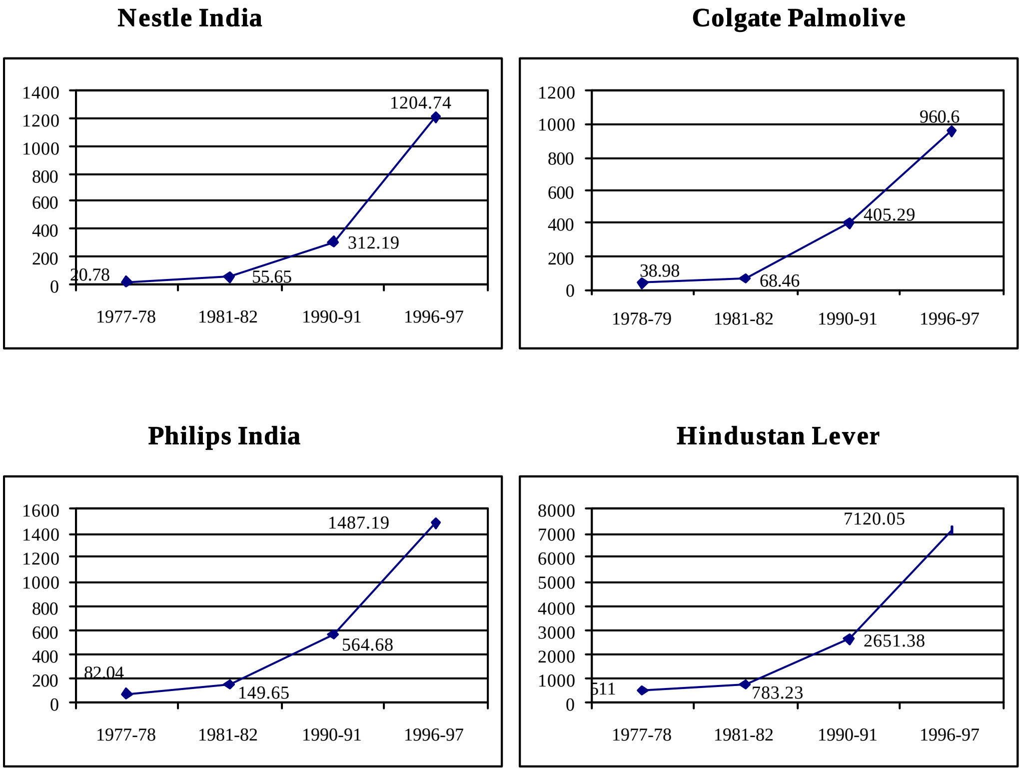
FERA, instead of being a hurdle to business expansion, operationally speaking, came handy for foreign corporations to obtain state patronage and access to institutional support that was denied to them as foreign subsidiaries. The removal of entry barriers in the post-SAP period has opened-up new opportunities for foreign corporations, most of whom already operate in India, to engage themselves in take-overs and mergers of Indian enterprises. The scope for such expansion did not exist with Chapter III of MRTPA being on the statute. Take-overs by existing foreign-controlled corporations is possible without any fresh capital being brought in from abroad. Table 12 shows the trends in the value of the turnover of the major consumer goods TNCs operating in India during the past two decades. (Also see Figure 2).

**Table 11. Illustrative List of Financial Collaborations for Consumer Goods Approved in the Post-Liberalisation Period$**

| | |
|---|---|
| *Consumer Electronics:* | |
| Akai | Other Food: |
| Grundig | Danone |
| LG Electronics | Heinz |
| National Panasonic | KFC |
| (Matsushita) | McDonald |
| Samsung | Pizza Hut |
| Shivaki | Quaker Oats |
| Sony | Dunken Donut |
| Thomson | Kandos |
| | Baskin Robbins |
| Automobiles: | Domestic Appliances: |
| BMW | Daewoo |
| Daewoo | Electrolux |
| Fiat | General Electric |
| Ford | LG Electronics |
| | Samsung |
| General Motors: | Whirlpool |
| Honda | |
| Hyundai | Garments: |
| Mercedes Benz | Benetton |
| Volkswagen | KB&T |
| Volvo | Lacoste |
| Yamaha | Levistrauss |
| | Mexx |
| | Pierre Cardin |
| Alcoholic Beverages: | Soft Drinks: |
| Bacardi Intl | Cadbury Schweppes |
| Brown & Foreman Corp | Coca-Cola |
| Douglas Laing | |
| Foster's Brewing Group | Cosmetics, Perfumes, etc. |
| Henninger-Brau | Avon Products |
| Hiram Walker | Baccarose |
| International Distillers | Cussons Group |
| Macdonald & Muir | L'Oreal |
| Seagram | Maxim Cosmetic |
| United Distillers | Nectar Overseas |
| White & Mackay | Revlon |
| Confectionery: | Miscellaneous: |
| Agrolimen | Black & Decker |
| Chuppa Chup | Gillette |
| Lotus Chocolate | Kimberley Clark |
| Mars | Reebok |
| Perfetti | Sara Lee |
| Van Melle | Timex |
| Wriggley | General Electric |

$ Excludes FCs for the existing foreign affiliates and subsidiaries.

**Figure 2. Showing Growth in Sales of Major TNCs: 1977-78 to 1996-97**




Based on data provided in *Bombay Stuck Exchange Official Directory*. Net sales of Hindustan Lever include sales of Lipton and Brook Bond for earlier years.

**Table 12. Showing the Increase in Turnover of Select TNCs (1977-78 to 1996-97)**

| Name of the Company | Net Sales at Current Prices (Rs Cr.) | | | Ratio of Sales | |
|---|---|---|---|---|---|
| | 1977-78 | 1990-91 | 1996-97 | 1996-97 over 1990-91 | 1996-97 over 1977-78 |
| (1) | (2) | (3) | (4) | (5) | (6) |
| Nestle India Ltd. | 21 | 312 | 1,205 | 3.86 | 57.94 |
| Colgate Palmolive (I) Ltd. | 39$ | 405 | 961 | 2.37 | 24.64 |
| Philips India Ltd. | 82 | 565 | 1,487 | 2.63 | 20.29 |
| ITCLtd. | 384 | 2,286 | 5,863 | 2.56 | 15.28 |
| Siemens Ltd. . . | 78 | 383 | 1,168 | 3.05 | 15.02 |
| Hindustan Lever Ltd.® | 511 | 2,651 | 7.120 | 2.68 | 13.93 |
| Glaxo India Ltd.# | 56 | 364 | 702 | 1.93 | 12.42 |

$ Data refers to 1978-79.
@ Figures prior to 1996-97 include sales of Lipton and Brooke Bond.
# Glaxo sold its food products division to Heinz India Pvt. Ltd., during 1994-95.
Source: S.K. Goyal, "Policy Processes', in Alternative Survey Group, *Alternative Economic Survey: 1991-1998*. 1998.

It is also observed that in this process, product monopolies are getting established, especially in the area of consumer goods and soft technology manufacturing. The cases in point are ice cream, soft drinks, soups, common salt, biscuits and the like. Since foreign corporations have world-wide experience at administering advertisement technologies, it is no surprise that within the last few years more than two-thirds of the national advertisement space is commanded by TNCs (Table 13 for a list of Top TNC advertisers). This is true of print as well as of the electronic mass media. The Indian commercial scene when judged in terms of advertisements appears as much under foreign influence as is true of the industrially advanced markets.

**Table 13. Showing Top TNCs Advertisers during 1997**

| Name of the Company (1) | Advertisement and Other Promotional Expenditure (Rs Cr.) (2) |
|---|---|
| Hindustan Lever Ltd. | 443.11 |
| ITC Ltd. | 172.60 |
| Colgate-Palmolive (India) Ltd. | 13.75 |
| Nestle India Ltd. | 79.89 |
| Pond's (India) Ltd. | 47.04 |
| Castrol India Ltd. | 42.87 |
| Philips India Ltd. | 41.49 |
| Reckitt & Colman of India Ltd. | 40.83 |
| Smith Kline Beecham Consumer Healthcare Ltd. | 31.91 |
| Cadbury India Ltd. | 29.62 |
| Britannia Industries Ltd. | 29.04 |
| Procter & Gamble India Ltd. | 25.64 |

The list is confined to Stock Exchange listed TNCs only.
Source: IDSS Corporate Database.

### *Export Prospects and FCs*

The earlier policy on foreign investments placed special emphasis on export promotion. Foreign companies (FCs) with their knowledge of international markets, established brand names, superior technology and product acceptance, close association with the consumers through world-wide subsidiaries and affiliates, were expected to be in a better position to promote host country exports. Indeed, a number of studies in India focused on this aspect of TNCs [Goyal, 1979; Kumar, 1994; Subrahmanian et al., 1978; Dijck and Chalapati Rao, 1994]. The general finding of these studies was that either foreign controlled companies were not significantly better export-oriented than Indian companies and/or that their operations have had a negative direct impact on the overall balance of payments. In certain cases, the apparent better performance was mainly due to trading (often in unrelated products). In a somewhat recent instance of this nature it was found that Coca-Cola's exports from India included green coffee, black pepper, white hulled sesame and granite [*Economic Times*, 1995]. The export baskets of large trading houses have many things in common: commodities, garments, leather products, handicrafts and marine products.

The present policy, however, places very little restriction on this count. In a sense, exports are now a voluntary activity. In an earlier study it was observed that during 1991-92 to 1995-96, export orientation of 100 largest TNC affiliates/subsidiaries in India increased marginally from 8.07 to 8.64 per cent while the import dependence (imports as a percentage of sales) nearly doubled from 6.86 per cent to 12.94 per cent. As a result, these companies turned net losers of foreign exchange: from a positive balance of Rs 270 crore to a deficit of Rs 1,600 crore. Another major factor that contributed significantly to this development was the steep increase in payments in foreign exchange for technology, dividends, travel, etc., from Rs 120 crore to almost Rs 500 crore [Goyal, 1997].

Given the composition of investments, with emphasis on infrastructure sectors, it is too early to say to what extent the other sectors will take advantage of the improved infrastructure and generate exports. To form some opinion in this respect, howsoever tentative, we made an attempt to analyse the export projections made by foreign collaboration projects during a year and a half (during 1996 and 1997). The projections are reported to the press but do not form part of the basic collaboration details reported regularly by the SIA and the Indian Investment Centre. We could procure a good number of the FIPB press releases for the period. The available releases cover an investment of Rs 25,000 crore and should, therefore, reasonably be representative of the recent position. From a study of the releases it emerges that the 1,239 approvals project total exports of the magnitude of Rs 52,335 crore over a five year period. We are conscious that since the approvals include large investments in infrastructure sectors, a comparison of investment and exports may not be fully justified. A comparison of number of projects may give a better idea of the future scenario. It was noticed that out of the 1,239 approvals, less than 400 projected any exports. However, even among these, as many as 164 anticipated exports are of less than Rs 5 crore per annum. Table 14 gives an illustrative list of FCs projecting exports of Rs 250 crore or more over a five year period. It is interesting to find that the very first case, KRC colour Monitor Tubes projects, exports worth more than Rs 16,000 crore. That this was not a printer's devil is confirmed by the fact that the corresponding press release gave the total projections at Rs 21,000 crore. The third largest projection was by Archana Telecom which is planning to set up a technology and resource park. The projected exports of Rs 1760 crore cannot obviously be on account of the company. The sectoral characteristics of the proposals and the amounts of export earnings projected reveal that textiles, trading and software companies stand at the top. Quite a few others are also in the computer software development. A number of textile units were approved under the 100 per cent EOU scheme.

Since these are only projections, one may not read much into these figures except drawing some broad conclusions that two-thirds of the projects do not have immediate plans for exports. The export areas and collaborators are such that in many cases these are not associated with large foreign investors. Some of them are NRIs. In some cases given the small size of the project, it is doubtful if the projected exports would materialise. It appears that there is no strong direct relationship between size of foreign investment and export projections. One implication of this is that if stepping up of exports is an important objective, foreign investment policy could be more selective.

### *FDI and the Indian Stock Market*

Implementation of FERA made it obligatory for branches of foreign companies operating in India to register themselves in India with foreign equity of not more than 40 per cent. Those already registered but having more than 40 per cent equity held abroad were also to bring down the foreign share to 40 per cent.[28] Equity dilution through issue of additional shares to Indians turned out to be the most popular way of diluting foreign equity. For instance, out of the 46 companies studied only seven diluted equity solely through disinvestment and in another four a part of the foreign share was divested but simultaneously fresh shares were issued [Chaudhuri, 1979, Pp. 734-44]. The FERA strategy of conserving foreign exchange through foreign equity dilution was flawed because dividend payments constituted only about 4 per cent of the total expenditure on foreign exchange by the foreign subsidiaries in India. Raw materials imports was the single largest item accounting for 85 per cent of the total foreign exchange outgo. It was, therefore, foreseen that the impact of equity dilution under the FERA ` could only be marginal, even if all the subsidiaries are forced to bring down their foreign equity to 40 per cent level [Goyal, 1979, Pp. 43-44]. Indian investors were

**Table 14. Illustrative List of Financial Collaboration Approvals Projecting more than Rs 250 Crore Exports each Over Five Years**

| Name of the Company (1) | Foreign Collaborator (2) | Product (3) | Month/Year Approved (4) | Foreign Equity (5) | 5-Year Exports (RsCr.) (6) |
|---|---|---|---|---|---|
| KRC Colour Monitor Tubes | Winny Electronic Enterprises. Taiwan | Colour Monitor Picture Tubes for Computer Monitors | Nov.96 | 70.00 | 16438.00 |
| South Asian Petrochem Ltd. | EMS Inventa Ag, Switzerland | Bottle Grade Polyester Chip | Sept. 96 | 41.25 | 3487.70 |
| Archana Telecom Services Ltd. | Universal Holding Ltd.. West Indies | For setting up of an internationally compatible technology and resource park at Bangalore | Jan. 97 | 97.98 | 1760.00 |
| | ED&F Man Netherlands BV, Netherlands | For setting up 100 per cent wholly owned subsidiary in India to conduct international trade in Sugar, Molasses Alcohol, Nuts and Spices, Cocoa and other de-regulated Goods | April 97 | 3.50 | 1102.50 |
| Tata Industries Ltd, and Tata Information Systems | IBM World Trade Corporation, USA | Providing Information Technology Services | May 97 | 72.00 | 806.40 |
| ST1 India Ltd. | Commonwealth Dev. Corporation, UK | Cotton Yarn, Polyester/Cotton Yarn, Cotton Knitted Fabrics | Feb. 97 | 9.71 | 733.93 |
| Klinkenberg India Pvt. Ltd. | E Klinkenberg BV, Netherlands | Export of Agro Produce viz., Cashew Kernels, Groundnut Kernels, Seasame Seeds, Walnuts, Spices (Black Pepper, Cardamom, Red Chilli, Cumin Seeds, etc.). Tea & Coffee | July 97 | 0.01 | 694.63 |
| Do | Sumitomo Corpn.. Japan | To establish wholly owned subsidiaries in field of general trading | Nov.96 | 14.00 | 654.50 |
| Kanbay Software (1) Lid. | Kanbay (Asia) Ltd., Mauritius | Computer software | Feb.97 | 5.32 | 593.50 |
| Gabriel India Ltd. | Arvin Exhaust Intl., Netherlands | For manufacture and sale of exhaust system/catalyst | Aug. 96 | 11.84 | 563.00 |
| Mandvi International Export | NRI | Basamati Rice | April 97 | 0.49 | 530.55 |
| TMT(I)Ltd. | Agro Advies Buro, Netherlands | Cut Flowers | Oct. 96 | 160.00 | 528.00 |

(Contd…)

**Table 14. (Contd.)**

| Name of the Company (1) | Foreign Collaborator (2) | Product (3) | Month/Year Approved (4) | Foreign Equity (5) | 5-Year Exports (RsCr.) (6) |
|---|---|---|---|---|---|
| Makharia Organics Ltd. | NRI | Manufacture of Para Nitroaniline, other Aniline Derivatives & their Salts, Ortho Chloro Paranitroanilines, etc. | Sept. 96 | 32.00 | 480.00 |
| Fabworth India Ltd. | NRI | All wool Worsted Fabrics | April 96 | 2.50 | 465.88 |
| Nortel Mauritius Ltd. | Nortel Mauritius Ltd. Mauritius | To Set up a Wholly Owned Subsidiary in India which will participate in the development of the Telecom Industry in India by bringing in its latest technology into India and sup. | Nov. 96 | 157.50 | 437.50 |
| Chemplast Sanrnar Ltd. | Euro issues, Euro issues | Issue of FCCBs to part finance an export oriented Textile Project | Aug.96 | 17.50 | 400.00 |
| Devarshi Cements Ltd | Enderlien Project Engg. Germany | Cement; Portland Clinker and Power (for captive consumption) | Feb.97 | 16.00 | 399.16 |
| Bondex India Ltd. | Kobe Steel Ltd. Japan | Manufacture and Marketing of Spun-bonded Non-woven Fabrics | Sept. 96 | 3.60 | 364.85 |
| KB+T Ltd. | Thakral Invest., Singapore | Men's Suitings | Nov.96 | 10.93 | 359.90 |
| Sriteeh Information Tech. | NRI | For the Manufacture of Professional Integrated Receiver Decoders | March 97 | 1.76 | 354.24 |
| Do | SHV Makro NV, Netherlands | To set up a Wholly Owned Subsidiary in India which would involve opening several whole sale stores in the main cities in India to introduce cash and carry distribution | Dec. 96 | 140.00 | 350.00 |
| | LG Electronics Inc., Korea (S) | To set up a 100 per cent Owned Subsidiary company in India for the manufacture, marketing and sale of electrical and electronic appliances such as Washing Machines, Refrigerators, Air Conditioners | Jan.97 | 204.75 | 350.00 |

(Contd…)

**Table 14. (Contd.)**

| Name of the Company (1) | Foreign Collaborator (2) | Product (3) | Month/Year Approved (4) | Foreign Equity (5) | 5-Year Exports (RsCr.) (6) |
|---|---|---|---|---|---|
| Incab Industries Ltd. | Leader Universal (Mauritius) Co., Mauritius | Manufacture of Power and Telecom cables involved in project engineering jobs on contract basis | Nov.96 | 16.00 | 348.22 |
| Manish Jain | Hanil Synthetic Fiber Co., Korea (S) | Acrylic blanket, cotton yarn, polyester cotton yarn, cotton acrylic yarn. wool acrylic yarn | Sept. 96 | 7.88 | 338.38 |
| S Kumars Synfabs Ltd. | Allied Textiles Machinery, UK | For manufacture of pure wool and wool/polyster/viscose blended fabrics | Sept. 96 | 5.00 | 330.29 |
| Texmaeo Ltd. | Howa Machinery Ltd.. Japan | For manufacture of advanced spin ning M/c | Sept. 96 | 10.20 | 307.00 |
| Dynamix Dairy Indus tries Ltd. ' | NRI Schreiber Interna tional Inc., NRI | To manufacture a full range of value-added dairy products, such as Lactose Casein Cheese Baby Food Mineral Salts Butter and Ghee | Jan. 96 | 7.56 | 300.00 |
| Associated Cement Co.s | Tele Quarz GMBH | Quartz Crystals of various specification | Nov. 96 | 19.11 | 288.87 |
| Marquip Asia Pacific Ltd., Mr. Senthil Kurnar | Marquip Asia Pacific Ltd. Mauritius | Paper-pulp/paper-board making machinery including cutting machines of all kinds | July 97 | 2.95 | 286.31 |
| Do | Intel Services Inc.. USA | To establish a wholly owned sub sidiary in India with two business organisations under two separate divisions | Feb. 97 | 42.00 | 283.50 |
| Baidyanath Enterprises Lid. | Yusung Co. Ltd. Korea (S) | Worsted wolen yarn | Oct. 96 | 1.79 | 282.65 |
| Rilspin Synthetics Ltd. | NRI | Polyester Viscose Blended Yarn | Sept. 96 | 12.00 | 280.00 |
| Kolhapur Steel Ltd. | Intl. Meehanite Meta. UK | Ductile Iron Pipe (100 Mm to 700 Mm ID) | Dec. 96 | 2.80 | 280.00 |
| Ace Tech India Pvt Ltd. | Nova Technology Inc. USA | Integrated Circuits | Nov.96 | 26.94 | 277.55 |
| Monnugao Maritina I.ld. | Marubeni Corpn.. Japan | To provide support services to water transport operation; mainte nance of pier loading | June 97 , | 5.40 | 266.05 |
| M Fabrikant & Sons | M. Fabrikam & Sons Inc. USA | Exports and domestic sales of loose diamond | Jan. 97 | 0.35 | 262.50 |
| Sarda Plywood Indus tries Ltd. | Polymer Group Inc., USA | For manufacture of Non-woven Fabrics | Sept. 96 | 43.75 | 254.63 |
| | Lottex Management Inc..Canada | For setting up a wholly owned sub sidiary in India which will estab lish and operate a manufacturing facility for computer terminals | Jan. 97 | 17.50 | 252.00 |

Based on official Press Releases released through Press Information Bureau of the Government of India.

attracted to FERA companies' public issues in a big way and the issues were oversubscribed many times. The prevailing capital issue guidelines ensured wide dispersal of shareholding after equity dilution. It was, therefore, suggested that the FERA proved to be a blessing for TNCs as they gained national acceptability not only with consumers but also with Indian government and policy makers *without any loss of freedom or control over their investments* [Goyal, 1979, Pp. 43-44]. Due to the entry of such companies with substantial foreign equity -- then popularly known as FERA companies -- foreign collaboration, especially participation in equity capital, was perceived as a qualification by the investors. FERA issues thus increased investors' awareness of the stock market as a medium of savings and thus helped mobilise resources.

Primary market is the main route through which new companies enter the stock market. A compilation of the public issues by unlisted companies during the post-liberalisation period may, therefore, provide leads for figuring out the future role of FDI in the stock market.[29] While rights and further issues by the already listed companies also form part of the primary market, we will not be considering these here because they do not reflect entry of new companies. For purpose of this exercise companies promoted/controlled by non-residents Indians (NRIs) are treated as a special category and have been kept out of the analysis.

**Table 15. Foreign Equity Participation in IPOs**

| Year | No. of IPOs | Total Equity of IPO Cos (Rs. Cr.) | No. of IPOs with Foreign Equity | Total Equity of IPO with Foreign Equity (Rs. Cr.) | Percentage of IPOs with Foreign Equity in | |
|---|---|---|---|---|---|---|
| | | | | | Numbers | Equity |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1991-92 | 146 | 1,117.71 | 21 | 215.93 | 14.38 | 19.32 |
| 1992-93 | 468 | 3,471.32 | 31 | 502.32 | 6.62 | 14.47 |
| 1993-94 | 681 | 5,196.16 | 50 | 601.38 | 7.43 | 11.57 |
| 1994-95 | 1,288 | 9,503.48 | 87 | 1,560.50 | 6.75 | 16.42 |
| 1995-96 | 1,399 | 7,735.70 | 53 | 703.34 | 3.78 | 9.09 |
| 1996-97 | 719 | 5,927.61 | 26 | 395.75 | 3.62 | 6.68 |
| Total | 4,804 | 33,937.42 | 268 | 3,979.22 | 5.58 | 11.73 |

Source: Generated on the basis of data available in *Prime Annual Report*, various issues.

Even though the number of initial public offers (IPOs) with foreign equity as also the amount of foreign equity increased somewhat till 1994-95, their share in the corresponding total was small. The overall share of IPOs with foreign equity is less than six per cent and the share declined gradually over the years except for 1993-94 (Table 15). The share in the risk capital is somewhat higher at about 12 per cent. The share in equity also declined over the period. Size-wise distribution of IPOs with foreign equity suggests that in two-thirds of the cases the total equity was relatively small at less than Rs 10 crore. The distribution of companies with foreign investment is more skewed with as many as 235 companies (88 per cent of the total) having foreign investment of Rs 5 crore or less (Table 16).

Since Rs 5 crore is equivalent to about US$ 1.5 million,[30] it can be seen that the level of foreign equity is extremely small in an overwhelming number of cases. Notwithstanding the small size of the investments in individual projects, the share of the foreign collaborator which indicates the extent of the risk shared by him and his involvement as also the contribution to the coming into being of the new project, which might not have been taken up in their absence, is also relevant in the present context. In this respect too, projects with substantial foreign shares (25 per cent or more for Foreign Controlled Company (FCCs)) constitute only one-fifth of the total. (Table 17) Out of the total 55, in 35 cases the foreign investment involved was not more than Rs 5 crore implying that during the period 1991-92 to 1996-97 only 20 FCCs with foreign equity of US$ 1.5 mn. or more entered the stock market.

**Table 16. Size-wise Distribution of Financial Collaborations in IPOs$ (Number of Companies)**

| Equity Range (Rs Cr.) (1) | Total Equity (2) | Foreign Equity (3) |
|---|---|---|
| Less than Rs 5 Cr. | 66 | 235 |
| 5 to 10 cr. | 112 | 17 |
| 10 to 25 cr. | 66 | 8 |
| 25 to 50 cr. | 9 | 6 |
| 50 Cr. & more | 15 | 2 |
| All Cases | 268 | 268 |

$ Only issues with foreign financial collaboration are analysed here. Excludes 14 cases for which foreign equity details are not available. The amounts involved in these issues were small.

**Table 17. Foreign Share-wise Distribution of IPOs**

| Foreign Share in Equity (per cent Range) (1) | No. of Issues (2) | Percentage in Total (3) |
|---|---|---|
| Less than 1 | 3 | 1.12 |
| 1 to 5 | 46 | 17.16 |
| 5 to 10 | 65 | 24.25 |
| 10 to 25 | 99 | 36.94 |
| 25 to 40 | 36 | 13.43 |
| 40 to 50 | 11 | 4.11 |
| 50 & above | 8 | 2.99 |
| All Cases | 268 | 100.00 |

From the foregoing it appears that FCCs are not prominent in the primary market in the post-liberalisation period. Slow pace of implementation of collaboration projects does not seem to be responsible for this phenomenon as the trends at setting up parallel - often wholly-owned - subsidiaries by large TNCs (Table 18), and increasing share of foreign majority cases indicate a general tendency to avoid the stock market. Compared to the pre-liberalisation period, the number of cases where majority foreign equity is sought and approved has increased substantially (Table 6). Many joint ventures (JVs) preferred 50:50 or 51:49 form or other combinations in which both the partners together hold 100 per cent ownership of the JV to the exclusion of ordinary Indian shareholders. These include the ventures of GE, IBM, General Motors, Daimler-Benz and Coca-Cola. The parallel operations of large TNCs are likely to have direct implications for the future growth of their listed affiliates.

**Table - 18. Illustrative List of TNCs having Listed Affiliates which Obtained Approval for Setting Up Wholly-owned Subsidiaries**

| |
|---|
| ABB |
| American Cyanamid |
| Astra |
| BASF |
| Bayer |
| Cadbury Schweppes |
| Ciba-Geigy |
| Coats Viyella |
| Ferodo |
| Groupe Danone |
| Hoechst |
| Hoffman La-Roche |
| Knoll |
| Merck |
| Monsanto |
| P&G |
| Phillip Morris |
| Sandoz |
| Sandvik |
| Smith Kline Beecham |
| Timex |
| Unilever |
| Warner Lambert |
| Xerox Corp |

As of now indications are that most of the major new ventures in the automobile sector do not have plans to offer shares to the Indian public.[31] An illustrative list of FCCs which have set up operations in the post-liberalisation period and which have not come to the public is given in Table 19. Indeed, the trend is in the reverse direction. An important case is that of Fuller International which has got delisted after the foreign shareholder acquired 100 per cent ownership of what was initially started as joint venture.In case of Tektronix India, the earlier attempt to delist is reported to have failed and the company was keen to buyback the public shareholding [*Financial Express*, 1997; *Business Standard*, 1998]. In Daewoo Motors local shareholders have already been marginalised. In Nalco Chemicals the foreign holding has reached 80 per cent [*Financial Express*, 1998].[32] Similar is the case with Carrier Aircon in which the foreign financial collaborator's stake reached 88 per cent [*Economic Times*, 1998]. Ricoh was reported to be planning to buy the entire shareholding of financial institutions and the public in Ricoh India. It already holds 76 per cent of the latter's equity [*Financial Express*, 1998].[33] The share buyback provision introduced in the Companies Act recently and the proposed buy out facility in the Companies Bill may enable larger number of FCCs to opt for delisting.

**Table 19. Illustrative List of TNCs which have set up Operations in India During the Post-liberalisation Period and had not Entered the Stock Market**

| Product Group (1) | Transnational Corporation (2) |
|---|---|
| Automobiles & Allied Products | General Motors, Ford, Mercedes Benz, Honda, Hyundai, Fiat, Toyota, Volvo, Yamaha, Cummins, Goodyear |
| Food & Beverages | Coca-Cola, Cadbury Schweppes, Kellogs, Heinz, Seagram, Hiram Walker, United Distillers, Perfetti, Wriggley, KFC, McDonald |
| White Goods, Consumer Electronics and Domestic Appliances | Daewoo, Samsung, Sony, General Electric, LG Electronics, Black & Decker, Kimberley Clark |
| Personal Care Products | Revlon, L'Oreal, Cussons, Unilever |

FDI is side-stepping stock market in yet another manner. Some of the FCCs in the pharmaceutical industry have attempted to sell-off the existing units and promote new Wholly Owned Subsidiaries (WOS) or to transfer certain divisions/products to wholly owned subsidiaries of the parent company. For example, Pfizer Ltd., is reported to be planning to sell 51 per cent of its stake in Duchem, a 100 per cent subsidiary, to its parent Pfizer Inc.[34] This is expected to help the foreign parent to garner a larger portion of the profits from the sales of Becosules vitamin pills, Pfizer Ltd.'s top brand. Becosules is reported to be among the highest-selling brands in the Indian pharmaceutical industry. Some of the wholly-owned subsidiaries (WOS) specify conducting R&D as one of their objectives. This implies that the local listed subsidiary may not come to `own' the outcome of the research.

### *Technical Collaborations*

The official policy emphasis during the nineties has been on attracting large amount of foreign investment. It is, therefore, not surprising that while the number of foreign investment approvals increased from 1,355 in 1995 to 1,559 in 1996, and further to 1,665 in 1997, the number of approved technical collaborations (TCs) gradually declined from 982 in 1995 to 660 in 1997 which is almost equal to the figure for 1991 (Table 1). The reported technical collaboration agreements are an underestimate because, a number of financial collaboration agreements are accompanied by payments for technology in the form of lump sum and/ or royalty payments. Such approvals can be classified as financial-cum-technical. On the other hand, filing of a formal collaboration agreement becomes necessary only when payments have to be made abroad. An examination of the technical collaboration approvals reveals that a significant number of these were in fact entered into by the very joint venture companies that were approved in the new policy period. A few others could also be traced to the older/earlier JVs. It was also noticed that some of the foreign companies that initially entered into only technology licensing agreements have later on acquired equity shares in such collaboration projects. In other words, a purely technology transfer arrangement was later converted into a financial collaboration.

If these factors are taken into account, the actual number of independent technical collaboration agreements in the new policy regime may turn out to be fewer than during the 'eighties. These observations tend to indicate the decreasing importance of arms-length transfer of technology which is giving way to technology transfer among affiliates. Technology may then remain closely held by foreign companies with little chance of further local development.

Some of the technical collaborations approved in the case of large TNCs shed doubts about the real purpose of the agreement as also the possible behaviour of TNC subsidiaries. Some of these collaborations involve companies which have been operating in the country for many years. For instance, there is a collaboration involving Nestle India and Nestec (a subsidiary of Nestle) for the manufacture of infant weaning food. What is noteworthy here is not that Nestle India is manufacturing infant food -- it has been doing that for a long time -- but the Indian subsidiary has been allowed to pay royalty (3.5 per cent on domestic sales, and 5 per cent on external sales) [Goyal et al., 1994]. Another interesting case is that of Colgate. The list of collaboration approvals shows five TCs and one FC against Colgate Palmolive USA. The financial collaboration was in respect of increasing the foreign equity from 40 to 51 per cent in Colgate Palmolive India. One of the TCs was to impart technology for the manufacture of toilet soaps to the Indian subsidiary. Out of the remaining four TCs involving royalty payments to the US company, at least three were for toothpaste. Incidentally, Colgate Palmolive (India) markets the toothpaste manufactured by at least three of the four Indian parties seeking technology from Colgate Palmolive USA [Goyal et al., 1994].

Thus, technology and brand names are so closely controlled by the foreign parent companies that the local subsidiaries in spite of producing the items for years cannot pass on the technology horizontally. The fact that companies with substantial foreign holdings are likely to continue to look towards their foreign parent companies and follow in their footsteps is evident from the following observations of Glaxo India Chairman:

> The parent company, Glaxo Holdings, had divested its milk based products more than a decade ago to concentrate on pharmaceuticals and had achieved great success. Therefore, *there was no support* for Family Products Division (FPD) either in products or in marketing from the parent. *For any subsidiary it is very risky to go out on a limb on its own.* (emphasis added) [Glaxo (India) Ltd., 1996].

Payment of royalties in case of fully owned subsidiaries was another point of debate. In certain cases the government allowed such payments with the hope of encouraging R&D by TNCs. But it leaves the question as to who would benefit from such R&D.

Technology import has significant direct costs associated with it. The main forms in which payments are made for imported technology are through pre-determined lump sum payments and royalties on sales. That the approved collaborations imply an increasing and large foreign exchange outgo is reflected in the figures given in Table 20. The lump sum payments for purchase of technology increased more than seven times during the period 1991 to 1995, far too rapidly compared to the increase in the number of collaborations. From Rs 980 crore in 1991, the approved payment increased to Rs 7,198 crore by 1995. To get a more realistic picture, one has to add the outgoings on account of royalties but this cannot be given here, as royalties are dependent on actual sales -- both domestic and exports.

**Table 20. Approved Lump Sum Payments (1981-1995)**

| Year (1) | Approved Lump Sum Payments (Rs Cr.) (2) |
|---|---|
| 1981 | 56 |
| 1982 | 142 |
| 1983 | 150 |
| 1984 | 300 |
| 1985 | 421 |
| 1986 | 588 |
| 1987 | 418 |
| 1988 | 584 |
| 1989 | 699 |
| 1990 | 574 |
| 1991 | 980 |
| 1992 | 2,281 |
| 1993 | 3,690 |
| 1994 | 2,300 |
| 1995 | 7,198 |

Source: [Murthy and Ranganathan, 1997, Pp. 3-9].

*Summing Up*

In the new era when the emphasis is on attracting a large amount of foreign investment, approvals for foreign direct investment marked a significant rise compared to the immediately preceding phase. The approval data reveals that while infrastructure sectors attracted maximum investment, consumer goods sectors also had an important place in the approvals. The broad category of services accounted for almost one-third of the total. The main factors behind the large approved amount appear to be the dereservation of public sector reserved areas, de-licensing, allowing larger share for foreign investors, and the general boom in global investment flows. The actual inflows while considerably small compared to approvals, many a time did not go into creation of immediate additional production capabilities. A good part of the new investment resulted in either consolidation of control by TNCs in their affiliates or in acquiring control over Indian companies or their operations.

The steep increase in the approved amount since 1995, especially during 1997, is a reflection of further relaxation in the official policy towards foreign investment. The logic and rationale behind FIPB approvals is not clear. How the terms were negotiated with the foreign collaborators is not public knowledge.[35] The larger amount seems to have been obtained by conceding control -- often absolute -- to foreign investors. In contrast, the experience on the technology import front indicates that the scope for independent transfer of technology has reduced drastically. One main implication is that purchasing technology on market terms may become increasingly difficult. In the liberal policy environment, the foreign investors are opting for sole or joint ventures to one time sale of technology. A corollary is that once foreign companies acquire control, their local affiliates may neither have the freedom nor the incentive to invest in R&D. They will continue to look towards their parent companies for technology improvements. Even if they conduct any R&D, it is difficult to visualise that the local subsidiaries will be given the right over their innovations. This will entail continuous outflow on account of royalties and lump sum payments. The trends on the technology acquisition front, therefore, warrant a careful review.

Size and sector-wise distribution of the approvals suggests that relatively small number of proposals falling under power, fuel and telecommunications sectors account for almost half of the approved investment. However, in view of the large investments and importance of the infrastructure sector, pricing would remain a crucial factor. Considerable sums can be siphoned-off both at the implementation stage and after the projects go onstream. Downward revision of cost estimates by power sector projects, in response to severe public criticism, suggests the need for a cautious and transparent approach in case of large projects. Besides dividends, in case of infrastructure projects foreign companies would focus on equipment imports, technology payments and long term fuel supply. Since the infrastructure ventures are generally majority/wholly foreign owned, dividends would have lesser significance compared to the long term assured flows to parents and affiliates on other heads. Hence, an approach that foreign investors should be best left to themselves since they bear the entire risk, may not be prudent.

Further, the high share of infrastructure and service sectors in approvals implies huge servicing burden as these (except a few like software) cannot generate direct foreign exchange earnings on their own. Indications are that the scope for substantial export earnings through new FDI is rather limited. It is, therefore, imperative that if only certain sectors are going to contribute to export earnings, such sectors can be dealt with on a different footing for attracting FDI. A point also arises whether it is essential to relax the FDI policy with regard to consumer goods industries if the purpose of inviting FDI is to develop core and infrastructure sectors. Infrastructure and service sectors are such that the foreign investors have to physically set up their operations in the country if they wish to extend their operations to the country. National policy may seek to exploit this compulsion to its advantage.

The fact is that FDI approvals in the post-liberalisation period are increasingly for setting up of subsidiaries. It may, therefore, be not surprising that very few companies with substantial foreign equity entered the stock market during the post-liberalisation period. This is in contrast to the post-FERA experience when many large and well-known FCCs came to be listed. Recent experience indicates that no major FCC is going to be listed on the Indian stock exchanges. FCCs may, therefore, remain outside the regulatory framework which listing requirements impose on the companies; local investors will be avoided from sharing the benefits which they might if large TNCs' shares are listed. The development of stock market may get affected adversely with large and well-known FCCs staying away from it and limiting the future growth prospects of listed affiliates.

The sector-wise distribution of approvals enabled the government to claim that FDI is coming into infrastructure sectors in a big way and to underplay its role in consumer goods sectors. Pattern of inflows, however, give a different picture with infrastructure not figuring prominently. Increasing dominance of foreign companies in consumer goods sectors is a reality. Take-over of Indian companies has been going on in a subtle and gradual manner. Take-over need not always reflect the weakness of Indian companies and brands.[36] The MRTP Act was rendered ineffective in the initial days of liberalisation and the need for setting up a watchdog for overseeing competition in the domestic industry has been ignored till recently.

The High Level Committee on Balance of Payments, in the initial stages of liberalisation, felt that:

(i) Our growth process is substantially determined by domestic savings and investment; foreign investment plays quantitatively very small but qualitatively a significant part (in terms of foreign trade, technology, competition inducements). The strategy, policy and procedures should reinforce the qualitative aspects;

(ii) Government policy towards direct foreign investments has to be discriminating. An open door policy is not likely to produce optimum results unless supported by checks and balances;

(iii) Government should maximise the benefits from the technology brought in by foreign investors. This can be done by identifying the thrust areas/sectors for foreign investments, and working out the linkages so that technology gets absorbed at the earliest; and

(iv) A National Investment Law should be seriously considered codifying the existing policy and practices relating to dividend repatriation, disinvestment, non-discrimination subject to conditions that may be specified, employment of foreign nationals, non-expropriation, and sanction and servicing of external commercial borrowings [RBI, Bulletin, 1993b, August, Pp. 1,139-80].

It is debatable if the experience of the past eight years matches these expectations of the Committee.

NOTES

1. Only five areas remain reserved for the public sector. There is notable revision regarding: generation and distribution of electricity; mining of metalic ores, gypsum, sulphur and diamonds; irons and steel; ship building; aircrafts and air transport, and telephones and telephone cables.

2. Industrial licensing is now confined to industries with `security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption'.

3. For instance, against the ruling market price of Rs 700 Colgate allotted shares to its parent company at Rs 60. The total amount gained by the parent company in the process was about Rs 720 crore. Similarly, in the case of Castrol, the corresponding figures were Rs 1,050, 110 and Rs 330 crore respectively.

4. For the sake of convenience, here after we shall refer to these as GDR issues.

5. UNCTAD defines foreign direct investment as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy ... in an enterprise resident in an economy other than that of the foreign direct investor ... Foreign direct investment implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy.

6. It is not possible to classify each FC approval as portfolio investment or otherwise.

7. The number of Indian subsidiaries of foreign companies came down from 202 in 1973 to 66 by March 1988. The number of foreign branches had reduced to nearly 300 by 1981 compared to 541 in 1972.

8. These companies could, however, retain full control over their Indian affiliates through restrictive clauses in the Articles of Association of the affiliates.

9. These results hold good even if one excludes cases involving equity hike.

10. Industry classification for individual approvals was not available. This restricts the possibility of cross-tabulations.

11. Also included are: Sugar (0.58 per cent); Fermentation Industries (0.65 per cent); Vegetable Oils and Vanaspati (0.11 per cent); Horticulture (0.07 per cent); Agriculture (0.07 per cent); and Floriculture (0.16 per cent).

12. The large GDR issues include: VSNL (Rs 2,625 crore) and SBI (Rs 1,750 crore).

13. Similarly, in the advertising sector, the approvals do not indicate any significant amounts - we could trace approvals for less than 15 crores - but it is well known that the sector is now dominated by foreign advertising agencies.

14. At the time of Independence three quarters of the foreign capital was owned by the British. For understanding the role of colonial rule by the British in this process, (see Kidron, 1965).

15. Indeed, even Singapore and Hong Kong are used for tax saving purposes. This might explain why some of the US TNCs and NRIs sought approvals through these countries.

16. It is reported that the government was planning to associate an American consultant with the foreign investment approval machinery to help improve the situation!

17. Based on a reply in the Parliament it was estimated that consumer Goods accounted for 28.5 per cent of the inflows till March 1996. In addition, automobiles accounted for another 7.1 per cent of the Rs 10,000 crore inflows recorded till that time.

18. Past experience also indicates that factors other than bureaucratic delays could seriously affect implementation of foreign collaboration approvals. For instance, during 1977-81 infructuous collaboration proposals formed 43 per cent of the effective agreements. Inability of the parties to agree on the terms of collaboration, failure of the collaborators to fulfil their commitments and emergence of unfavourable conditions such as imposition of emergency, financial stringency and raw material difficulties were the main reasons cited in this regard.

19. Even though, Sony has set up its operations in the country, its Managing Director said in an interview that `It will make sense to manufacture in India only if we make not less than half a million sets in India, which will take time' [Indian Express, 1997].

20. The points of contention were: (i) demand for higher share by Hindujas, (ii) tying up crude purchases with private promoters' group companies, and (iii) using the joint venture for marketing the products of private promoters.

21. De Beers, which was initially tipped to get the assignment, is known to market all the produce under their control through their London-based Central Selling Organisation for which they earn a commission. The company controls over 70 per cent of world rough diamond supply. They regulate supply of roughs and in the process are known to delay development of new mines and to cut back production. Russia has been having a tough time in arriving at an agreement with the group and has decided for open tenders for some of its mines.

22. Caparo group was unhappy with IDBI for not agreeing to the higher debt-equity ratio (3:1) suggested by them for financing the project.

23. Press reports (1993) on the project reflect the hollowness of the claims of the promoters.

24. For a few instances of unfavourable terms of collaborations involving NRIs, see (Goyal, et al., 1994). Indeed, one tends to be circumspect about the production buyback agreements and export commitments reported in issue prospectuses involving NRIs.

25. This, however, does not mean that the taken over companies would not get new technology and production capabilities in the future.

26. The problems in dealing with large TNCs are highlighted by a recent case. Dabur India entered into a joint venture agreement with Osem of Israel. Osem agreed to take up a minority stake of 40 per cent leaving the remaining to Dabur and also to allow the joint venture to make all the products manufactured by itself. In the meantime Osem was taken over by Nestle. Nestle was reported to be insisting for a majority stake in the joint venture (Excelsia Foods). (see Economic Times, 1997)

27. At one time Pepsi's entry into *bhujia* marketing was seen as stepping on the traditional Indian terrain. But when Nestle entered pickles and sweets (advertised heavily during the current festive season as *Mithai magic*) no adverse reaction was noticed probably because Nestle refrained from using Bandar *Mithai* or *Bengali* Sweets unlike Pepsi which called its product *Bikaneri Bhujia* after a place in Rajasthan famous for the item.

28. Higher levels of foreign shares were to be allowed depending upon the area of operation and export orientation. Foreign airlines and shipping companies were treated on a reciprocity basis.

29. *Prime Annual Reports* which are compiled by Praxis Consulting and Information Services Pvt. Ltd., are a major source of detailed data on the primary market.

30. This is based on an exchange rate of Rs 32 which prevailed for most part of the period under study.

31. Even though some of them have been set up as joint ventures of listed companies (which gives an option for the local investors to indirectly take advantage of the benefit), the listed companies have been gradually losing control over the JVs.

32. On being asked by the shareholders, the chairman of the company clarified that `(T)here is no proposal at present to delist our securities'.

33. This report was, however, contradicted by the company management later on.

34. It was expected that the approval for a 100 per cent subsidiary by Pfizer would hit the share price of Pfizer India [*Financial Express*, 1999a and 1999b].

35. Nor are the reporting systems streamlined.

36. A case which seems to have important ramifications is the reported move of Novartis to take over Althrocin, the main brand of Alembic Chemicals and also the second-highest selling brand in the country. This case, coupled with Coca-cola's failure to `kill' Thums-Up, indicates that it is not the weakness of the product/brand per se but the Indian entreprenueir's fear that he may not survive in the new environment and the lure of large money which are responsible for handing over their companies/brands to foreign companies.

## ABBREVIATIONS

| | |
|---|---|
| FCC | Foreign Collaboration Company |
| FCs | Financial Collaborations |
| FDI | Foreign Direct Investment |
| FERA | Foreign Exchange Regulation Act, 1973 |
| FIPB | Foreign Investment Promotion Board |
| GDR | Global/American Depository Receipts |
| IDBI | Industrial Development Bank of India |
| IDRA | Industries (Development and Regulation) Act, 1951. |
| IPO | Initial Public Offer |
| MRTPA | Monopolies and Restrictive Trade Practices Act, 1969 |
| NRI | Non-resident Indian |
| PMP | Phased Manufacturing Programme |
| RBI | Reserve Bank of India |
| SAP | Structural Adjustment Programme |
| SIA | Secretariat for Industrial Assistance |
| TC | Technical Collaborations |
| TNC | Transnational Corporation |
| UNCTAD | United Nations Conference on Trade and Development |
| UNCTC | United Nations Centre on Transnational Corporations |
| WOS | Wholly Owned Subsidiary |

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