CHAPTER - IX

Findings and Suggestions.

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Findings:

Growth of Multinational Corporations (MNCs) took place in four phases, first phase run upto the 1st world war. During this phase, companies were mostly from Europe. These were Dunlop, Siemens, Philips and Imperial Tobacco etc. During 1930-50 the MNCs were sluggishly operative due to recessionery trend in the world economy. Second phase started after the Second World War. During this period only IBM, Fordmotors and General Motors of America surfaced on the screen of global economy. From the decades of 1970s and 80s third phase of MNCs growth is registered, and companies are mainly from Japan, Europe and Germany. Final and fourth phase is the latest one. During this phase MNCs in the field of information technology and service sector have come up.

The Newly Industrialized countries (NIC) of the world, viz. China, Indonesia, Korea, Malaysia, Singapore, Taiwan and Thailand have adopted fairly good deal of transparency and openness in the sphere of technical and financial collaboration, India also adopted a more liberal attitude towards foreign investors.
Global FDI inflows in 1986-90 accounted for 24 percent growth which declined to 20 percent in 1991-95. In 1996 the FDI inflows plummeted to an abysmal 2 percent. However, it registered an annual growth of 19 percent in 1997. The declining growth of FDI stock, assets during the period are attributed to general recession of early 1990.

The regional distribution of inward and outward stock is heavily skewed towards developed countries reflecting the fact that in the past most FDI originated and stayed in the developed countries, although there are some noticeable upward increases of FDI inward and outward stock of developing countries.

It is striking to note that out of the top 100 MNCs from the world, majority of them belonged to developed countries. Further analysis reveals that the top 50 MNCs from the developing countries ranked by assets, during the period 1990-1997 are generally hailing from the newly industrialized Asian countries. However, a few of them also belong to North America and South Africa.

It is worth recollecting that developing countries remain unimportant in the cross border merger and acquisition (M&A) market as compared to their position in FDI flows.
The relatively low share of developing countries in merger & acquisition purchases suggests that the MNCs from developing countries prefer green-field mode of acquisition of minority share holding in existing market through the FDI.

According to UNO investment Report 1998, the pharmaceutical, Automobile, Telecommunication and Financial services are typical examples of M&As. Strategic considerations of the firms, Liberalization and deregulation are the other main factors behind the increases in the M & A the world over in both developed and in developing countries.

In brief the following five factors are responsible for the growth of MNCs.

2. Varied field of Operations
3. Improved Marketing incentives.
4. Sound Financial Background.
5. Advanced Technology.

The foregoing main factors have played pivotal role in the development of MNCs.
The world economies both developed and developing are buzzing with the activities of MNCs in a variety of ways e.g. FDI inflows and out flows. M&As, joint venture, services etc. The international production has expanded till the end of 1998. There were 53000 MNCs and 4,48,000 foreign affiliates which have played key role with 3.5 trillion accumulated stock of FDI, $9.5 trillion sales of foreign affiliates and $13 trillion global assets.

**Problem Areas:**

The first problem with the MNCs is the choice regarding place and products. Most of the MNCs want to operate only in those areas where infrastructure facilities are well developed. They also chose those products, which are more profitable. The host country, therefore, faces problem of unbalanced development.

Host country undertakes research and development programme for the overall development of the area. Whereas MNCs take R&D programmes mainly for capitalizing innovations in profit and in establishing supremacy of technology and product innovations.

Third problem linked with the MNCs is productivity. MNCs want to produce goods at a mass scale by using latest
technology, which is a sort of capital intensive giving a less room for employment generation.

Fourth problem created by MNCs is the degree of strength in the economy. MNCs make utmost endeavour to keep the aim of strengthening themselves. MNCs also make an attempt to integrate their activities internationally in order to achieve domination.

MNCs do their best to maximize profit through unbalanced growth. In this era of globalization, MNCs have a significant control over the pricing. They enjoy the inter-subsidiary movements of goods and services and their pricing.

Many modern MNCs are playing a significant control over local administration. They even attempt to lure bureaucrats to fulfil their unsocial acts. MNCs gigantic size is also posing serious problems. Two top level MNCs' gross total products' value account more than the five developing country's GDP (Mexico, Brazil, India, Iraq, and China).

A huge amount of money flows out of the host country in terms of payment of divided, profits, royalties, technical fees, know-how fees and interest to the foreign investors. Most of the MNCs collaborate with the private companies
of the host country but only in those industries where prospects of profit are bright. MNCs from advanced countries generally bring obsolete technology, which is no better in comparison to host country’s own technology.

The study has the following objectives:

1. To evolve and elaborate the conceptual framework of the Multinational Corporations.

2. To examine and study the policy changes as regards the Multinational Corporations in the context of liberalization and globalization of the economy.

3. To study the effects of WTO on the liberalizing economy, such as, India.

4. To study the measures, liberalization packages with the introduction of new economy policy for globalization.

5. To critically examine the foreign investment trends and portfolio investment trends to determine the relative benefits to Indian economy by the MNCs.

6. To assess and appraise the performance of Hindustan Lever Limited a Multinational Corporation in India.
7. And finally to study and examine the problems in the context of overall scheme of globalization with Multinational Corporation in general and Hindustan Lever limited in particular.

The study has sought to test the following hypotheses:

1. That the MNCs operating in a variety of arrangements viz. FDI, amalgamations, collaborations, technology transfer and mergers and acquisition are solely to the advantage of Indian economy in terms of more flow of foreign capital in the form of FDI, FTAs and GDRs and hence opening up vistas for global economic integration.

2. That MNCs in India through FDI are sincerely contributing to the growth and development of the various sectors of economy, namely, the automobile, food processing, pharmaceutical and beverages etc. Many more other significant sectors like insurance, banking etc. are also arresting the attention of MNCs.

3. That the existence of MNCs in the Indian economy is creating an atmosphere of competitiveness for
domestic companies which in a bid to emulate, strengthen their own base through restructuring amalgamation and M&As.

4. That MNCs are integrated with the development of social sector by deploying substantial funds for education, environment and healthcare.

A trade Negotiations Committee (TNC) was formed to monitor the overall negotiations. Owing to disagreement of some member countries (especially the USA and the EEC) on certain key issues like agriculture, the negotiations could not be completed within the scheduled time. The trade negotiations, therefore, resumed by the TNC, in February 1991 by regrouping the original fifteen areas in the following seven areas: (i) Market access, (ii) Agriculture, (iii) Textiles and Clothing, (iv) GATT Rules including Trade Related Investment Measures (TRIMs), (v) Trade Related Intellectual Property Rights (TRIPs); (vi) Trade in Services and (vii) Institutional Matters.

WTO has been established in 1995 for implementation of the various provisions of Dunkel Draft.

To expedite the resumed negotiations in 1991, Sir Arthur Dunkel, Director-General of GATT and the Official
Chairman of the TNC tabled a scheme of proposals for the consideration of the participating countries. The Dunkel Text, being a legal and technical document, covered seven areas for negotiations, namely: (i) Market access, (ii) Agriculture, (iii) Textiles and Clothing, (iv) GATT Rules, (v) Trade Related Intellectual Property Rights (TRIPs); (vi) Trade in Services and (vii) Institutional Matters.

The effects of WTO originate from the Uruguay Round Treaty (URT). The treaty is a march towards global economy. Trade barriers and the quota system of all the 117 participating nations will be reduced in the years to come and will be completely abolished by the year 2004.

Dunkel Draft is the centrepiece of the URT. TRIMs, TRIPs and Multi-fibre Arrangement (MFA) are the three crucially important agreements of the GATT negotiations at the Uruguay Round. The Agreement on Trade Related Investment Measures (TRIMs) opens the gates of financial services sector, but member countries are permitted to adopt their own foreign investment policy. The Agreement on Trips in comprehensive in giving cover to all areas of MFA is stage wise and slow, which seems to be disadvantages to the exporting nations. But the fact is that
the US actually wanted the phase out period to be stretched up to 15 years. The treaty, however, succeeded to have its commitment to dismantle the quota regime over the ten years’ time, which of course is a positive gain for the textile exporting developing countries, including India. It is equally true that the provision of ten-year phase-out period to open up textile quotas in full extent is rather a defensive gain for the US and other OECD economies. It gives them sufficient time for adjustment while the developing countries dodge the onslaught of OECD exports, technology property, patents, trade marks, copy right, and so on. TRIPs encroach upon the member country’s sovereign right to frame its own legislation on intellectual property matters. MFA regulated trade in textile and clothing since the last four decades. Under this special arrangement, importing countries such as the US, Canada, Austria, Norway, Finland and European Union (EU) could imposed quota restrictions on exports from the developing countries on a selective basis. Hitherto, unrestricted trade was permitted among the developed countries. But the new treaty phases out MFA over a period of 10 years from 1998. In the case of the US, the integration phase is to be 3 percent in the initial three
years, 10 percent in the next four years, 32 percent in the
next three years and 55 percent in the end of the tenth
year. Under the new treaty, thus, the process of
liberalization.

Despite its eventual goal for free world trade, the GATT
has failed to restrain the formation of trade blocs. The new
treaty, however, provides that trade restrictions among the
bloc members must be scrapped and their common external
tariffs should not be higher than the average level of tariffs
levied prior to bloc formation. Upcoming regional blocs,
such as EFTA, NAFTA and some other new ones in Asia and
the Pacific countries which may emerge in future will
lead to trade frictions as well as marginalisation of the trade
of developing countries in the global trade economy. One
serious implication of the new treaty is that when the
industrial countries could strengthen their control over
global agriculture by keeping their food security in tact,
developing countries like India are called upon to ultimately
dismantle their food security system. It is designed that the
subsidies to formers will go but subsidies to agro business
will stand thereby creating TNC monopoly in agriculture.
The NIEO will eventually create conflicts between he
citizens and TNCs' interests.
The GATT's new strategy at the Uruguay Round was based on using the economic strength of a few members against the weakness and dependence of other member's counties, especially the developing ones. It is Magna Charta of technologically advanced countries over the poor countries. Both in regard to the issues for negotiation and in it structure as well as plans, it is imbalance, asymmetric and weighed against the poor nations. The international economic arrangement devised under the GATT treaty would result in the flow of wealth on large scale all the time from the poor/developing countries of the third world to the rich/industrialized nations of the west.

Following are the main provisions of TRIP.

1. Parties are free to determine the appropriate method of implementing the provisions of the Agreement within their own legal system and practice.

2. There is a general obligation of providing national treatment to nationals of other parties subject to the exceptions in the various intellectual property conventions.

3. There is an obligation of Most Favoured Nation treatment also with certain exceptions.
4. There is a provision for public interest concerns under which parties may, in formulating their national laws adopt measures necessary to protect public health and nutrition and to promote public interest in sectors of vital importance to their socio-economic technological development, provided such measures are consistent with the provisions of the agreement.

5. There are enabling provisions of resorting to measures to prevent the abuse of intellectual property rights by rights holders.

On the conclusion of negotiation in Geneva, Agreement on financial services was arrived at on 13 December 1997; India made an improved offer. The MFN exemptions taken earlier in the areas of Banking, Non Banking Financial Services (including Insurance) were withdrawn in response to all the important trading partners undertaking a similar MFN obligation. India has also found a few additional areas.

In the area of re-insurance the existing binding has been aligned to the market. Earlier, the Indian insurance companies were obliged to code a minimum of 10 percent of the overall premium abroad after retaining the statutory percentage with the domestic insurance companies. The above 10 percent limit has now been removed to allow
Indian insurance companies to exercise their commercial judgement is deciding the premium to be coded abroad.

In India, Capital market reforms have been carried out extensively. The capital market reforms have the following motives. Modernization in comparison of other stock exchanges of the world, efficient trading and clearance system, enhancing and sharpen the market efficiency, improving the system spreading information.

Capital Issues Control Act, 1947, revoked, office of controller of capital issues abolished and shares pricing decontrolled. The companies can approach capital market after clearance by SEBI.

Securities and Exchange Board of India (SEBI) was established in February 1991. SEBI was strengthening with necessary authority and powers for regulation and reform of the capital market.

A notification was issued under the Securities Contract (Regulation) Act, 1956, the power to guide and regulate stock exchanges, was entrusted to SEBI. This includes recognition, rules, and articles, voting rights, delivery contracts, stock exchanges listing and nomination of public representatives.
Reparation of complaints of investors is to be encouraged, sharing it with recognized investors associations. This will help in filing suits against companies involved in fault.

Permission has been given to Foreign Institutional Investors (FIIs) to operate in Indian capital markets, merely on registration with SEBI.

Investment regulations and procedures have been lessened for NRIs, so that NRIs, and corporate bodies can transact in share and debentures with prior permission of RBI.

Indian companies get permission to operate in international capital market through Euro-equity shares.

SEBI entrusted with the power of issuing regulations and file suits without prior not of the Central Government.

Other organs of the capital market started functioning all over the country. These organs are Over The Counter Exchange of India (OTCEI) and the National Stock Exchange of India with a nation wide stock trading and electronic display, clearing and settlement facilities.

No major changes have been brought down in the primary market in 1998-99. However, recommendations
made by the "Informal Group on Primary Market" have been accepted and implementation commenced. Main changes are as follows.

1. After a specified date, the primary issues to be compulsorily made through the depository made.

2. In the issues of Rs. 25 crore and above, 100 percent book building permitted.

3. Reduction in the minimum number of mandatory collection centres in respect of issues above Rs. 10 crore to 4 metropolitan cities plus the place having the regional stock exchange.

In secondary market, reforms have been taken to enhance investor interest in the share market by providing facility of buy back of share. Other steps have been taken by the government are as under:

i. Amendment of SEBI Takeover Regulations.

ii. Extension of demat trading to more scrips.

iii. Introduction of rolling settlement in the demat segment.

iv. More strict disclosure requirements and stipulation of additional margin requirements aimed at curbing excess volatility in share price.
1. Various segments of industry have been delicensed, such as, coal and lignite petroleum (other than crude) and its distillation products and bulk of drugs.

2. Sugar industry delicensed.


4. Companies are allowed to buyback their own shares subject to a limit of buyback to twenty five percent of paid up capital and free services.

5. A national task force submitted its 108 points report on information technology and software development. Recommendations made by the committee have got nod of government, and proper line of action has been delivered to the department concerned for its proper implementation.

6. Patent bill has been commended by Rajya Sabha and subsequently promulgated through an ordinance.

1. By the April 1998 Exim Policy delicensed 340 items of import by shifting them from the restricted list to Open General License (OGL).

2. An agreement on free trade was initiated on 28 December 1998 between India and Sri Lanka. It will
result in zero import tariffs for most commodities on both sides by 2007.

3. Payment of interest on dues to exporters for delays in duty drawback/refund of duty beyond two months.

4. Extension of to holiday for EOU/EPI to 10 years.

5. With effect from August 1, 1998, India unilaterally removed all quantitative restrictions on imports of around 2300 items from SAARC countries.

6. Government has given permission to set up private Software Technology Parks (STPs) for export.

Projects in the following fields got permission of government for foreign equity participation upto 100 percent under automatic route: electricity generation, transmission distribution, construction and maintenance of road, highways, vehicle, tunnels, and vehicular bridges, ports and harbours. Permission for FDI under non-banking financial services now includes “Credit and Business” and “Money Changing Business”. Now Indian companies can issue GDRs/ADRs in case of bonus or right issue of shares, or on genuine business reorganizations duly approved by the High Court.
Investment limit by a single NRI/PIO/OCB has been increased from 1 percent to 5 percent of the paid up capital. Permission has been granted to NRIs/PIOs/OCBs to invest in unlisted companies, fulfilling certain conditions, norms, procedures and ceiling applicable in case of listed companies.

Tarapore Committee examined the rupee convertibility in 1997 and it recommended that the Capital Account Convertibility (CAC) should be introduced in three phases over a period of three years 1997-98, 1998-99 and 1999-2000. The Committee recommended that while having CAC the economy should fulfil the following conditions.

1. The Gross Fiscal Deficit (GDP) of the centre as a ratio to Gross Domestic Product (GDP) should be brought down from 4.5 to 3.5 percent, by the year 2000.

2. The average Cash Reserve Ratio (CRR) of banks should be brought down 9.3 percent to 3 percent, between 1997 to 2000.

3. The rate of inflation should kept down to between thee to five percent.

4. The Non-performing Assets (NPAs) of public sector banks should be reduced down to 5 percent from 13.7 percent.
5. The debt service ratio as a percentage of current account receipts must be brought down to 20 percent.

6. Globally comparable and transparent procedures of financial accounting should be adopted.

7. The RBI should withdraw from primary government programs and government must set up its own public debt office for mobilizing its own funds.

8. Creation of weak banks should be strictly banned.

The IRA was set up as a follow up of the recommendation made by the Malhotra Committee on insurance sector reforms. The government announced its intention to evolve a broad consensus about the future direction and content of reforms in this sector and accordingly, discussions were held with the management and the unions of the insurance industry also with different interest groups.

LIC will be converted into a company registered under the companies Act. The present capital of Rs. 5 crore of LIC contributed entirely by the centre has to be raised to Rs. 200 crore with the government holding brought down to 50 percent thereof and the reminder being held by public at large including a portion for the employees.
After liberalization MNCs stake have been observed to be increasing above 50 percent at a high premium. It is felt that in future the consumer and infrastructure sectors would be attracting larger amount of investment. The engineering sector has attracted the highest investment so far. Still the investment has fallen for short of adequate. The approvals to the core and infrastructure sector have always been India’s priority. It has accounted for almost 50 percent of the total approvals. But the actual inflows have been at a dismal 20 percent of the approvals, which shows the slightly declining confidence of foreign investors in the Indian economy.

Most of the developing countries are lacking the capacity of producing their own technology. On the other hand industrialized countries are enjoying a good chunk of resources to develop latest technology comparatively at a lower cost.

So less developed countries are heavily relying on the industrialized countries. To bridge this ever widening gap between haves and havenots there exists a new phenomenon of technology transfer.

Automatic permission has been allowed for foreign
technology proposals to higher priority industry upto a lumpsum payment of Rs. 1 crore, 5 percent royalty for domestic sales and 8 percent for exports, subject to total payment of 8 percent of sales over a 10 year period from date of agreement or 7 years from commencement of production. The prescribed royalty rates are net of taxes and will be calculated according to standard procedures laid down as per the New Industrial Policy of India.

The total number of Foreign Technology Approvals (FTAs) in 1998 accounts for 34.30 percent of the total foreign approvals which signifies that there is a slight upward trend in the FTAs approval as compared to the previous year. The reason of declining trend in share of FTAs in total foreign approvals may be attributed to soaring FDI during the period under review. This has happened on account of government policy for attracting more FDIs as compared to any other sources of foreign capital.

The post NEP scenarios as regards foreign collaboration approvals tell a different story. The advent of New Industrial Policy of 1991 seems to have much influence on foreign collaboration approvals. However, some erratic trends have been witnessed. The reasons for these have been largely
attributed to frequent changes in political reign, cumbersome procedural formalities, and absence of suitable partners in case of collaborations, Joint ventures. Negative impact of prolonged controversial settlement over Enron power project and ambiguous policy framework.

With the onset of the New Economic Policy consequent upon several liberalization packages for the foreign investors, MNCs/TNCs are now keen on setting up 100% subsidiary in India. This subsidiary syndrome is not any beneficent to the Indian affiliates but the Multinational Corporation reaps the advantage to the full in a variety of ways.

It is widely felt that the SEBI (substantial Acquisition of Shares and Takeovers) Regulations, 1997 are in favour of the acquirers or bidders. What's more, the sagging stock market, with falling market capitalization, in the last couple of years makes quite a few Indian companies vulnerable to takeovers?

The strategy of giving more emphasis to MNCs was reflected in the policy declarations that were made in the 1980s. These highlighted liberalization of Industrial licensing (approval) rules, a number of other incentives and
restrictions from foreign equity under FERA to 100% export oriented units. To attract more MNCs, four new Export Processing Zones (EPZ) were set up in addition to the two existing ones.

The aims of New Industrial Policy:

1. To hold on the gains already achieved.
2. To rectify the crookedness or weaknesses that have emerged on the economic screen.
3. To uphold sustained growth in productivity, gainful employment and efficiency.
4. To acquire international competitiveness.

Foreign investment has clearly been a major factor in stimulating economic growth and development in recent times. The contribution that Multinational Corporation can make as agents of growth, structural change and international integration has made foreign investment a coveted tool of economic development. In India, there has been a growing recognition that any credible attempt towards economic reforms is involving upgradation of technology, scale of production and linkages to the increasingly integrated globalized production system through the participation of Multinational Corporations. The
development strategy before 1991 was neglected in India. The government is now pursuing a pro-active policy to attract foreign investment. However, the foreign investment policy per se is still only one of the concerns of the foreign investors, for the foreign investment policy determines the ease of accessing the domestic market and the terms and conditions of entry.

Foreign investment in India in 1997-98 was lower at US $5025 million compared to US $6008 million in 1996-97 because of a decline in portfolio investment. Although Foreign Direct Investment (FDI) increased by 18.6 percent from US $2696 million in 1996-97 to US $3197 million in 1997-98, portfolio investment declined from US $3312 million in 1996-97 to US $1828 million in 1997-98. This decline in portfolio investment is mainly attributable to the contagion from the East Asia crisis, which adversely affected capital flows to all emerging markets.

The Indian economy is all set on the high growth path. The economy does offer high opportunities for foreign investors. Foreign direct investors, portfolio investors including FIs now must address the country from the point of view of economic development as well as social welfare. The reforms process is very much in place and moving ahead well.
Globalization has produced favourable impact on the development of MNCs as illustrated by factual study of Hindustan Lever Limited (HLL). MNCs have expanded, improved earning capacity, profit and profitability. There has been more than 300 percent increase in the sales of HLL over its base year 1987. The growth of profit of HLL is faster than the growth of sales. HLL was able to increase the exports to the tune of 15 percent of the net sales. MNCs are making significant contribution to export earnings. Their contribution to National Exchequer has gone up substantially as a result of low taxation rate and simplified procedure of tax evaluation.

Development of social services is the responsibility of the central and the state government both. It is crystal clear that the lack of social services is the major hurdle in attracting MNCs to take part in the industrial development of the country. The NEP has enlarged the scope of activities of MNCs in all the sectors of economy. It is equally important to call upon MNCs to play their due role in the development of social services. The MNCs should be asked to invest in social services sector, which is the foundation to establish a strong industrial base and economic structure.
Suggestions and Recommendations:

MNCs have played important role in globalization of Indian economy. The MNCs will play still more useful role if the following suggestions are implemented.

It is not in the interest of the national economy to disinvest public sector enterprises just for foreign exchange. It is necessary that distinction is made between profitable and losing public units. The government should offer tranches of share to MNCs when it is found that a public unit can not be salvaged and put back on sound rail as a profitable concern.

It is not advisable to invite MNCs in the insurance sector, which is the main channel for mobilizing domestic savings. Insurance corporations of the public sector are making important contribution to numerous projects of social sectors including health, education, communication, power and other infrastructure.

Globalization in the Indian context should be linked to ever-larger investments in jobs. The MNCs should be invited to take the project, for investment, which can lead, to absorption of unemployed hands of the country.
Unemployment is the basic problem that can upset the economic and social harmony.

The monetary and fiscal policies should make initiatives that are helpful to augment the corporate value. It would be much more useful to lower the rate of interest and taxation, stabilized the exchange rates and hold the price line.

The MNCs should be encouraged to invest in technology for development of the agricultural sector. The strong agriculture sector is the guarantee of the strong economy. India should refuse to continue to be exporter of raw materials for industries of the industrialize countries. It requires investment in technology for strong industrial base in cooperation with MNCs in collaboration with domestic industries.

The strong technological base guarantees strong economy for global competition. The country will be in a position to take full advantage of the upcoming globalization as a consequence of WTO arrangement. It is a fact that the India had made mistakes in past so far as economic planning concerned. The private initiative of MNCs would be strong motor to globalize Indian economy.