

Indian captains of industry send crossed signals to political parties

by Susan Maitra and Ramtanu Maitra

After supporting the economic liberalization process since its introduction by the ruling Congress Party government in 1991, the Confederation of Indian Industry (CII), India's most influential industry association, suddenly changed course and unleashed an unexpected verbal attack on the foreign multinationals (MNCs) now investing in India.

The blast was delivered five weeks before the country went to elect a new government for the 11th time in the 50 years since Independence, and was followed up with intense political wheeling-dealing. Although the issues raised by the CII need closer attention and should be used for formulating a national policy on how to make foreign investment most effective, the subsequent backpedalling by the CII itself, and the compromised statements issued by the major political parties on the subject, instead made the whole thing a charade.

The paper that drew wide attention throughout the country was delivered on March 18 by CII General Secretary Tarun Das. Titled "MNCs Need to Rethink India Strategy," the crux of Das's criticism was the following:

- The trend of the multinationals' interest in India is more toward sales than manufacturing. This, in effect, shows their reluctance to invest in India.
- Multinational strategy is focussed on the short term rather than the long term; it is aimed at generating profits quickly.
- Multinational strategy is to bring in technology and products that have been phased out in their country of origin.
- Multinationals have commonly leveraged an Indian partner to get into India on a 50-50 or 60-40 basis to get approvals, and then acquire a controlling share.
- In spite of having a joint venture with an Indian partner, multinationals often set up a 100% subsidiary under their full control.
- The multinationals generally use expatriate managers and CEOs for the joint venture company rather than the available, competitive Indian management.
- Another trend is reflected in the "cowboy" approach: zooming into India, hastily choosing a partner, making a mistake, and then wanting to break the relationship.

Intersecting election campaigns

The political overtone of the statement and the timing of its issuance were identified as the thumbprints of some big industrial houses, particularly those associated with the automobile sector, whose longstanding monopoly to sell poor technology-based products, is being seriously challenged by the newly arrived multinationals.

Das's statement came at a time when the major political parties were in the process of drafting their election manifestos, and when all prognostications indicated a change of guard in New Delhi in May 1996. The Congress Party government of Prime Minister P.V. Narasimha Rao, the architect of the open door economic liberalization policies, is expected to encounter heavy weather in the coming elections and it is likely that the left-liberal democrats of the Janata Dal and the Bharatiya Janata Party (BJP)—all earlier critics of the Congress Party's liberalization programs—may get a chance to form the government in the capital or participate in it.

At the same time, it is a fact that the CII is under pressure from the big industrial houses wary of the growing foreign ownership that follows the multinational investment. Despite their discomforts, available figures indicate that India does not compare unfavorably with the other Asian countries in this respect. China permits 100% foreign ownership in certain cases, but is tougher than India on intellectual property rights. Indonesia, which earlier did not allow more than 80% foreign ownership to be reduced to 49% over five years, is now allowing 100% foreign ownership. Neither the Philippines nor South Korea has any restriction on foreign equity holdings. Malaysia has a complex set of laws that seek to link foreign equity with exports. Thailand and Taiwan also have liberal equity holding laws.

But one aspect of China's ability to arm-twist foreign companies into agreeing to transfer technology in the automobile sector has, no doubt, drawn the attention of India's industrial houses. Last year, China entered into negotiations with General Motors, Ford Motors, and Toyota Motors to select a partner for manufacturing mid-size cars. GM won the contract because it agreed to a more generous transfer of technology. In another deal in 1995, Daimler-Benz edged out the Chrysler

Corporation on a mini-van manufacturing deal when the Germans offered a more generous transfer of technology. India, by contrast, does not impose technological conditions and, as a result, is allowing every auto manufacturer to come in.

'We didn't really mean it'

Whatever is really bothering the CII protesters aside, the confederation's outgoing president immediately began backpedalling. Rajive Kaul went from pillar to post to express support for multinational investments in India and made clear to more than one newsweekly that "the CII is not against TNCs [transnational corporations]." He emphasized that the CII "is very much in favor of them establishing long-term partnership on a win-win basis."

Kaul's belated efforts to gloss over the "political overtones" in the statement, however, had few takers. BJP General Secretary, K.N. Govindacharya, who has long expressed reservations about the CII's romancing of multinationals, among others, waved the statement off as "CII's political game." He said that while it may seem that the CII today is against the Congress Party policies on transnationals, tomorrow it may be a different story. Govindacharya also emphasized that the CII is under an illusion if it believes that the BJP favors replacing transnational dominance by "big national business overpowering the small and medium-scale entrepreneurs."

If the CII failed to impress Govindacharya by its "political game," it did well with others. It invited the BJP leader Atal Behari Vajpayee and former BJP president Dr. Murli Manohar Joshi to attend its annual session on April 16.

At the session, Vajpayee, who is considered by many as the prime minister in the wings, said the BJP does not call for total and absolute rejection of foreign investment, but wants prioritization of areas in need of foreign investment. He said the BJP was of the view that foreign capital was required in power and other components of infrastructure and, as such, it would be encouraged. He criticized the Congress Party's economic liberalization policies, not for their content but because of the corruption that they have allegedly spawned. Vajpayee also stated that it is time that Indian industrialists start investing in in-house research and development.

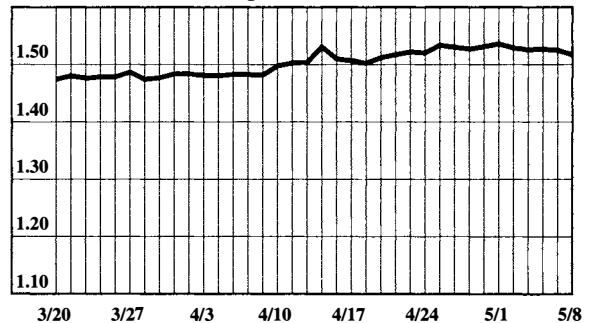
Earlier, in a meeting with Foreign Minister Pranab Mukherjee, a former commerce minister who has long been a friend of Indian industrialists, the CII recorded Mukherjee's official claim that the CII's litany of complaints against the multinationals did not cause any problem with the ruling Congress Party. All of the leftist leaders have endorsed the CII paper on their own accord.

At the bureaucratic level, the CII paper did not cut ice. Senior officials in the secretariat of the high-powered Foreign Investment Promotion Board did not give much credence to the paper either. They pointed out that the increase in foreign direct investment has come about only in the last year and, since the new foreign direct investment guidelines were introduced, a total of 4,000 proposals has been cleared.

Currency Rates

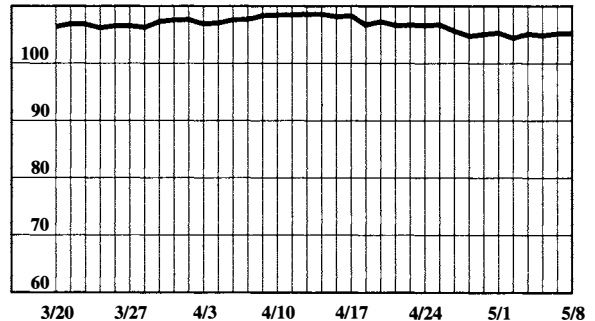
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New York late afternoon fixing



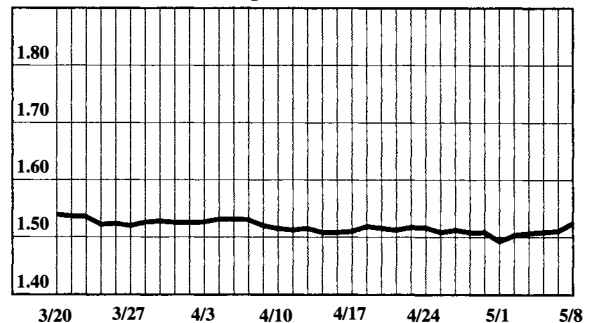
The dollar in yen

New York late afternoon fixing



The British pound in dollars

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The dollar in Swiss francs

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