CHAPTER II
GLOBALISATION OF INDIAN INDUSTRIES
IN DIFFERENT PHASES

Introduction:

For the purpose of analyzing the impact of globalisation on Indian industries, there is a need for knowing the meaning, the methods of globalisation and the different policy changes that have taken place in the areas like
1. Policy of the Government towards foreign capital
2. The trends in terms of number of approvals as well as actual inflows.
3. The different methods through which the foreign capital is allowed into India.
4. The different types of collaboration agreements like technical collaboration and financial collaboration, which have become necessary.

Hence this part attempts to review the literature under these categories.

Meaning

Globalisation is a process, which involves economic interdependence of countries worldwide removing all barriers for economic integration as if the whole world were a single village.

Methods of globalisation

Globalisation is considered as an important element in the reform package. It has four components: i) Reduction of trade barriers so as to permit free flow of goods across national frontiers; ii) Creation of an environment in which free flow of capital can take place among nations, iii) Creation of environment, permitting free flow of technology; and iv) lastly, from the point of view of the developing countries, creation of an
environment in which free movement of labor can take place in different countries of the world.

2.1 Government's policy towards foreign capital

2.1.1 First Phase (1948 - 1967)

From the date of independence, the pressure for economic development in India has been immense necessitating a realistic approach towards foreign capital. The industrial policy resolution of 1948 as well as the Honorable Prime Minister Pandit Jawaharlal Nehru's statement on foreign capital acknowledged the need for foreign capital to supplement the domestic savings in financing higher level of investments. The scope of import substitution extended to almost every commodity that could be manufactured in the country. The domestic industry was given a considerable protection in the form of high tariffs and quantitative restrictions on imports. Indian industrial strategy focused on the development of local capability in heavy industries including machinery and manufacturing sectors.

During this period foreign investments were in the form of technical collaboration and hence the import of technical know-how and the technocrats was mainly considered in supplementing Indian capital and for securing scientific, technical and industrial knowledge and capital equipments. It was encouraged on mutually advantageous terms though the majority local ownership was preferred. Foreign investors were assured of no restrictions on the remittance of profits.

The foreign exchange crisis of 1957-58 led to further globalisation in the Government's attitude towards FDI. In a bid to attract foreign investments to finance foreign exchange components of projects, a host of incentives and concessions were
extended. In 1961, the Government issued a list of industries where foreign investments were to be welcomed. These included some of the industries reserved for the public sector, such as drugs and aluminum. The protection given to local manufacturers acted as an important advantage encouraging market-seeking FDI’s. A large number of foreign enterprises serving Indian market through exports started establishing manufacturing affiliates in India. This was the period in which MNCs started showing real interest in India. Because of this, in 1948 and 1964 the flow of FDI into India was more than doubled.

2.1.2 Second Phase (1968 - 79)

Towards the end of the third Annual Plan in the late sixties, there was an acute pressure on the external payments. Conservation of foreign exchange had become an objective of its policy. Accordingly, a restrictive regime was imposed leading to the culmination in the enactment of the Foreign Exchange Regulation Act (FERA) 1973. This policy brought in a highly regulated policy with regard to the management of foreign capital. As per section 29 of the FERA, all branches of foreign companies and joint stock companies in India in which non-resident interest was more than 40 percent had to obtain fresh permission to carry on business and comply with Reserve Bank of India directives on foreign participation in the capital structure, borrowings, foreign exchange payments due to repatriation of capital, etc. Further, a process of Indianisation was introduced in which these companies were required to dilute their non-resident shareholdings to the levels prescribed by the Reserve Bank, which was generally at 40 percent within two years. However, companies involved in export and/or manufacturing activities involving sophisticated technology and skills were exempted from this dilution
clause. These companies were allowed foreign share holding upto 74 percent. During the seventies, further tightening of the regulatory regime was reflected in the Janatha Government's Industrial Policy Statement 1977, prohibiting foreign collaboration in certain industries, since it was perceived that Indigenous Technology in these industries had sufficiently developed.

The Janatha Government's Industrial Policy Statement compelled the provisions of FERA to be rigorously enforced in the consumer goods industries. The foreign firms were asked to carry forward the process of Indianisation. Their production capacities were also to be frozen at the existing levels.

During the two years of the Janatha Governments rule, two major decisions regarding multinational companies were taken and were advertised heavily. First, the Coca-Cola Company was asked to wind-up its operations. Secondly, the government asked the International Business Machines (IBM) to dilute their equity to 40 percent so as to conform to FERA guidelines. Since the IBM did not agree, it was also asked to role back its operations in India.

The restrictions placed on FDI during the second phase led to a stagnation of its inflows. A massive reorganisation took place in the pattern of FDI in the country during this period e.g. liquidation in FDI stock in non-manufacturing sector largely due to takeovers by the government of certain activities of General Insurance companies in 1971 and of Petroleum sector between 1974-1976.

On the other hand, all fresh inflows of the FDI were directed to the manufacturing sectors. As a result, the share of the FDI in the manufacturing sector went upto 40.5 percent in 1964 and upto 86.9 percent in 1980. Within the manufacturing sector,
maximum amount of FDI inflows was directed to technology-oriented industries such as pharmaceuticals and chemicals, machinery and machine tools and electrical goods. These three sectors accounted for nearly 58 percent of total FDI into India in manufacturing units in contrast to 41 percent in 1964. The FDI gave importance to technology-intensive products at the expense of traditional consumer's goods industries such as food and beverages, textiles and other chemical products.

2.1.3 Third Phase (1980 - 1990)

Towards the end of the seventies, India's failure to boost the volume and proportion of its exports in the background of the second oil price hike began to worry the policy makers and led to the realization that international competitiveness of Indian goods has suffered from growing technological obsolescence and inferior quality, limited range and high cost, due to the protected local market. Another limiting factor for Indian manufacturing exports was, that the marketing channels in the industrialized countries were dominated by MNCs.

The realisation of these factors made the Government to deal with the situation by:

1. Putting emphasis on the modernization of plants and equipments through liberalized imports of capital goods and technology.

2. Exposing the Indian industry to competition by gradually reducing the import restriction and tariffs.

3. Assigning a greater role to MNCs in the promotion of manufactured exports by encouraging them to set up export-oriented units.

This strategy has been reflected in policy announcements made in the 1980s. The industrial policy statement of 1980 and 1982, for instance, announced a globalisation of
industrial licensing approvals, a host of incentives and exemptions from foreign equity restrictions under FERA to 100% export-oriented units. The Government of India decided to set up four more Export Processing Zones (EPZs) in addition to the two existing ones, to attract MNCs to set up export oriented units. The trade policies in this period gradually liberalized the import of raw materials and capital goods by expanding the list of items on open general license (OGL). Tariffs on import of capital goods were also slashed. Import of designs and drawings and capital goods were permitted under a liberalized technical development scheme.

The globalised industrial and trade policies were accompanied by increasingly receptive attitude towards FDI and foreign collaborations. The rules concerning payment of royalties and lump sum technical fees were also relaxed. A degree of flexibility was introduced in the policy concerning foreign equity participation and exceptions from the general ceiling. Forty percent of foreign equity was allowed on the merits of individual investment proposals. The procedure for onward remittances of royalty, technical fees, dividends etc, was streamlined. A fast channel was set up in 1988 for expediting the clearances of FDI proposals from major investing countries like Japan, US and UK. The focus of the policies during this period was on strengthening the international competitiveness of Indian enterprises by exposing them to increased international and domestic competition.


In the financial year 1990 – 91, India entered into a period of severe Balance of Payments (BOP) crisis and political uncertainty. A rapid increase in India’s external debts coupled with the political uncertainties led the international credit rating agencies to
lower India's rating both for short and long-term borrowings. This made the borrowing in international commercial markets difficult for India and also led to outflow of foreign currency deposits kept in India by the NRIs. This situation was made worse by the Gulf War, as it led to rise in petroleum prices and caused virtual stoppage of remittances from Indian workers in Gulf countries.

These incidents brought the country almost to the verge of default in respect of external payments liability, which could only be averted by borrowing from IMF under standby arrangement and certain emergency measures taken by the government to restrict imports. In June 1991, the new government initiated a programme of macro-economic stabilization measures and structural adjustments supported by the IMF and the World Bank. As part of this programme, a New Industrial Policy (NIP) was announced on 24th July 1991 in the parliament, which started the process of full-scale globalisation and intensified the process of integration of Indian Economy with the global economy.

The NIP and other policy initiatives liberalized the industrial policy regime in the country with reference to foreign investments beyond recognition. Some of the changes that were initiated during this period were as follows:

1. Abolition of the industrial approval system in all the industries except for 18 strategic or environmentally sensitive industries

2. FDI proposals need not necessarily, have to be accompanied by technology transfer agreement.

3. Trading companies engaged primarily in export activities were also allowed upto 51 percent foreign equity.
4. To attract MNCs into the energy sector, 100 percent foreign equity was also permitted in power generation.

5. A new package for 100 percent export-oriented units and companies in export processing zones was announced.

6. A Foreign Investment Promotion Board (FIBS) authorized to provide a single window clearance board had been setup in the Prime Minister’s office to invite and facilitate investments in India by international companies.

7. The existing companies are also allowed to raise foreign equity levels up to 51 percent for proposed expansion in priority industries.

8. New businesses in the fields like mining, banking, telecommunication, highways constructions and management were thrown open to private, including foreign owned companies.

After the announcement of Industrial Policy Resolution 1991, investments in shares of foreign companies were permitted up to 51 percent for automatic approvals and this limit was raised to 74 percent in January 1997 in case of foreign investors and 100 percent in case of NRI. The government also permitted 100 percent foreign equity in high technologies and export-oriented foreign companies.

2.2 Trends in the Foreign Direct Investments (FDI)

From independence to till date, the trends and patterns in FDI have been observed in four distinct phases as follows:

1. The period from independence to 1966 was marked by a gradual globalisation attitude.
2. The period from 1967 to 1980 was characterized by protecting the domestic base of created assets.

3. The period from 1980 to 1990 was marked by cautious deregulations.

4. Since 1991 to the current year there has been full-scale globalisation and integration with the world economy.

Since the data on the number of approvals was not available, for the first phase, the analysis of trends begins from 1956. In the case of analysis of actual inflows, the period for phase I begin with the year 1955, as the data is available only from that year. The data on approvals for foreign investments distinctly reflect the changing policy stance over the years and it is collected and presented in Table II.1 and portrayed in Figure II.1. Phase I was characterised by a lower number of approvals. In phase II the position of approvals was more or less the same. The next phase was marked by a substantial recovery in response to the easing of restrictions on foreign investment inflows. The last phase signified a spurt in the approvals consequent to the initiation of reforms.

**TABLE II.1**

**THE NUMBER OF APPROVALS FOR FDI IN DIFFERENT PHASES**

<table>
<thead>
<tr>
<th>Year</th>
<th>Phases</th>
<th>No. of Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-1966</td>
<td>Phase I</td>
<td>240</td>
</tr>
<tr>
<td>1966-1979</td>
<td>Phase II</td>
<td>241</td>
</tr>
<tr>
<td>1979-1991</td>
<td>Phase III</td>
<td>724</td>
</tr>
<tr>
<td>1991-1998</td>
<td>Phase IV</td>
<td>5791</td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of India Annual reports*
FIGURE II.1
GROWTH IN THE NUMBER OF ANNUAL FOREIGN COLLABORATION APPROVALS

Table II.2 shows the inflow of FDI in different phases. From table it is evident that the inflow was very low during the first two phases. It showed a marginal increase during the third phase. But during the fourth phase which was after after globalisation the inflow in FDI increased tremendously.

TABLE II.2

INFLOW OF FDI IN DIFFERENT PHASES
(Rs in crores)

<table>
<thead>
<tr>
<th>Period</th>
<th>Phase</th>
<th>Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-1966</td>
<td>I</td>
<td>244</td>
</tr>
<tr>
<td>1966-1979</td>
<td>II</td>
<td>311</td>
</tr>
<tr>
<td>1979-1991</td>
<td>III</td>
<td>3588</td>
</tr>
<tr>
<td>1991-2002</td>
<td>IV</td>
<td>21726</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India Annual reports

31
2.2.1 Direct investment and portfolio investments

After the announcement of the New Industrial Policy (1991), there had been acceleration in the flow of foreign capital into India. As per the data provided in the Government of India, Economic Survey (2002-2003) for the period from 1991-1992 to 2000-2001, the total foreign investment flows were of the order of $45 billion, out of which about $21.7 billion (48.3%) were in the form of foreign direct investments and the remaining $23.3 billion (51.7%) were in the form of portfolio investments. This clearly shows that the foreign firms were more in favour of portfolio investments and less in favour of direct investments. Moreover, out of the total direct foreign investments of $21.7 billion, about $2.6 billion was contributed by non-resident Indians. Thus, the net contributions of foreign firms in direct investment was only less than 43 percent of total foreign investments. It is shown in Table II 3.
The analysis of the table reveals, that both FDI and also the portfolio investments were increasing, but with some fluctuations. The direct investments were growing from US $ 129 million in the year 1991-92 to US $ 3,904 million in the year 2001-02. Thus, out of the US $ 44,999 million of total investments during the period 1991 to 2002, direct investments contributed 100.0% of the total investments.
investments contributed to US $ 21,726 million (48.3%). Where as the portfolio investments were ranging from US $ 4 million in the year 1991-92 to US $ 2,021 million in the year 2001-02 totaling to US $ 23,273 million during the whole period constituting to 51.7 percent. This evidences that the foreign investors slightly prefer more of portfolio management than the FDIs.

2.2.3 Collaborations

In the liberalized period, foreign collaborations involving: i) technical approvals for payment of technology and ii) financial approvals for equity capital of an existing or new undertaking were also entertained. In the new policy, for dispensations upto Rs 600 crores, the Industry Ministry accords approval on the advice of Foreign Investment Promotion Board (FIPB), whereas the Cabinet Committee on Foreign Investment (CCFI) approves larger projects over this limit. The trends in the growth of technical financial approvals in the globalised environment are presented in Table II.4 for the purpose of analysis.

i) Financial collaborations were just 20.1 percent during 1981-85. The share improved to 28.8 percent during 1985-90 and rose sharply to 65.4 percent in 1997-98.

ii) The amount of approved investments also increased sharply from Rs.899 crores in the years from 1985-90 to Rs.1,73,510 crores in the years 1991-98.
### TABLE II.4
THE TRENDS IN THE GROWTH OF FINANCIAL, TECHNICAL COLLABORATIONS APPROVALS

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of collaborations approved</th>
<th>% share of financial collaborations</th>
<th>% share of technical collaborations</th>
<th>Investments approved</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial</td>
<td>Technical</td>
<td>Total</td>
<td>Financial</td>
</tr>
<tr>
<td>1981-85</td>
<td>688</td>
<td>2,740</td>
<td>3,428</td>
<td>20.1</td>
</tr>
<tr>
<td>1985-90</td>
<td>1,154</td>
<td>2,853</td>
<td>4,007</td>
<td>28.8</td>
</tr>
<tr>
<td>1990-91</td>
<td>289</td>
<td>661</td>
<td>950</td>
<td>30.4</td>
</tr>
<tr>
<td>1991-92</td>
<td>692</td>
<td>828</td>
<td>1,520</td>
<td>45.5</td>
</tr>
<tr>
<td>1992-93</td>
<td>785</td>
<td>691</td>
<td>1,476</td>
<td>53.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>1,062</td>
<td>792</td>
<td>1,854</td>
<td>57.3</td>
</tr>
<tr>
<td>1994-95</td>
<td>1,355</td>
<td>982</td>
<td>2,337</td>
<td>58</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,559</td>
<td>744</td>
<td>2,303</td>
<td>67.7</td>
</tr>
<tr>
<td>1996-97</td>
<td>1,665</td>
<td>660</td>
<td>2,325</td>
<td>71.6</td>
</tr>
<tr>
<td>1997-98</td>
<td>820</td>
<td>433</td>
<td>1,253</td>
<td>65.4</td>
</tr>
<tr>
<td>1991-98</td>
<td>8,227</td>
<td>5,791</td>
<td>14,018</td>
<td>58.7</td>
</tr>
<tr>
<td>1981-91</td>
<td>1,842</td>
<td>5,593</td>
<td>7,435</td>
<td>24.45</td>
</tr>
<tr>
<td>1992-98</td>
<td>7,938</td>
<td>5,130</td>
<td>13,068</td>
<td>418.70</td>
</tr>
</tbody>
</table>

Source: Handbook of Industrial Statistics, Ministry of Industry

The analysis of the percentage shares of the financial and technical collaboration approvals reveals that there is a shift in favour of the financial collaboration than the technical collaboration approvals in the post-globalisation period. However, the government has been successful in attracting more foreign investments in the post-globalisation period when compared to the earlier period. To evaluate the impact of globalisation process in the Indian industries, apart from discussing the background phases and the process of globalisation, the researcher has also attempted to review the research works carried out in this area to see the directions and or gaps if any in this field.
2.3 REVIEW OF LITERATURE

Introduction:

To have a better understanding about the impact of globalisation on Indian industries taking the pharmaceutical industry as a sample, a review of the different studies carried out in different dimensions are essential. The review shows that the earlier researches have been in the categories like, 1. Studies on pharmaceutical industries 2. Studies on MNCs 3. Comparison between MNCs and domestic companies and 4. Studies on Foreign Investment in India.

2.3.1 Studies in Pharmaceutical Industry

1. Mohinder N. Kavra and C.S. Balasubramanian (1982) studied about the interfirm comparison of financial performance of selected drugs and pharmaceutical companies in India. His study also dealt with liquidity, profitability and financial structure showed the presence of a mixed trend of performance. An oscillating trend of profitability affected the liquidity. Drug units faced under-utilisation of capacity because of lack of proper information system for anticipating shortages of raw materials and packaging material.

2. Singh (1992) compared indigenous and foreign owned firms in the pharmaceutical industry and analysed the profitability on import and export intensity and found that the foreign owned firms in general performed better than indigenous firms. Among the foreign owned firms, the firms with majority foreign ownership have fared well when compared with those with minority foreign ownership.

3. Sumit K. Majumdar (1994) while assessing firms' capabilities in Indian Pharmaceutical Industry has revealed the specific areas of operations in which firms are
able to utilise their resources better. The pharmaceutical companies are found to be more adept at day-to-day transaction management. Their working capital management skills seem to be intrinsically superior to skills in utilising physical assets. Though complex production capabilities and the propensities to use research-based high-technology items are conducive to success in this industry, the firms studied do not seem to possess skills in these areas. Similarly, there are shortfalls in utilising human capital. If all the employees can be fully utilised, then, there can be substantial augmentation of output in these firms.

4. K. Muneeswari (2000) analysed the performance of Drugs and Pharmaceutical Industry in India during the period between 1988-89 and 1998-99. She found that the drugs and pharmaceutical industry continued to maintain steady growth in terms of production and found that during 1998-99, several proposals for foreign collaboration, joint venture, research and development, establishing new undertakings, expansion of existing units had been received. The value of exports to UK had increased nearly three times during the period of study and exports to Spain and Switzerland increased 4 times during the same period. India's region wise exports of drugs and pharmaceuticals revealed that the highest share of 29.6% was to West Europe followed by 22.06% to West Asia and 8.32% to South Asia.

5. Susan Feinberg, Assistant Professor of International Business (Robert H Smith School of Business), University of Maryland and Sumit K. Majumdar, Professor of Strategic Management studied technology spillovers from foreign direct investment into Indian pharmaceutical industry for the period from 1980 to 1994 in May 2001. In this paper, they examined whether the knowledge generated by MNCs that undertake local R
& D activities spilled over and benefited domestic firms. In their study, they found technology exchange only occurred among the MNCs as a group. Spillovers between MNCs and Indian firms, or vice versa, did not occur. Neither did spillover between Indian firms as a group.

6. Mohan, 1990 conducted a study on Research and Development (R&D) spillover in the countries where strong intellectual property protection is given. In his study he concluded that R&D spillovers were significant across many different countries and manufacturing industries.

7. Lee and Mansfield made study on Indian Policy towards MNCs for R&D spillover. They concluded that India’s pharmaceutical policy towards MNCs had reduced incentives to import and develop world-class technology in India. Indeed, MNCs in India pharmaceutical sector have faced a generally hostile and uncertain policy environment. As a result, there was considerable local sharing of information among this group of firms facilitated by the cohesive (MNC) trade associate - the organization of pharmaceutical producers of Indian. Rather than developing the intended linkage between domestic firms and MNCs, the policy environment created two different groups of firms in the same industry.

8. Rasnur Alex Wendt analysed the Indian Pharmaceutical industry in India during the year 2000. He described the economic and structural development of the pharmaceutical industry in India in order to show how the 1970 patent legislation had influenced the development of industries. The statistics on the number of companies, value of production, proportion between formulations and bulk drugs and import-export presented by him clearly indicate the importance of patent legislation for pharmaceutical industry.
enacted in 1970. For the multinational pharmaceutical companies working in India, the 1970 patent legislation had been a serious impediment for growth and they had traditionally opposed the Indian Patent Law. Their commercial interests can be explained by the fact that they, to an increasing extent, are becoming capable of doing their own research and making valuable scientific discoveries for which they need protection from domestic competitors in order to reap the reward for their research cost. Another factor is the increasing interest in strategic alliances with foreign companies, which depends upon stronger IPR in India.

9. N.Lalitha did a study on the Indian pharmaceutical industry in the WTO Regime - a SWOT analysis. According to this analysis of the Indian Pharmaceutical Industry (IPI) that the much acclaimed IPI's expertise in process development skills were made possible by the amendments made to the Indian Patents Act 1970 This strength should be utilized maximum to benefit from opportunities that arise from vertical disintegration of research, clinical trials and manufacturing by the multinationals. The weakness however lies in the fact that such opportunities will be limited to a few firms in this sector IPI faces threats in the form of competition from the other Asian giants particularly China which has similar expertise in process development and reverse engineering. This paper argues that the IPI should adopt various strategies like producing off-patented products, new patented products by acquiring compulsory licensing or cross licensing, collaborate with multinationals not only in R&D and manufacturing but also in marketing new patented products and improving the standards of production to widen the export market.

10. “TRIPS and Pharmaceutical Industry: Issues of Strategic Importance” was also studied by N.Lalitha. According to this, the Trade Related Intellectual Property Rights
(TRIPS) brings in uniformity in the standards of intellectual property rights among the member countries of the WTO irrespective of their developmental status. While this is expected to result in free flow of technology and investment among the member countries, yet the extent to which the benefits will accrue depend on the domestic industry and the developmental status of the country that is undertaking the reform measures. Viewed from this angle, India with its fairly developed pharmaceutical industry can benefit by suitably modifying its patent law. Further, the industry by strengthening its R&D, besides focusing on new product development can also benefit as a contract researcher and manufacturer.

2.3.2 Studies in MNCs

1. Dilip S. Swami, in his work, "India's foreign investments policy An appraisal through American corporations" has made some pointed remarks on the US based MNCs. He has stated that "The evolution of the US based MNCs is marked by two features, i.e., accelerating the growth of industry and banking combined with multinationalisation of their operations have enabled a few US corporations to increase their control over the world production" and secondly, "as the US based corporations are transferring more and more of their factories to the low wage economies and their growth is increasingly foreign based, they are fast converting the US into a "renter society" which lives off investment income".

2. Dilip S. Swami has also analysed the impact of the presence of American MNCs in India. He says, in 1971, the total share of US foreign capital in India was about 52 percent while UK had just 14.5 percent. He also states that only domestic sources were used to fund capital for their operations to the extent of 95 percent.
3. Lalit Johri examined the business strategies of MNCs in India. He found that 45 MNCs were having more than 40 percent foreign equity. He analysed the functional policies and the outcome of various policies on these companies.

4. Ashok Kumar Bose made a study on the MNCs and developing nations. He revealed the exploitation of the developing countries by multinationals through transfer pricing, taking away a large portion of profit. His study says that the MNCs sent huge amount to their homeland. In 1972 alone, the MNCs had taken away Rs.95 crores. The multinational drug companies placed the Indian consumers in a pitiable condition and repatriated huge profits in a concealed form through transfer pricing, and in an open form through payment for patents, technical fees, etc.

5. John Mohan Razu is perhaps the strongest critic of multinationals in India. In his work "Transnational Corporations Development Debacle", he condemns the MNCs outright calling them "totally unethical" and "anti-people". He maintains that the source of control for these MNCs come from the control over capital technology. The interest of the MNCs are always at variance with the national goals and they bring in an inappropriate technology which widens the gap between the rich and the poor and makes the third world countries always dependent on these multinationals. Speaking about India, he maintains that nearly 50 percent of the 50 world corporate giants are involved in India. Referring to their political role, he observes that these MNCs with tremendous financial power at their command and their firm grip over raw materials, minerals and other sources of the third world countries, they maintain their hold through massive financial support to anti-democratic elements and have become states within states.
6. The RBI has analysed at regular intervals the finances of foreign controlled rupee companies. The overall assessment of the performance of these companies (FCRCs), in all surveys is that the FCRCs recorded impressive performance like higher rate of profit, return on share holders equity, etc., and they relied to a large extent on local servers for their capital and so did not export as much as they were expected to do. Because of this, the dividend remittances by US controlled companies was about 8.5 percent.

7. Sanjayya Lal and Sharif Mohammed of ICRIER New Delhi, examined the industrial determinants of foreign ownership of shares in the large private corporate manufacturing sector in India using the data on foreign ownership. They found that overseas investment is concentrated in activities like technologies, large-scale production and intensive management.

8. American Centre, New Delhi, and the Indo-American Chamber of Commerce and Industry have brought out studies and monographs on American investment in India. Of these "Indo-US Joint venture partners in progress", published in 1989, "Climate for investments", published in 1981 merit some mention. The study on India-US Joint ventures has stated that American Investment has proved to be beneficial not only to American economy but also to the participating US investors.

9. The study by Subramanian and Pillai (1979) is one of the earliest studies on microlevel implications of foreign collaborations in India. It has analysed the export performance of firms in the chemical and engineering industries with different levels of foreign equity shares. The study tested the hypothesis that higher levels of foreign control and export performance of the firms are positively related. The results of the empirical analysis, however, did not support this hypothesis. On the contrary, the study
has found that the export performance was inversely related to local control of the enterprise.

10. In explaining the negative relationship, Subramanian and Mohanan Pillai (1979) have observed that the overall global interests of multinational corporations which make cross-country investments, transfer of technology and other resource movements require orientation with regard to the structure of production for the sales in the respective host country protected markets. Their main motive for the transfer of technology and other resources thus appeared to be the maximization of surplus-transfer from an oligopolistic domestic - tariff market of the host developed country rather than the development of the host developing countries' exports by taking advantage of the low cost labour.

2.3.3 Comparison Between MNCs and Domestic companies

1. Kumar (1990) in his comparison of Foreign Controlled Enterprises [FCEs] and Local Controlled Enterprises [LCEs] in the Indian Industry has analysed the distribution characteristics and export behaviors of 1330 firms in the manufacturing sector. The export behaviour of the FCEs and LCEs have been analysed in terms of industry and firm level characteristics. The analysis revealed no significant differences in either export performance or industry characteristic of the two groups and showed that the affiliates of the MNCs are more interested in the host country market.

2. Pant (1993) has compared the Indian firms and their foreign counter parts in the West, in the areas of chemical, electrical and non-electrical industries for the period 1985 - 90. On the basis of profitability, capital intensity, degree of vertical integration, export intensity and the effective rate of taxation, the analysis revealed no significant difference
in profitability between these firms. The results also revealed no significant relationship between vertical integration and ownership pattern. Contrary to conventional system, foreign firms have significantly lower capital labor ratio and import intensities indicating that foreign firms tend to secure locally to a greater extent than domestic firms. The perception that foreign firms get more concession at the expense of domestic firms is refuted by the analysis and it has revealed that foreign firms pay a higher effective rate of tax than domestic firms. The empirical analysis of the factors determining the export intensities of domestic and foreign firms in the manufacturing sector has not indicated any significant differences. On the contrary, foreign firms are more oriented towards the host country market.

3. **Blomstorm (1990)** assessed the direct contribution of Transnational Companies (TNC) affiliates of U.S., Japan and Sweden to changes in the export competitiveness of developing countries between 1966 and 1986. His study has taken into account only direct exports (excluding sub-contracting, licensing, etc.) by these affiliates and found that they have played an important role in the growth of manufactured exports in many developing countries.

4. **Lall and Streeten (1980)** have compared the performance of foreign and domestic firms in many developing countries on the basis of select performance measures like use of capital, capital-output ratio, factor productivity, profitability and advertising. Their study concluded that transnationality is not an important factor in explaining a firm’s performance.
2.3.4 Studies on foreign investments in India

1. Kidron analysed the foreign investments in India. He says that the projects that were established in India by foreigners were capital intensive. As a result, traditional producers, mainly rural, were weakened resulting in open unemployment in some cases, but more generally in a further narrowing of the range of village occupations, hence greater unemployment and greater downward pressure on rural wage rates.

2. J.K. Tandon in 1978 conducted a study on Indo-German collaborations. He spoke of the several advantages, which India holds because of foreign investments like political stability, vast market opportunities for export, etc. He states that the Government of India permitted free repatriation of capital remittances of profits and dividends and had offered the concessions and incentives to foreign investors.

3. R.S. Bhat offered a resume of the policy of the Indian Government towards foreign direct investment and emphasized the role of FDI in the Development of Indian Industries. He says that India followed a selective policy towards FDI and the emphasis was on sophisticated technology to be brought in. He reasons out the restrictions on FDI placed by the host countries, saying that there is a feeling of suspicion that foreign business interests may not coincide with the national interest.

4. D.R. Singh compared and analysed the investment policy of India and the performance of US subsidiaries in India, and he came to the conclusion that it was really difficult to relate the performance of US subsidiaries in India to the changes in policies of India relating to FDI.
5. Vathsala Mani analysed the impact of capital mobility on the pattern of development in under-developed countries. She says that foreign investment in an under-developed country will be concentrated in industries where it can earn the maximum rate of profit, while relatively less profitable industries will be dominated by domestic capital. She found that the British investments were the largest in raw material oriented industries catering to the export market. The participation of foreign capital in domestic market oriented industries like cotton textile and steel industries was not significant.

6. Amant R. Nogandhi did a research on the foreign private investment climate in India. She summarised the important policy measures of the Indian Government affecting the private foreign investment decisions. She asked the selected British and American executives to mention 5 important factors influencing the investment decisions relating to India. The executives selected the following factors. 1. Industrial policy 2. Foreign Investment Policy 3. Taxation Policy 4. Remittances and Repatriation Policies 5. Foreign exchange control and the other important policies.

7. The executives felt that the Indian Government's policies in all these five areas were restrictive and ranked India very low as a possible avenue for foreign investments.

8. Swaminathan Amklesaria Aliyar, presents a strong defence in favour of the MNE trying to answer point by point to the critics of FDI. All his arguments are directed towards allowing free entry of MNCs into India and making their operations as easily and unhindered as possible.

counters, point-by-point the arguments put forward by proponents of FDI. Specifically, he seeks to answer the arguments that the equity capital flow is better than loans and that the technology brought by the foreign investments is up to date. He holds the view that the euphoria about massive direct investment is ill founded. He says that the foreign investors are not interested in going down to the improvised mass of the people in India who are not in a position to place effective demand on the market.

10. William S. Stoner has reviewed the foreign collaboration policy in India. He feels that the policies and procedures on foreign collaboration are intended to promote certain national goals, which the Govt. considers important for the country's developments, but in practice however, the screening and regulating mechanisms have proved to be a burdensome, discouraging and even counter-productive to the professed goals. He recommends that instead of offering incentives, the Govt. of India should encourage investment through much speedier globalisation of the requirements and easing of regulations.

Summing up the studies so far conducted, it is able to find out that there are studies on the pharmaceutical industry, studies on MNCs, studies comparing MNCs and domestic companies, studies on foreign investments in India, on foreign collaboration agreements. But no research has been done on the impact of globalisation on pharmaceutical industry in India. Hence an earnest attempt has been made in this direction in undertaking this piece of research work.
CHAPTER III

STRUCTURE, GROWTH, PRICING POLICY AND R&D OF INDIAN PHARMACEUTICAL INDUSTRY

3.1 Structure of the pharmaceutical industry

The growth of the pharmaceutical industry was almost nil before 1954. The Hindustan Antibiotics Limited (HAL) was the trendsetter, which commenced operations in 1954, joined later by Indian Drugs and Pharmaceutical Limited (IDPL) in 1961. In the 1970s, the Government took certain important measures like legislating of the 1. Indian Patent Act (IPA) 1970, 2. Drug Price Control Order (DPCO), 3. FERA and 4. Increasing the import tariff to promote the domestic industry, so as to enable the industry to meet the requirements of the Indian population.

FIGURE III.1

TREND SHOWING NUMBER OF UNITS IN PHARMACEUTICAL INDUSTRIES

Source: OPPI Annual report 2003