CHAPTER-4

GLOBALIZATION & LIBERALIZATION
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The advertising business is going through rapid changes due to consolidation and globalization. Meanwhile, advertisers, more than ever before, want to create a seamless global brand—they need the services of multinational agencies and consultants who can help them in dozens of countries worldwide. Campaigns and branding, regardless of scale, must be consistent and cost-effective.

Globalization means:

- Expansion of economic activities across the political boundaries of nation states.
- Increasing economic openness and growing economic interdependence between countries.
- Opening up of markets to foreign players and vice versa.

Facts/Impacts

- Availability of a wider variety of goods.
- Wider markets for trade.
- Better access to technology.
- Larger private capital inflows.¹

The continuing progression from a world of distinct and self-contained national markets to one of linked global markets is being

¹ Globalization and Indian- Myths and Realities publication—CUTS, CUTS centre for international Trade, Economics and environment, 13- 217, Bhashkar Marg, Bani park Jaipur 302 016, India pp 03
fueled by the persistent forces of the homogenization of customer needs, gradual liberalization of trade, and the recognition of competitive advantages of a global presence.

The main catalyst is technological change that enables global coordination of widely dispersed activities, while the pressure for globalization diverse the extensions of technology into new applications.

The networks enable companies to proved to provide 24-hours service as customers in turn increasingly and are able to source from anywhere in the world.2

Globalisation Index and India:

India is ranked at 61st position out of 62 countries in the globalisation Index 2004, devised jointly by the international consultancy agency, A. T. Kearney and the 'Foreign Policy' magazine. In fact, India has slipped successively in the last three years from the 49th to 57th and now to the 61st position in the overall index.

The Globalisation Index 2004 saw Ireland maintaining the top slot, followed by Singapore, Switzerland, the Netherlands, Finland, Canada, the U.S., New Zealand, Austria and Denmark. While these were the top ten countries, the bottom ten include Brazil, Kenya, Turkey, Bangladesh, China, Venezuela, Indonesia, Egypt, India and Iran. In fact, South Asia was found to be the least integrated region,

2 "Charting New Direction for Marketing", Journal of Management (Jan) 1999 Volume 63, 3-13 (special Issue) pp 7
although its fortunes began to reverse in 2002. Among India's 'strengths' is the 136 per cent expansion in the number of Internet users, among the fastest growth anywhere. In absolute numbers, the growth was from seven million in 2001 to 16.6 million in 2002, making India the ninth largest Internet market in the world. Yet with only 1.6 per cent of its population online, India ranked near the bottom well behind China (4.6 per cent) and Indonesia (3.7 per cent) but ahead of Sri Lanka (1.1 per cent), Pakistan (1 per cent) and Bangladesh (0.1 per cent). Another positive was the large remittances ($14.7 billion in 2002 the world's largest in absolute terms) that India receives from its population around the world. More than two million Indians now live in the U.S. and three million are in West Asia.3

Direction of globalisation:

There is perhaps no economic phenomenon more universal and controversial than globalisation. For its supporters, globalisation is the panacea for all economic ills. For its detractors, it is everything that is wrong with the world.

There is growing concern about globalisation. Immense riches are being generated for a few but the problems of poverty, exclusion and inequality persist. Too few share in its benefits. Too many have no influence in its design or course. Corruption is wide-spread. We are at a critical juncture. There is a fundamental disjuncture between economy, society and polity.

3 The Hindu dated 28/2/04.
A more inclusive process of globalisation is not possible unless you have both the right rules and institutions at the global levels and the right policies at the national level. We appear to have moved from a wide-spread belief, prevalent in the early 1950s, that the State could do no wrong to a strong conviction, fashionable in the late 1990s, that the State could do no right. These are caricatures. Reality is more complex. For the State and the market are complements rather than substitutes. The role of the State extends beyond regulation of markets or correcting for market failures. There are other important dimensions: Creating the conditions to capture the benefits from globalisation, managing the process of integration into the world economy, providing social protection to the vulnerable in the process of change. Globalisation has led to openness in trade, investment and financial flows. It also extends to flows of services, technology, information and ideas across national boundaries.

However, aggregates conceal the fact that there have been winners and losers. The educated and the rich have benefited from globalisation. But the benefits have not reached the majority, in particular the rural poor: Is India, then, an exception to the rule? The answer cannot be the same for everyone. For, the perceptions of people about globalisation, in India as elsewhere, depend on who they are, where they live and what they possess.⁴

⁴ Deepak Nayyar in (Times of India dated 3/3/04).
UN report and Indian economic reforms:

"Members of a UN commission on private sector and development have commended the model of economic reforms followed by India which has led to multinational corporations (MNCs) becoming instruments of development along with domestic industry and entrepreneurs. In the developing world, countries like India have been very successful in achieving rapid growth and overcoming poverty over the past 20 years, they said."5

Globalised economy regime:

Globalised economy is bereft of spirituality, according to Indian Human Resource Development Minister Murli Manohar Joshi. It is driven by market laws that do not care for values or ethics, Dr. Joshi told a seminar on hard work and religion organised by Gobind Sadan of Religious Leader Baba Virsa Singh in New Delhi on 28/2/04. The Minister, in his key address, attacked the WTO regime for dividing the world into two communities of the purchasers and the sellers. In the West, for instance, you seldom see any values. The only relationship that this globalisation has established is that of a purchaser and a seller. Money is the only norm. Dr. Joshi drew on Guru Nanaks concept of Kirat to press ahead his point that treating the entire humanity as a family was key to trading in a tension-free world. Is it not regrettable

5 (Financial express dated 3 3:04).
that today just one-sixth of the world controls the rest? Righteousness and spirituality are no consideration for trading in this regime.\textsuperscript{6}

"An 8% growth rate this year is consistent with the trend in the GDP growth rates that was set in our economy between 1980-81 and 1996-97. Between 1980 and 1985, GDP grew at an annual average rate of 5.6%. During 1985-1990, that rate increased to 5.96% and taking away two crisis years during 1990-92, GDP again grew during 1992-97 at 6.68%. In the last three years of the Eighth Plan, GDP grew at a rate of more than 7.5%. If the underlying trend were extended to 1997-2002, the growth rate should have averaged around 7%. Actually, in the Ninth Plan period, that growth rate fell to 5.48%, and in the last two years that fall was even sharper.

Growth of private investment dramatically fell from 17% per annum in 1991-96 to only about 3.5% in the next five years. It even became negative in recent years. The overall rate of investment, which has been steadily rising from 20.7% in the Sixth Plan to 23.4% in the Seventh Plan to 26% in the Eighth Plan actually fell to 24% in the Ninth Plan. The success of reforms is to be judged not simply by the techniques of reforms but by the achievements of policy objectives. Raising the incomes and capabilities of the poor and the backward classes has always been the primary goal of our development policy.

\textsuperscript{5} HRD Minister M.M. Joshi in National Herald dated 29/2/04.
But there was also the need for building our nation, holding the country together with all its diverse social groups in a democracy and pro-poor policies had to be complemented by polices for the overall development of all sections through economic growth. A successful economic reform should be judged by the advancement of that objective.\footnote{Vice-chairman of the Congress economic affairs department in Hindustan Times dated 3/3/04.}

Report of World Commission and Globalisation:

The World Commission on the Social Dimension of Globalisation set up by the ILO has just brought out its report entitled \textit{A Fair Globalisation - Creating Opportunities For All}, which, in a nutshell, not only performs its task of analysis and recommendation effectively but also, in the process, throws new light on the complexities involved in ushering in a regime of fair and inclusive globalisation. The inference of course is that the version of globalisation now being implemented is not what is required by the world, something which is becoming increasingly clear from the worldwide protests against it mainly in poor countries but also in the rich albeit on the ground that it violates the basic tenets of protection of the environment (through enhancement of uncontrolled trade).

The Commission makes the basic assumption that the ongoing process of globalisation cannot be avoided. In other words, individual nations do not have the luxury of a choice to avoid globalisation and strike out on a development path exclusively their own. Indeed, they
cannot do so if they are to utilise the fruits of technological development that is taking place all around them and only the application of appropriate technological progress (no matter where it originates) to national production mechanisms in every conceivable sphere can produce economic progress, which, in turn, if spread equitably among the people, is perhaps the only way within a democratic framework which can result in the uplifting of the downtrodden in society.

As we all know in India, the concept of globalization is anathema to a whole lot of people who feel, not always without good reason, that globalization is only another name for economic exploitation, the victims being, principally, the Indian working population, not to speak of farmers in the rural areas. The Commission's vision, on the other hand, seeks to introduce a revised form of globalization, the objectives of which, curiously, cannot but converge with what every Indian citizen would like to see introduced in his or her daily life. First, the report says that fair globalization would mean meeting the demands of all people vis-à-vis respect for their rights, cultural identity and autonomy, decent work conditions, and empowerment of the local communities where they live. Second, the State (meaning the government of the day) will have to have the capability of managing relatively painless integration into the global economy, providing social and economic opportunity and security. Third, the new globalisation must lead to sustainable development, meaning that the process must be based on "the
interdependent and mutually reinforcing pillars of economic
development, social development and environmental protection at the
local, national, regional and global levels". Fourth, the rules of the
global economy "must offer equitable opportunity and access for all
countries" and, more importantly, "recognise the diversity in national
capacities and developmental needs".8

Liberalization means:

☐ Simplifying procedures of business, i.e. investment trade etc. such
as doing away with the license, permit and quota raj.

☐ Less interventionist and more co-operative role of the
Government in economic affairs, i.e. facilitating business rather
than controlling it.

Facts/Impacts:

☐ Abolition of industrial licensing:

The industrial Policy of 1991 took most of the industries out of the
licensing framework except 18 industries, representing strategic sectors.
In the revised policy of 1998-99, all industries were de-licensed, leaving
only 5 sectors on health strategic and security considerations in
government perview but recently private investment has also been
allowed in defence sector selectively.

8 (Article in Hindu Business Line dated 25/2/04).
Foreign Direct Investment (FDI):

Over the years, specific measures are taken for further liberalizing policies and streamlining procedures pertaining to FDI. At present, all FDI are permitted under the automatic approval route, except for a small negative list.

For instance, the ceiling for FDI in oil refining sectors has been increased to 100 percent from the existing 49 percent. Similarly, FDI has been permitted up to 100 percent for all manufacturing activities with certain exception in special economic zones.

Also, 100 percent FDI has been allowed, with certain conditions, in the telecommunication sector for internet service providers not providing gate ways for satellite and submarine cables.

- Increased competition resulting in better quality and lower prices for consumers.
- Better work culture.
- Higher production⁹.

Now let us see what change have come due to globalisation and liberalization and in turn how they are going to effect the advertising strategies?

⁹ Globalization and Indian- Myths and Realities publication:- CUTS, CUTS centre for international Trade, Economics and environment, D- 217, Bhaskar Marg, Bani park Jaipur 302 016, India pp 01-02
Precisely the following changes and their effect will be studied to keep adhered to the topic.

i. Joint ventures and mergers.

ii. Entry of MNCs

iii. Advertisement growth.

Beginning with July 1991, the government introduced a number of changes in the country's regulatory policies. Among these, and particularly important have been the following: de-reservation of many public sector reserved areas; delicensing; doing away with registration under the MRTPA, removing the general ceiling of 40 per cent foreign equity under FERA; lifting the restriction on use of foreign brand names in the local market; withdrawal of the restriction on entry into low technology consumer goods; abandonment of the phased manufacturing programme (PMP); dilution of the 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 small scale units, reduction in tax rates; etc.

Foreign Collaboration Approvals:

Foreign collaboration approvals are essentially of two types. One involving only payments for technology and the other involving investment in the equity capital of an enterprise existing or to be promoted. Approvals are accorded automatically in selected industries.

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subject to foreign equity levels and payments for technology by the Reserve Bank of India. The upper limit for automatic approval was raised from 51 per cent to 74% (100% in case of NRIs) in the notified industries in January 1997. The list of industries open for automatic approval was expanded simultaneously. In all other cases the government gives necessary permissions after a case by case examination. The Industry Minister accords approval to projects involving a total investment of up to Rs. 600 crores on the advice of Foreign Investment Promotion Board (FIPB) and for larger projects the decisions are taken by the Cabinet Committee on Foreign Investment (CCFI).

**Extent of Foreign Ownership:**

Removal of FERA restrictions on holding of majority stake would encourage investment inflows, especially from large transnational corporations (TNCs).

It should, therefore, be expected that the distribution of companies in different ranges of foreign shareholding ranges will undergo significant 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 the FERA.\footnote{S.K. Goyal, "Directory of Statistics of International Investment and Production in India", a study prepared from the United Nations Centre on Transnational Corporations (UNCTC), 1990.} This was in spite of the fact that majority foreign equity share was not banned in cases of high technology and export-oriented companies. Thus in the liberalised
industrial policy environment the preference for higher levels of foreign equity becomes visible both in case of new entrants as also for those which earlier diluted the foreign shares and shed the foreign subsidiary status.

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 may be big enough to cause significant changes in the structure of many sectors. For instance, 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. While food processing sector occupies the seventh position with less than six per cent share, total approvals amount to Rs. 7,500 crores. Coca Cola alone received approvals of nearly Rs. 2,700 crores and approvals on account of Pepsi and its group companies work out to more than 1,000 crores. The drastic changes that occurred in the Indian soft drink industry since liberalisation are well known. Since a number of consumer goods companies are setting up holding companies and subsidiaries, the approved investment figures are unlikely to represent 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 Unilever group in India do not figure in the approved list: e.g. take over of Tata Oil Mills and its subsidiaries, entry into the ice cream segment, and the joint venture with Lakme. These were entered into by Hindustan Lever (incl. the merged Brookebond Lipton), a subsidiary of Unilever.\textsuperscript{12} \[ \text{\( \Box \) 17906} \]

Next in importance is the 'Service Sector'. However, since most of the investment in the telecommunications sector was directed at either cellular mobile and basic phone services, this investment could as well be treated as 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. An appropriate regrouping in case of Food and Agro products brings its share to 7.93 per cent. This sector is dominated by TNCs like Coca-Cola, Pepsi, Kellogg, Heinz and Seagram.\textsuperscript{13}

Is this joint venture or investment is very new phenomenon? No. 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. TNCs

\textsuperscript{12} S.K. Goyal, "Impact of Foreign Subsidiaries on India's Balance of Payments", a report prepared for the CTC-ESCAP Joint Unit, Bangkok, 1979.

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 take-over of a small cigarette manufacturer in Andhra Pradesh. Till now Modi-RJR is reported to be only trading in tobacco. Certain existing units were transferred to new joint venture companies while the original Indian companies continue to exist. Implementation will also seem 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).

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 its seems to have opted for a 100% 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. For instance, Volvo seem to have abandoned manufacturing plans and is reported to be settling for a marketing joint venture which obviously involves far too low investment compared to a manufacturing one. While in certain cases, the product may be available
in the Indian market but the operations may have not have been set up fully. For instance, the automobile manufacturers' insistence on importing 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.14

**Take-overs and Mergers:**

Significantly, even the low level of inflows has altered the structure of many consumer goods industries substantially. In the *liberalised* policy environment, Indian entrepreneur seem 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. On the contrary, they are likely to add to the growing outflows of foreign exchange.

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. It is observed that earlier in many collaboration projects, the foreign share was quite small.

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The recent controversy over ICI's (UK) attempted entry into Asian Paints, its major competitor in India, once again focused the attention on TNC take-over of Indian companies. When Parle's brands were sold to Coca-Cola not much hue and cry was raised. 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 are resisting the TNC's entry. The fact, however, is that in many other cases the ownership of Indian companies changed hands affecting market structures significantly.

This route was adopted for entry into consumer durables and machinery sectors. For instance, after the transfer of two plants (one has already been transferred to the joint venture with Peugeot and the other one is proposed to be transferred to the venture with Fiat), Premier Automobiles will be 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 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).
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. The cases of TVS-Suzuki, Hero-Honda and Godrej-GE Appliances are relevant here. While Honda raised its stake in Kinetic Honda to 51%, 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% stake. 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% in its venture with Telco; Bridgestone planning to increase its stake to from 51 to 74% in its joint venture with ACC; Bausch & Lomb increasing its share in the Indian venture to 69%; and Henkel hiking its share to 70% 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 fate of Hinditron group in Hinditron Tektronix and Digital Equipment, and Shrirams in SRF
Nippondenso. Shriram's share also got reduced in Shriram Honda Power.\(^{15}\)

**Illustrative List of Unit/Division Transfers to Joint Ventures**

- Unit to be Transferred Remark 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

\(^{15}\) Economic Times, August, 24,1997.
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% 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 at Waluj Transferred to South Asian Tyres Ltd a JV with Goodyear, USA
Public attention gets attracted more to happenings in the consumer goods sector. The illustrative list of consumer product companies given in Annexure 3 might help in understanding the popular perception of TNC takeover of the markets. 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.

The outcome of the liberalization and globalization viz. entry of foreign companies, joint ventures, mergers and takeover will definitely going to effect on the company asset volume, investment capacity, marketing, distribution and sales network and will also going to effect the advertising powers of the companies. The companies which have gone for joint venture will definitely have strong position. In other words the Indian companies which are going of their own will have to backup themselves with whole might and have to generate more resources for sustained development and growth. If they get survived on these fronts then they have to integrate all their resources and creativity to fight the battle of communication to persuade the consumers, which result in acquiring the better advertising strategies, fight for the same media vehicle.