

## MULTINATIONALS AND FDI

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There is little evidence to support the widely held view that the entry of MNCs will fire the economy by augmenting the capital available for investment, bringing in up-to-date technology and improving access to foreign markets

The East and South-East Asian countries, specially China, have received huge and rapidly growing amounts of foreign direct investment (FDI) in recent years. However, the bulk of investment, more than 90 per cent in most cases and 80 per cent even in China, continues to be funded by domestic savings.

In China, expatriate Chinese have pumped money into their motherland. As much as 80 per cent of the stock of the FDI is held by overseas Chinese mainly from the developing countries of Hong Kong and Taiwan.

The experience of Japan, South Korea and Taiwan provides strong grounds for disproving the belief that large scale FDI is necessary for technological progress or rapid growth. Japan built a wide industrial base before and during the second World War largely through indigenous effort. It restricted foreign equity investment and made national companies the principal agents of development.

Technology transfer was effected not through the FDI but mainly through non-equity means such as licensing agreements and subcontracting to acquire advanced technologies, designs and, in some cases, marketing tie-ups with foreign companies for exports. This formed the basis for building up local skills and absorptive capacity to make use of imported technology.

This, together with an aggressive domestic R&D effort, actively encouraged and supported by the government resulted in their being able to close the technology gap and emerge as competitors. The motivation and desire of the indigenous firms, most of which do not have foreign collaboration and which account for the larger part of the total manufacturing activity, have been crucial factors in the pace of very rapid industrial growth in these countries. In light of this evidence, it is difficult to see what role the MNCs can play to boost the Indian economy and why they are being pushed as the vehicles of economic growth.

There seems to be little doubt that India will suffer rather than benefit from the entry of MNCs. Unlike in East and South-East Asia, the MNCs' interest in India centres mainly on the large and growing domestic market rather than as a low-cost export base.

Large scale entry of the MNCs is, therefore, likely to result in their capturing part of the market and squeezing out inefficient, non-resilient local firms. To that extent, the net addition to productive capacity as a result of the MNCs entry will be less than what their gross investment might indicate.

If the MNCs gain a commanding presence in the domestic market and indigenous firms remain sluggish in their response to this competition, the nature and pace of technical and product changes will be increasingly determined by the MNCs.

The international playing field has meanwhile changed after the recent agreement on intellectual property rights, pressures for widening their scope and stiffening their terms, as well as for according equal treatment to indigenous firms and the MNCs. The IPR regime makes it much more difficult to follow the

older route, followed by the East Asian countries, of learning through copying and imitation followed by adaptation and innovation.

Gene Campaign holds the view that a free entry for the MNCs is not desirable. Competition from the MNCs as a spur to efficiency is neither necessary, nor is it the best way to protect the Indian consumer. An active policy to promote greater competition among indigenous firms and allowing them free access to available technology is more important.

We are also apprehensive that the entry of the MNCs will seriously aggravate the existing inequality in society, for example, by huge salaries and perks for housing etc, creating a new class of elite haves. This will increase the gap between the living standard of the masses and the executive class. Gene Campaign feels it is essential to give ourselves as much autonomy as possible to shape products and lifestyles in the long term interests of our people. It is our view that our financial planning should include the following:

- \* We should limit MNC investment in mass consumption goods especially on the basis of majority ownership.

- \* Efforts to attract the FDI should be focused on areas where technology is changing rapidly, in sectors producing intermediate and capital goods and in activities with high export potential.

- \* A concerted effort must be made to identify areas in which expatriate Indians have established a presence in manufacturing and/or technology development.

- \* Policy focus should shift from the FDI per se to active encouragement of non-equity routes to access available technology.

- \* There should be a strong and active policy of pressure on and persuasion of indigenous firms to spend on R&D, and on importing technology.

Let us remember that the effort has to be made by us, not by the MNCs.