Multinational Corporations and Employment in Third World: With Special Reference to India

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PREFACE

Preface

Multinational Corporations (MNCs) have been playing a crucial role in the political-economic activities of the Third World. Almost a mysterious aura seems to surround them. Some of them have acquired a legendary or mythical character in popular imagination. Certain studies have highlighted the "Modernising Role" played by MNCs in developing countries by introducing new technology, helping in better use of raw materials, updating the managerial skill and providing considerable employment to skilled, semi-skilled labour. On the other hand, certain studies, especially in the Third World have clearly spelt out that "MNCs are simply a new form of old exploitative, international business firms with profit as their basic motive".

Today a student of economics would perhaps look foolish if he fails to re-align his sights in the light of what has been known about Multinational Corporation. A student of "International Affairs" would likewise tend to repeat obsolete inanities of the previous generation, if he fails to refine his

concepts in the light of the new trends which multinationals have set in International economic relations.

This study has been divided into seven chapters. Chapters I and II deals with the development, industrialisation and employment in the context of the New International Economic Order (NIEO). Chapters III and IV deals with the direct and indirect employment effects of the MNCs in developing countries. Chapter V deals with the Free Trade Zones (FTZs) of the developing countries. Chapter VI deals with the Government policy as determinants of MNCs operation in developing countries. And last chapter is the conclusion part of the study.

I owe my sincere and deep gratitude to Professor Sushil Kumar for his keen interest in my work and constant guidance, encouragement and patience in correcting my manuscript for preparation of my final dissertation. However, I could never have completed my dissertation without the inspiration and encouragement of my loving parents.

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- SHAHUL HAMEED

CHAPTER ONE

Chapter One

INTRODUCTION

MULTINATIONAL CORPORATIONS AND DEVELOPMENT - RETROSPECT AND PROSPECT

The objectives of industrialization in the newly emergent nation of Asia, Africa and Latin America are, namely:

(a) To overcome economic backwardness inherited from precolonial and colonial past.

(b) To provide meaning and substance to newly acquired political independence by extending the logic of this national independence to the entire field of economy for breaking the continuing shackles of colonialism and neo-colonialism.

(c) To solve the major and urgent problems of socio-economics transformation like removal of poverty and unemployment, eradication of hunger and want, elimination of illiteracy and other epidemic diseases.

In the process of attending to these basic tasks, the governments and people of the developing

countries came face to face with the global reach and penetrating impact of the multinational corporations (MNCs).

Since World War II there has been a dramatic increase in the activities of national corporations outside their national boundaries. But the lineage of MNCs may be traced back to the Dutch and English trading and colonising companies of the 16th and 17th centuries while the overseas expansion of the modern business enterprise followed quite quickly the emergence of the joint stock company in the mid-19th century. The late 19th and early 20th century saw many of today's leading MNCs establishing foreign affiliates, and recent research[1] has suggested that earlier commentators considerably underestimated the extent and significant of foreign direct investment. The 1960s saw a very rapid expansion in the direct investment route of resource transmission, and with it a changing strategy and organizational structure of MNCs.

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1 As summarized by Dunning (1983). Dunning J.H. and Pearce, R.D. (1981), the World's largest Industrial Enterprises, Farnborough, Gower Press.

During the past decades the multinational corporations have caused much controversy all over the world. The controversy has captured the attention of scholars, writers, journalists and governments. The United Nations Economic and Social Council appointed a group of "eminent persons" to study the role of multinational corporations and their impact on the process of development, especially that of the developing countries, and also their implications for international relations and to formulate guide-lines which may possibly be used by governments in making their sovereign policy decisions in this respect and to submit recommendations for appropriate international action.[2]

There is a difference of opinion over the definition of "multinational", "transnational" and "international corporation". It has various names like "direct investment", "international business", "international firm", "international corporate group", "the multinational corporation", the "multinational enterprise", and so on. But essentially all

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2 United Nations, Department of Economic and Social Affairs, Multinational Corporation in World Development (New York, 1973), DOC., ST/ECA/190, p.vi.

MNCs keep their headquarters in one country and build factories, manufacture and sell their products simultaneously in different countries.[3] They operate in different countries making direct investments or entering into collaboration with the host country or supplying technology and getting fees and royalties. Raymond Vernon says:

> "A multinational business enterprise can be thought of as a cluster of corporations of different nationalities that are joined together by a parent company through bonds of common ownership, that respond to a common strategy, and that draw on a common pool of financial and human resources. In comparison with the average business enterprise most structures of this type, are very large".[4]

During the last decade, the multinational corporations have become increasingly a subject of controversy and debate. On one hand the MNCs are a domain of business - administration specialists and economists. On the other hand scholars in other disciplines, especially political science,

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3 Tugendlat Christopher, The multinationals (Harmondsworth, Penguin, 1974), p.19.

4 Raymond Vernon, "Multinational Business and National Economic Goals", International Organisation, vol.XXV, no.2, 1971, p.694.

have turned their attention to the impact of MNCs on the host government decision-making and on the international system. The immense economic power and financial muscle of MNCs have presented an enormous challenge to the sovereignty of states in the Third World. The role of MNCs operation in the international economic and political system, therefore, remains a subject of intense argument and debate.

Multinational corporation can be a private, a state-owned, or a mixed enterprise. Each enterprise carries out a number of economic activities such as production, marketing and research in different countries simultaneously with resources being allocated without regard to national frontiers. Its affiliates (branches, subsidiaries, joint ventures) are joined together by ties of common ownership or various means of control and are responsive to an overall common management strategy.[5] Being non-governmental generally, these are referred to as transnational

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5 For more restrictive concepts, see Werner J. Feld, Non-governmental forces and World politics. (New York: Praeger, 1972), pp.22-23 and the foot notes listed there.

corporations (TNCs). The United Nations studies since the establishment of the Commission on Transnational Corporations in 1975, refer to them as transnational corporations.

The MNCs: A Threat

The MNCs generate some fairly common reactions in the developing countries in which they operate. One reaction associates the MNCs with power - power of a sort and on a scale that leaves commentators in the Third World uneasy and concerned. According to the critics the MNCs are in a position to shape the consumer demands of any country in which they operate and try to determine the industrial technology that will be used in satisfying these needs. They try to circumvent the restraints that governments seek to apply on business, to bolster the political position of the classes that MNCs favour and to magnify the diplomatic influence of their home countries. Similar other arguments are as follows:

(1) The LDCs argue that for centuries the MNCs of the developed countries have operated in their countries, but theareas of investment have been in plantations, extractive industries and luxury or semi-

luxury good and the rate of growth has been low. In the post-independence period, it is this trend which has continued.

(2) The LDCs have to face MNCs within their boundaries with weak countervailing power. The MNCs take decisions not in the interest of host countries but in their own interests.[6]

(3) Raymon Vernon has raised the issue of the relative advantages to 'home' and 'host' countries. He has set three criteria for assessing this:

(a) How does the multinational enterprise distribute its functions geographically - especially such functions as production, export, and research.

(b) How does the multinational enterprises distribute rewards between subsidiaries, especially rewards that effect the level of local taxes.

(c) How does the enterprise respond to governmental measures aimed at increasing local benefits, such as

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6 Turner, L., London, 1970, p.55.

> requirements that the ownership of the subsidiary should be shared with local interests on a joint venture basis.

While the governments in developing countries have to cope with the enormous power of MNCs, the problems as perceived by these countries differ in substance and intensity from country to country. The political conditions under which governmental policy responses are made, also vary. Hence the basic concern is to weigh the economic benefits that may be desired from the operations of MNCs in a particular country as against the imperatives of social policy autonomy and security concerns. Another concern is to reconcile these conflicting interests of various domestic groups that are affected by the activities of MNCs. This may be elaborated like this:

1. The economic power of MNCs produces great anxieties regarding governmental autonomy of policy choices. The political leadership in many developing countries is pre-occupied with nation-building goals and any impairment of sovereignty is perceived as a threat to these goals.

2. Domestic industries are not eager to see the establishment of competing MNCs subsidiaries, which might produce better, yet low priced goods. Hence pressures are exerted on national governments to oppose the entry of new MNC subsidiaries.

3. Developing countries generally lack governmental experts who can negotiate with highly sophisticated representatives of MNCs the terms of agreement.

These factors have placed many Third World countries in a difficult dilemma: They need the economic, techn.logical, financial, and managerial resources MNCs have to offer but they fear that political cost of taking advantage of these resources is too great. The consequences has been high degree of tension and friction between developing countries and MNCs, many of which begin to reconsider the need of establishing new subsidiaries in the Third World or, in fact wonder whether it is worthwhile to continue their operations there. This situation has been caused to a large extent by the growing independence of world's economies and aggravated by the spreading network of manifold

relations and interactions created by the MNCs themselves. Deep apprehensions about their countries dependence on the industrialized states in general and on MNCs in particular has led third world leaders to use various United Nations fora to develop strategies and initiate attack against the perceived encroachment from current and prospective MNC activities on their governmental autonomy.

In 1950s and 1960s most of the former colonial countries got independence. Many of their leader hoped that international and regional efforts would bring substantial improvement in their economic status. In 1961, the first United Nations development decade was launched with great fanfare. The European Economic Community (EEC) expanded its association program in Africa. In Latin America the Alliance of progress was initiated in 1961 with expectation that the level of economic development could be raised substantially in ten years. However these initiatives did not produce the hoped for economic results. At the same time, the leaders of the Third World began to realize that while achieving political independence did, indeed, provide formal equality with other countries,

much of dependence on the former masters remained in economic and administrative areas, substantially reducing their freedom of choice.

A major forum for efforts to improve the economic ills of Third World was (and remains) the United Nations Conference on Trade and Development (UNCTAD) established in 1963 and holding its first meeting in 1964 in Geneva. UNCTAD was organized mainly by a group of 77 developing countries which became known as the "Group 77", although by now it comprises 120 countries. Through UNCTAD the Third World attempted to achieve:

(a) Industrialization

(b) The elimination of tariff barriers for goods manufactured in the developing countries and imported into developed countries.

(c) The stabilization of prices for primary commodities exported from third world countries and the financing of such a scheme by the industrially advanced countries.

(d) Reduction or elimination of debts owed by the third world and outright development assistance

grants pegged at first to 1 per cent of GNP of the developed countries and later more realistically lowered to 0.7 per cent.

The impact of MNCs on the process of development emerged as a subject of various studies in different United Nations bodies during the 1960s. These studies, in turn, resulted in a number of reports and resolutions. In the early of 1968, the sixth Asian Regional Conference of the International Labour Organisation (ILO) urged the ILO governing body to address itself to the question of management - labour relations including those in MNCs. In 1971 the governing body of the ILO undertook to assess the relationship between MNCs and Social policy.[7]

UNCTAD also passed, a number of resolutions in 1972 dealing with relationship of foreign private investment, to restrictive business practices (especially of MNCs) and to transfer of technology. These resolutions had their origin in studies made by the

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7 See, United Nations Department of Economic and Social Affairs, Multinational Corporations in World Development, pp.116-17.

UNCTAD secretariat and they proposed a variety of actions, including the establishing of ad hoc groups of experts to come up with resolutions reflecting third world interests.[8]

Perhaps the most significant resolution on the subject of MNCs was passed in July 1972 by the United Nations Economic and Social Council (ECOSOC).[9] Adopted unanimously, it formally and explicitly recognized the importance of MNCs as a subject for comprehensive study and possible action by the United Nations. The resolution refers to the ILO and UNCTAD efforts regarding MNCs and has become the major trigger for subsequent actions taken by the United Nations Secretary General and for the initiation of negotiations on a code of conduct of MNCs.

The multiple attack through the United Nations on what the Third World governments perceived to be adverse efforts of MNC operations in their countries was complemented by the endeavours of introduce a New International Economics Order (NIEO). In the 1972 session, the General Assembly passed Resolution 3016 (XXVII) affirming the permanent sovereignty of the

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8 Ibid., pp.108-15 provide details

9 Ibid., pp.106-108. (No.161-LIII).

developing states over their natural resources. This was reiterated by United Nations Economic and Social Council through a similar resolution in May, 1973.[10] In May 1974, the General Assembly adopted the declaration on the establishment of a New International Economic Order, plus a programme of Action for implementation,[11] which offered a comprehensive revamping of traditional relations and interactions and thereby affecting MNC practices and activity. The character of Economic Rights and Duties of States (Resolution 321, XXIX), adopted in December 1974, also contains clauses that have a bearing on MNCs, as far as natural resources and expropriations are concerned. Finally the General Assembly resolutions of September, 1975 regarding Development and International Economic Co-operation[12] affects MNCs with respect to technology transfer and the establishment of New Manufacturing subsidiaries.[13]

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10 Ibid., pp.111-13.

11 Ibid., pp.116-18. Malvin D. Barger, "Who Needs the Biggies?", Vital speeches of the Day, vol.XLII, no.7, 15th January, 1976, pp.218.

12 Ibid., pp.114-15.

13 Ibid., pp.118-20.

Most of the Third World countries after their liberation started out on the path of rapid economic development. A new process of investment in science, technology, education, and industry started. Today, the cumulative investment in all fields in Third World countries is hardly 30 years old and they are trying hard to catch up with the west with 300 years of cumulative investment. They need extraordinary resources, of finances, science and technology, from abroad. Three broad possibilities are open for them to secure the needed resources. International bodies like the world bank extend loans to developing countries for development of certain sectors on certain conditions. Finances and technology are available also from socialist countries but they come in only to the state sector of the developing countries. The western world is another source for acquiring of these resources, the governments of the western countries extend finances either as aid or loans.

A non-governmental source from which resources can be acquired are the multinational corporations which have substantial stocks of finances and technology.

The interplay between multinational corporations and nation-state can be observed and interpreted from different perspectives. The multinational corporations as an institution are responsive to the imperatives of their double identity:

(a) It must comfort itself as a national of the country that sanctioned its creation.

(b) It must respond to its organic link with units in other countries.

A foreign subsidiary must be prepared to shoulder the burdens of any resident, namely the burden of demonstrating that it is not the agent of some foreign interest, public or private. At the same time the parent in its home territory must be prepared to accept some comromise in the commitments of a subsidiary to the interests of the homeland. It is possible to study usefully the complex relationship between the multinational corporations and states in the host countries.

Similarly, it is necessary to study the impact on the international system. The skill, the speed and ease with which MNCs are able to move enormous liquid

funds from own country to another, undermines the international monetary system. Theories of international trade also love relevance because of the significant increase in intra-company transfers, growing practice of adoption of transfer - pricing and jumping trade and tariff barriers by locating production plants in various national jurisdiction and obeying the central command of corporate headquarters.

In this context, an attempt to study the impact of MNC operations on employment situation in the Third World, would help in throwing some light on the place of MNCs in national and international systems.

CHAPTER TWO

Chapter Two

INDUSTRIALISATION, EMPLOYMENT AND NEW INTERNATIONAL ECONOMIC ORDER

Big multinational corporations (MNCs) are a subject of much controversy. The MNCs effectively react to the prime world economic reality: the unequal distribution of resources, human and physical. They concentrate on factors of production and not on political boundaries. Hence they have been able to organize production and market on a world-wide scale, effeciently mobilizing resources as no comparable economic unit operating from national perspective, can do.

MNCs account, at first sight, for a very small share of total employment in the developing countries. According to a report published by ILO's Multinational Corporation Programme, the MNCs employed approximately 4 million people in 1980 or 0.5 per cent of a total labour force of some 840 million (excluding the People's Republic of China). This figure of 4 million tends to underplay the effective importance of MNCs on the employment scene of the developing world:

1. Because it measures only the direct employment effects and not the indirect effects, which also are important.

2. Foreign Direct Investment (FDI) by MNCs in the developing world is highly concentrated geographically - ten largest recipient countries accounted for over half the total stock of FDI in 1977 - which means in turn that the employment impact of MNCs while perhaps small on a global scale, is significant in the countries where MNCs are particularly active.

3. Total employment by MNCs in developing countries almost trebled between 1960 and 1977 and is likely to grow significant in future, although at a slower pace.

4. The MNCs contribute to the growth and formation of a modern industrial work force in high technology industries. And their employment impact cannot be evaluated without taking this aspect into account.

INDUSTRIALIZATION

Transnational Corporations and Industrialization: Policy Issues

Policy issues concerning the participation of transnational corporations in the industrialization of developing countries must take into consideration the specific characteristics of the major types of industrialization strategies adopted by developing countries. Industrialization strategies and policies reflect the measures adopted by a country to enlarge the industrial base and the size of its manufacturing sector. The industrial strategies and policies also reflect adjustments of the industrial sector as a consequence of changing domestic and external economic conditions. The formulation of specific programmes and policies is guided by the perceptions of industrial objectives which may include the development of particular industries to meet specific needs, such as, production of basic goods including food, clothing and building materials or of intermediate and capital goods - e.g., chemicals and engineering goods - essential for production of consumer and producer durable and non-durable goods. Industrial objectives may also

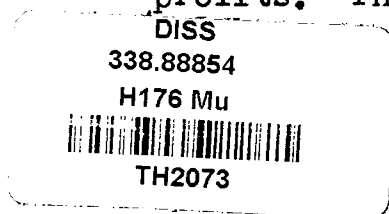
reflect a country's level of its international economic integration. Hence industrialization strategies and policies relating to transnational corporations vary among countries. None the less, it is possible to identify three broad aspects of industrial strategies which developing countries have adopted:

1. The first phase of import substitution in which local production of nondurable consumer goods is protected from foreign competition by high import tariffs.

2. The second phase of import substitution in which intermediate process industry goods, differentiated capital goods, and consumer durables are protected by high tariffs.

3. The phase of export promotion in which industrial activity is encouraged through incentives, tariff liberalization and other measures.

Now a word about the MNCs' nature. Transnational Corporations are market oriented. They do not seek to fulfil development goals of host countries. They seek profits. Their behaviour is a function of production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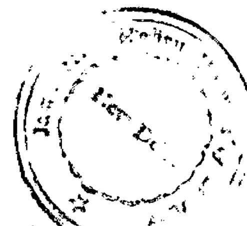

and market characteristics. Hence what is seen as impact specifically of MNCs, often stems from the very nature of a private corporation operating in a market economy, and is affected by the general characteristics of a specific industry in a country.

Manufacturing industries set up by transnationals in developing countries have substantially affected the structure, size and growth of the industrial sector in these countries. In this respect the role of transnational corporations is most pronounced in those few countries which promote technically advanced production. On the other hand, in countries where industrialization is designed in the first place to satisfy basic needs for staple foods, clothing and shelter the role of the transnations is less significant. Transnational corporations have established some industrial capacity in many developing countries and have thereby contributed to the expansion of production, employment and exports in these countries. By focussing on non-traditional industrial products notably in the differentiated capital and consumer non-durable goods industries and in the process industries of these countries they have participated

in efforts to diversify the industrial structure and have thereby also contributed to the shift of industrial production from developed to developing countries. The production of such goods will increase in importance as developing countries proceed with industrialization and the need for essential intermediary and capital goods expands. Finally transnational corporations can make an important contribution to the creation of industrial capability in host countries in terms of entrepreneurship, managerial skills and labour-training.

Impact of Multinational Corporations on Research and Development Activities

Although the present dialogue on the adverse impact of multinational corporations on both home and host countries is focussed on the issues relating to transfer pricing, export of jobs, balance of payments, anti-trust provisions, trading with enemy countries, no issue has consumed more energies and displayed higher emotions than the issue of MNC impact on research and development activities. In developing countries, this issue has become a national concern. Ray Mathews

says that developing countries invite multinational corporations "to promote science - basic industries at home in the hope that they may ultimately become centres of technological innovation with international standing".[1]

But research and development activities are centralized either in home countries or in other developed countries. Hence the developing countries continue to remain dependent upon developed countries for technological innovations and advancements. A study in India by the National Science Foundation says that "the industrial sector of the economy has relied mainly on imported technical knowhow, (and) research in private industry is negligible".[2] This situation has not much changed with the passing of years. But the developing countries are determined to change this situation. They realize that they are endowed with natural resources that have remained thus far unexploited.

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1 Roy Matthews, "The International Economy and the Nation State", Columbia Journal of World Business, November-December 1971, p.58.

2 National Science Foundation, "Expenditure for Research and Development in Various Countries", INDIA (Mimeo), 1966, p.1.

For example, Brazil has about one-third of world's known iron ore reserves, yet its share of the world iron ore market is only one per cent. It is true that the availability of scientific and technical personnel, laboratory facilities and the presence of an overall scientific atmosphere make industrialized countries more attractive places for R and D activities. Slowly this is being recognized by some progressive leaders of developing countries. For example, the Indian government increased its expenditure on research three fold during the last ten years and the supply of trained scientists and engineers have increased four fold during the last decade. At present time there seems to be over supply of trained scientists and engineers in many of the developing countries and this is reflected in so-called brain-drain phenomenon. Thus, in coming years, the MNCs will be increasingly challenged by the host countries with regard to their research and development activities. In other words as Matthews predicted that tremendous pressure from host countries will more MNCs from ethno-centric to a geo-centric behaviour with respect to research and development activities.[3]

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3 Matthews, op.cit., p.58.

Impact of Multinational Corporations on Human Resource Development

The multinational corporations besides providing advanced technological and managerial know-how are an efficient instrument of human resource development, especially managerial and technical personnel. And then, many developing countries in recent years have been demanding from foreign subsidiaries that they employ local people in top-level managerial positions. This political pressure as well as the high cost of employing expatriates have induced subsidiaries to place nationals in top positions. For example, in the 56 U.S. subsidiaries, only less than a dozen U.S. citizens were holding permanent positions in overseas operations. Even this level of managerial employment of level on people by the U.S. subsidiaries has not satisfied either government officials or the local executives themselves. Many local executives interviewed indicated that the so-called localization is carried out in letter only and the spirit behind is lacking. As Stephen Hymer has observed that the MNCs would tend to centralize strategic decision-making in regional co-ordinating centers and in corporate headquarters in advanced countries. As a result he

predicts "Latin Americans, Asians and Africans would at best be able to aspire to a management position in intermediate co-ordinating centers at the continental level. Very few would be able to get much higher because for getting closer to the top the more important factor was a common North Atlantic Cultural heritage.[4]

The role of the MNCs in developing human resources in developing countries seems to be ambivalent. While, on the one hand the subsidiaries have replaced the majority of expatriate managers with local nationals, on the other hand the decision-making power of these local managers is severely limited.

EMPLOYMENT

The number of jobs made available by MNCs has been estimated at 13 of million for all countries[5] in which they operate. About 74 per cent of their foreign investment has been made in developed countries and

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4 Quoted from Richard Barovick, "Congress Looks at the Multinational Corporation", Columbia Journal of World Business, November-December 1970, p.78.

5 United Nations: Multinational Corporations and World Development, ST/ECA 10, New York, 1975.

only 26 per cent in the developing countries. It is not surprising therefore that the total number of jobs made available by MNCs, 12 millions have been created in the developed countries and 2 millions in the developing countries. The effects seemed slight when compared with the total labour force in the Third World, which has benefitted to the extent 0.3 per cent. If however it is compared with the number of unemployed, multinational corporations may be said to have made some impact.[6]

An overall macro-economic estimate is not very meaningful because multinational corporations do not operate in all the Third World countries but are concentrated in some of them. And they limit their operation to certain branches of the economy. Also, they are usually active in the modern sector of industry where the scope of employment generation is limited.[7]

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6 ILO: The Impact of Multinational Enterprises on Employment and Training, Geneva 1977.

7 C.V. Vant SOS: Employment Effects of Foreign Direct Investments in Developing Countries, Mexico City, 1974.

MNCs have a much higher rate of employment-creation in manufacturing. In this sector, they have made significant contribution to employment in developing countries, although, in absolute terms, this contribution has not been large enough to be a decisive factor in the economy of these countries. If the subsidiaries were able to do so, had they relied more on labour-intensive technique, employment creation would have been higher. It should be borne in mind that there is often very little scope for altering production techniques, which are dictated by the market and above all by the type of product. Although some industries may not have lived up to expectations, this is not because of the nationality of the enterprises but because of the kind of products they manufacture. Hence more employment cannot be created if production of every product is undertaken, through labour-intensive techniques. The important thing is to manufacture products which have an inherently high labour content. In such circumstances it is for governments to exercise a choice by encouraging the manufacture of one product rather than another.[8]

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8 U.S. Department of Commerce, Special Survey of U.S. Multinational Companies, 1970, 1972.

Many MNCs have transferred their production, or the part of it with a high labour content, to subsidiaries abroad, because of the lower wages paid in the Third World. Such operations are often called "international sub-contracting" and do much for employment creation in developing countries. But the number of countries, able to benefit from fturure production transfer of this kind seems to be limited.[9]

The indirect employment effects (on employment in other branches of activities) of MNCs in developing countries varys among countries from one sector of the economy to another. Generally speaking enterprises in the extractive industries make very little contribution to employment in other sectors. The indirect effects are greater in manufacturing because of sub-contracting by multinational enterprises, which gives a stimulus to the rest of the economy so that indirect employment grows perceptibly.

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9 M. Shaprston, "International Sub-Contracting", Oxford Economic Papers, 1974; and S. Watanabe, "International Sub-Contracting Employment and Skill Promotions", International Labour Review 1972. Wemer J. Feld, Multinational Corporations and UN Politics: The Quest for Codes of Conduct Chapter 2.

Developing countries with largescale unemployment and relatively well educated population have benefitted from the establishment of MNC affiliates which used low-cost labour for the manufacture of parts for elect onics and other higher technology products to be sold in established markets mainly in the advanced countries of the World. In addition to increased employment, the establishment of MNC affiliates in LDCs has other effects. New skills are taught that may be useful for local entrepreneurs and the wages paid by the MNC affiliates are normally higher than those prevailing in the country. Additional employment sources may be created through the increased use of local suppliers and ancillary services. It is precisely these effects which are seen as major benefits by some observers, and as intolerable drawbacks by others. The critics claim that MNC affiliates often import technologies that are capital-intensive with minimum labour requirement and thus disregard the pervasive unemployment and underemployment that plague the third world.[10]

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10 Ronald Muller, "Poverty is the Product", Foreign Policy, Winter 1973-74, pp.71-102 especially 78-81 and citation therein.

Another source of tension is the impact on local labour when MNCs decide to close plants in LDCs in accordance with global corporate designs. The governmental elites in some LDCs are often fearful that unions, if successful in their aims, will create new positions of power competing with those that the new leadership in the developing countries has recently established.[11] This is likely to induce the governmental elites to fall back on rekindling the fires of nationalism and branding the activities of international labour as a disturbing foreign element for the development of the newly independent countries.

Employment-Generation: New Jobs

The MNCs create jobs in underdeveloped countries and thereby help the host countries reduce the unemployment. In some of the host South East Asian countries unemployment fell substantially during the 1960s[12] by the emergence of MNCs on the scene. Goldfinger testifying before a UN Committee on multinationals said:

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11 See R.W. Cox: "Labour and Transnational Relation", International Organisation, 25 (Summer 1971), 554-84, on.572; Mahender Kumar Saini, Politics of Multinationals: A Pattern in Neo-Colonialism, Chapter-4.

12 The claims of Multinational Corporations, UN, Department of Economic and Social Affairs, no.21, ST/SEA/15, p.54.

> "Given the great and still rising demographic pressures in the developing countries, the direct and indirect creation of new employment opportunities through MNCs is most important. By selecting intermediate technologies - labour rather than capital intensive - in many manufacturing industries, the number of employment opportunities created can be significantly increased".[13]

It is argued that benefits from the operations of MNCs go to the workers, in so far as a constant growth in productivity has the effect of raising the general standard of living. The critics argue that "such statements are always accompanied by false theories about changes in the nature of capitalism" under the title of "managed capitalism", "people's capitalism", "modern capitalism" and so on. One of the theories, kn wn as "managerial revolution", even claims that capitalists have now virtually disappeared as partners and directors of undertakings and that they have been replaced by Managers who are by definition only employees. The neo-liberal theory, while upholding the principle of competition, calls for co-operation by all sections of society with the state which will automatically watch the interest of the population.

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13 Chapter 4. The Claims of Multinational Corporations, Susumu Watanabe, "International Sub-Contracting, Employment and Skilled Promotion", <u>International Labour Review</u>, vol.TCV, no.5, May 1972, p.426.

Some illustrative examples of employment-generation are as follows:

1. Developing countries with largescale unemployment and relatively well educated population have benefitted from the establishment of MNCs affiliates which use low-cost labour for the manufacture of parts for electronics and other high technology products to be sold in established markets mainly the advanced countries of the world.

2. In addition to increased employment, the establishment of MNCs affiliates in LDCs has other effects. New skills are taught that may be useful for local entrepreneurs.

3. Additional employment sources are increased by the use of local suppliers and ancillary services.

4. Goldfinger testifying before a UN Committee on Multinationals said, that, given the great and still rising demographic pressures in the direct and indirect creation of the new employment opportunities through MNCs is most important. By selecting intermediate

intermediate technology, labour rather than capital intensive in many manufacturing industries, the number of employment opportunities created can be significantly increased.

5. Development in fact is a process of education and training. MNCs are the best available mechanism for education of the people providing necessary training for doing their job efficiently. Nestle, a multinational, educates farmers in underdeveloped countries and provides staff training at all levels. An industrial plant cannot be operated without a trained work force. In most of the Third World countries, local labour markets do not offer many industrially trained workers. Most MNCs train workers wherever they start a new enterprise in the developing country. The MNCs acknowledge the need for such training. As Helfgolt puts it, "The concept of treating manpower development as an investment was recognised implicitly by some of the companies, for they capitalized the training

costs in the same way that they capitalized the loss of the plant and its machinery". Training of the workers does not stop after learning the techniques to operate modern machines. It is a continuous process. No doubt, local employees are trained through formal apprenticeship programmes. These who are trained for the supervisory level are many times sent to other countries. Some times special courses for training are designed for managerial and professional staff for advanced training.

Global Corporate Technology and Employment

One implication of global corporate technology for poor countries is that it erodes employment. Generally the poor countries are rich in human resources. It is estimated that the labour force outside the communist countries will increase by 170 million during this decade. Yet the sort of technologies that global corporations export to poor

is capital-intensive and labour-saving, because that is what they developed in industrialized countries as a response to high labour costs. Instead of making efficient use of the manpower of the underdeveloped world, such technology tends to convert the human resources, which are the biggest asset developing countries, into social liabilities. The multinational corporations thus constrainsa developing country in the choice of employment policy. High level modern technologies discourage labour-intensive production processes. Hence the countries with a vast pool of unemployment and under employment, suffer a lot.

The importance of employment creation in the LDCs as an objective of economic development has already been noted. In general the contribution of the industrial sector to employment growth has been disappointing.[15] To take an example from Brazil, while the gross value-added in manufacturing increased at an annual rate of 6.5 per cent during the 1960s the number of employed in manufacturing increased annually by only 1.1 per cent. In India the

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15 B.N. Ganguli, The Economics of Multinational Enterprise, Neil Hood and Stephen Young, p.203 and 203, Chapter 5: Multinationals and Economic Development in the Host Nations.

figures were 5.9 and 3.9 respectively and in Nigeria 4.1 and 5.7.

The MNC's impact on the employment situation, though disappointing, is not negligible. Considering the direct impact on employment in developing countries, the United Nations estimated that MNCs had created two million jobs by 1970. This represents roughly 2 per cent of the total active population of the LDCs and compares with an unemployment total of about 50 million.[16]

The criticisms of MNCs for using capital-intensive techniques need not be overstated. In some industries MNCs have greater absorptive capacity for unskilled labour than indigenous firms. Then, there have been studies looking at the macro-employment implications of particular technology policies. These studies have indicated considerable potential for increasing jobs. While not merely referring to MNC-created employment, it was calculated that a ten-year "technology freeze" policy in Puerto Rico could

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16 Sabola, 1975.

have increased in 1963 employment from the actual figure of 600,000 to one million if the level of industrial out-put had not been affected.[17] But the latter is a heroic proviso and in general there are serious problems associated with these types of studies. Equally important in respect of employment creation is the composition of output. The most significant issues relates to the relative merits of import substituting and manufactured export-promotion poli.ies. The evidence is fairly clear namely that labour abundant countries are likely to create more employment by following an outward looking strategy. In a study relating to Korea, Westpal and Kim concluded that the employment generation effect from export expansion, achieved during the 1960s, was for greater than would have been possible from a comparable amount of import-substituting, industrialization.[18] Again, Sheahan in research on Mexico found that the mix of industrial goods exported in the 1960 used 16-20 per cent more labour per

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17 Weiss Koff, 1973.

18 Westpal and Kim 1973. Multinational Companies and the Third World, Louis Turner.

unit of output than industrial import substitutes. Multinationals are significantly represented in both import and export sectors in LDCs. In general, however, MNCs have a tendency to import more than national firms. And this factor is relevant for the indirect employment effects of MNCs but also for the balance of payments.

POPULATION GROWTH AND UNEMPLOYMENT

Development planners are most worried about high unemployment rates found in the Third World. Some estimates suggest that at least 20 per cent of the world's potential work force is out of a job. Not only is this tragic waste of resources but it posses some severe social problems. Between 1967 and 1970 Latin American unemployment started from 2.9 million to 8.8 million partly because of the population explosion, during the 1970s, 165 millions Indian youth will enter the job market, compared with 117 million in the 1960s despite that Indian unemployment has already been raising from 11.4 per cent in 1961 to 15.4 per cent in 1969. H.A. Turner studying fourteen third world countries and found

unemployment was 8.5 per cent per annum, against 7.8 per cent rise in industrial output, while employment was rising at a mere 3 per cent at most, barely enough to cover the population increase. Finally, it is even difficult to find jobs for those with qualifications, since there are at least 40,000 qualified engineers in India alone.

There is an aspect of the unemployment problem which MNCs find difficult to deal with. Those who do get urban jobs become an urbanized labour "aristocracy" compared to those left behind, for instance, an eighteen year old girl working in a plastics parts factory in Taiwan earned $300 per annum in the late 1960s while her father, mother & brothers together earned only $250 planting rice and bananas on the family farm. Such differentials between urban and rural work look socially disruptive. First and second generation urban workers are often still part of extended family, kinship or tribal systems that ensure that a certain amount of their earnings will filter through to less fortunate members of these networks. But the source of these high earnings is still

a major factor behind the rapid urbanization taking place all over the Third World. The chances of getting an urban job may be low, but the lack of opportunity in the countryside makes the risk worth while. So we find higher and higher levels of urban unemployment as the shanty towns grow faster than jobs created.

Multinationals are often the last to be in position to tackle this problem, since almost by definition they come from economies where capital intensive production is the goal.

MNCs, EMPLOYMENT, AND THE NEW INTERNATIONAL ECONOMIC ORDER (NIEO)

The call for a New International Economic Order is a blueprint for the future. Its origins can be traced to the Bandung Conference of 1955 and the UNCTAD of 1964. In 1974 it was articulated at the sixth special session of the General Assembly of the United Nations, and it was further elaborated at the Seventh Special Session in the following year. The basic questions raised by the New International Economic

Order are: Who is in control and for whose benefit? The developing countries are seeking to define the conditions that will be conducive to their control of their own destinies. This does imply that the rules of the game can no longer be viewed in tradition of terms, involving relations between a hegemonic centre, consisting of the industrial world, and a dependent periphery comprising the developing countries. Great are the persistent disparities in the economic levels of the two groups of countries, the developing countries have come a long way from a declaration of political independence to a declaration of economic sovereignty.

Of course, no country, even the most powerful, can control its destiny in isolation from others. It has been universally acknowledged that interdependence is an inherent element of the New International Economic Order as self-reliance. Thus, realization of the programme of Action on the Establishment of a New International Economic Order does not mean autocracy, but co-operation. It implies not less inflow of capital and technology but more. But its objective is that developing and developed coun-

tries should be equal partners in a new and more equitable design for the world economy and that cooperation between them should continuously enlarge the effective options for development open to developing countries, and continually strengthen their capacity to mobilize resources, both internal and external, for the achievement of their chosen goals. Then twin concerns of self-reliance and interdependence also have important implications for transnational corporations. On the one hand, there may be a potential conflict between national objectives and the global strategy of a transnational corporation. Key decisions on the location of industries may be taken abroad. Technology imported by foreign affiliates, having been designed for the quite different circumstances of an industrially advanced country, may not take adequate account of specific local conditions. Moreover, even where the technology itself is appropriate, their may be some reluctance to permit a complete transfer of the knowhow involved, to keep the technology upto date and to establish the research and development facilities required for local adaptation and innovation. Concern has also been expressed that certain of the transnational corporations tend to

promote excessive consumer expenditure by upper income groups, or introduce objectives and a scale of social values incompatible with a development strategy catering to the basic needs of the population as a whole.

Due to the importance of the international economic system, various international groups have been formed to protect and promote common interests. The international economic transactions have important consequences for the interests of these groups and as a result they seek to influence these transactions and at times cooperate which try nation states to control the impact of the international economic system. There group feel a need to develop an international capability. Some of these groups seeking to offer a countervailing force to the multinational corporation. The efforts of international labour union organization in this regard are most important. The various national labour movements feel themselves to be helpless in the face of the international mobility, flexibility and strength of MNCs. To overcome this a number of strategies has been designed to exert some control over

the corporations.[22] At the national level, unions from two or more different states have co-operated to aid each in their conflict with the same employer. At times this has meant the holding of meetings to exchange information and plan strategy for ve confrontations with management. In other instances this has resulted in actual co-ordinated action against the employer in several different countries. At the regional level, groups of unions have formalized their efforts to co-ordinate for some actions regarding the corporation.

The NIEO also emphasized on the loss of investible surpluses which were repatriated as profits by the MNCs. And, thus, the MNCs were branded as agents of neo-colonialism. They also perpetuated technological dependence. It was also felt that the MNCs manipulated developing countries politically to forestall policies which aimed at autonomous development. In short, MNCs came in for a lot of attack within the framework of NIEO. Thus, new insights were

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22 See David H. Blake, "The Internationalizations of Industrial Relation", Journal of International Business Studies (1972), 17-32: For an examinatio of Union efforts to counteract the advantages of the Corporate.

generated for re-organizing the relationship of MNCs with developing countries, so that this relationship could be useful for promoting the role of MNCs in the economic development of these countries, through attempts at solutions of such major economic problems as that of employment.

CHAPTER THREE

Chapter Three

DIRECT EMPLOYMENT EFFECTS OF MNCs

A. MNCs EMPLOYMENT VOLUME

The volume of MNCs employment in developing countries was estimated at 2 million at the beginning of the 1970s.[1] An estimate for 1967 by Ruber[2] of 1.6 million persons directly employed by MNCs in the developing countries, in the manufacturing sector alone. Using the present available survey data, together with trend projection and adjustments to cover the information gaps, it can be estimated that in 1980 approximately 4 million persons were directly employed by MNCs in all economic sectors in the developing countries of Africa, Asia and Latin America.[3] Two sources provide the core statistical information on which this estimate is based:

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1 ILO: The impact of Multinational Enterprises on Employment and Training, op.cit., p.2.

2 Reuber, et.al., op.cit., p.167.

3 This estimate covers employment in wholly or partly (majority and minority) owned subsidiaries and affiliates of MNEs of all origins, lines of operations and size, including domestic

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(a) Data available from the Harvard Survey[4] on the direct employment of a sample of 180 largest U.S. based Multinational Corporations in developing countries at the end of 1975.[5]

(b) Data obtained from ILO Special Survey for this project carried out amongst a sample of more than 250 main Australian, Canadian, European and Japanese MNCs regarding employment in their affiliates, where they existed in the 40 most important developing countries in terms of FDI stock.[6]

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and foreign employment of MNEs home-based in developing countries. Employment associated both with new investments and with take-overs has been counted. As the coverage of this estimate is wider than the one of the earlier ILO study (referred to in foot note 1 above) it cannot be inferred, therefore, from these estimates that total MNE employment in developing countries has doubled in the decade 1970-80. No attempt has been made, however to standardise these concepts or to determine a minimum capital participation for the concept of "affiliate" in connection with the ILO-estimate of total direct MNE employment in developing countries or elsewhere in this volume.

4 Joan P. Curhan, W.H. Davidson and Rajan Suri: Tracing the Multinationals: A Source Book on U.S. based enterprises (Cambridge, Massachusetts, Ballinger 1977.

5 Adapted from **ibid.**, Table 5.1.5, pp.262-23 of the Harvard Project.

B. MNCs EMPLOYMENT TRENDS

This estimate of approximately 4 million persons directly employed by MNCs in 1980 may appear small in relation to a total labour force of about 840 million[7] in these countries. However, the 4 million persons (some 0.5 per cent of the total labour force in developing countries) are unequally distributed over the various countries and economic sectors, this result in MNCs employment share considerably higher in certain countries and sectors.

There has been a substantial expansion of direct employment by MNCs in developing countries over the past two decades approximately. The ILO Special Survey data indicates for instance, that for the 1960-1977 period, employment in the sample enterprises affiliates increased more than two and a half times. (If new MNCs subsidiaries and acquisitions are included) for the period 1970-1977 the increase was about 75 per cent (see below table 1.1).

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6 Derived from Employment effects of Multinational enterprises in developing countries, pp.viii, explanatory notes, Section-A.

7 Yves Sabolo: "Employment and Unemployment, 1960-90" in International Labour Review, vol.1121, no.6, December 1975, table 3, p.408. The People's Republic of China is not covered by this Table.

Table-1.1: Employment Trends in the affiliates of Multinational Corporations of Australian, Canadian, European and Japanese origin in the Third World (Indices) (1960=100).

Sl. No.	Affiliates of MNCs in	Year	
		1970	1977
1	All enterprises and regions	156	273
2	All regions and by Continents (excluding U.K. Enterprises)*		
	All regions	266	579
	Africa	156	270
	Asia	268	622
	Latin America	290	629
3	Trends by Sector**		
	Agriculture	071	174
	Extractive Industries	206	387
	Manufacturing	294	668
	Others (exp. Commerce and Services, including banking)	269	737

Source: ILO Special Survey referred to in the Explanatory Notes on p.viii, Section-A.

* Data for U.K. Enterprises were not provided by region.

** Excluding enterprises from Italy, Netherlands and the U.K. for which data were not provided for all the sectors shown in3.

C. MNC EMPLOYMENT BY ECONOMIC SECTORS

While more than half of MNC employment in developing countries seems to be located in a small number of countries, its sectoral distribution is even more concentrated. And principally associated with the manufacturing industry. The ILO Special Survey found in 1977 for affiliates of the sample enterprises that 87 per cent of the employees were in the manufacturing sector, 3 per cent in the extractive sector, 1 per cent in the agriculture and 9 per cent in other sectors (in particular commerce and services).[8]

As regards employment trends by economic sector over time[9] the ILO Special Survey found a substantial growth rate for the Multinational Corporation operating in manufacturing (some 560 per cent from 1960 to 1977) and a likewise appreciable increase (some 280 per cent) over the same period for enterprises in extractive industries (although this corresponds only

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8 Excluding affiliates of enterprises from Italy, the Netherlands and the U.K. for which data were not provided by all sectors considered. Derived from ILP: Employment effects of Multinational Enterprises in developing Countries, pp.viii, Section-1.

9 The limitation mentioned in footnote 16 also apply to these calculations.

to half of the manufacturing rate).

The significance of the manufacturing sector for MNCs employment in developing countries is clearly demonstrated by the ILO data as well as by national data for countries in which MNCs are located. Table 1.2 provides data on the employment share of foreign MNCs in the manufacturing sector of 16 developing countries.

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Table-1.2: Percentage share of foreign MNCs in manufacturing employment in selected developing countries*

Sl. No.	Country	Year	Percentage
01	Argentina	1970	10-12
02	Brazil	1970	20
03	Columbia	1970	28
04	India	1977	13** & 33-35'
05	Iran	1975	10-15
06	Jamaica	1970	70"
07	Kenya	1975	30-35
08	Korea, Republic of	1974	12
09	Malaysia	1970	33
10	Mexico	1970	21
11	Phillippines	1970	07
12	Singapore	1976/77	32+ 67++
13	Trinidad and Tobago	1968	40
14	Thailand	1975	02‡
15	Zaire	1974	30-35

* The data are mainly derived from estimates using different definitions of Multinational Corporations. These are, therefore, not fully comparable.

** Organised sector i.e. enterprises normally with 20 workers and more.

' Organised private sector only.

" Extractive industry.

\+ Wholly Foreign owned enterprises.

++ Wholly foreign owned enterprises plus joint ventures.

‡ Samples of U.S. and Japanese enterprises.

Source: Employment effects of Multinational enterprises in developing countries: ILO Publications, p.27, Table-11.3.

In Philippines, where the labour force is still essentially the rural sector, this share is approximately 7 per cent and in Argentina and Republic of Korea some 10 per cent. In Brazil and Mexico 20 per cent of manufacturing sector and in Kenya with a rapidly evolving manufacturing sector for 30-35 per cent. Generally speaking in the last decades, direct employment in the manufacturing sector of the developing countries has however grown less than rapidly expanding labour force.[10] Manufacturing in the majority of these countries accounts for less than 20 per cent of employment a share which will only expand slowly. Thus the role that can be played by the manufacturing sector (especially large scale manufacture) and also the Multinational Corporation in this sector, can only be a limited one in solving the vast employment problems. This applies despite the considerable employment increase in manufacturing Multinational Corporation over the last two decades as evidenced by ILO Special Survey (Direct employment by MNCs Corresponds to 0.5 per cent of the total labour force in developing countries). The generally limited direct employment capacity of manufacturing in developing

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10 See in this connection ILO: Bulletin of Labour Statistics (various issues).

countries is not only connected with the low level of industrialisation of the Third World countries but also with increasing capital intensity and labour productivity of sector. This increasing capital intensity is a world wide phenomenon which is even more marked in the industrialised than in the developing countries.[11]

D. CONTRIBUTION OF MNCs TO EMPLOYMENT IN INDIA

1. Sources of Data and Methodology

A simple statistical assessment of the direct employment generated by Multinational Corporation in the Indian economy is not possible as company wise information on employment is not available. An indirect approach for estimating the employment by Multinational Corporations in India has been made. The first step was to find out the share of the organised sector in total employment. The data for employment in the organised sector has been taken

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11 For e.g. for 1967-72, the all industry coefficient for employment growth elasticities (the percentage employment increase associated with a 1 per cent increase) was 0.4for the industrialized market economics as compared to 0.26 for the developing countries. See ILO: Manpower Aspects of establishing chemical industries in developing countries, op.cit., table-6, p.19.

from 22nd Annual Report on the Working and administration of the Companies Act 1956, Department of Company Affairs, Ministry of Law Justice and Company Affairs, Government of India. After knowing the figures from the total number of Companies in the organised sector the next was to find out the number of Multinationals operating in India. The Multinationals operate in India as branches, as subsidiaries, as colloborators with Indian Companies, the colloborator having minority equity participation or as pure technical colloborators without equity participation. The data on branches of Multinational enterprises have been taken from the 22nd Annual Report of the Department of Company Affairs; the data on subsidiaries of Multinational Corporations have been taken from replies to Parliament questions and the data on financial and technical colloborations from the Bulletin of Industrial Statistics which is a quarterly publication by the Ministry of Industry.

As far as technical colloboration with MNCs are concerned, there are two problems in the estimation of employment. The first is conceptual and the second, a practical one, arising from the nature of the data.

The former problem relates to the duration of the agreement. The technical collaborations are for a fixed tenury and the question, therefore, is do we take the employment generated by the MNCs for the duration of the collaboration only? If we did so, it would not be correct because what is relevant from the point of view of the generation of employment is not whether the collaborations are currently in operation. However, the fact is that the MNCs introduce new technology which in turn acts as generators of employment and the employment continues even though a collaboration ceases. In other words, the employmnet in the field of collaboration would not have been there had the foreign company not participated. As far as the collaboration data are concerned, they suffer from a major limitation, namely that they provide information only the collaborations which have been approved by the Government of India and not on the collaborations which have actually fructified.

In addition to the employment generated by the MNCs which operate within the country, there is what might be called an "external sector of employ-

ment" generated by the MNCs. This is employment generated via collaboration with Indian Companies for setting up joint ventures in third world nations or entering into sub-contracting arrangements. These joint ventures and sub-contracting arrangements creates employment for Indians who are on deputation to these projects. Since no reliable data for an estimate of this indirect "external sector of employment" generation by MNCs are available the present study had to refrain from such calculations.

2. Multinational Corporations and Indian Economy

We may now examine the forms in which Multinational enterprises operate in India and their distribution by industry and country. The oldest form of foreign companies in India have been branches.*

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Table-1.3: Branches of Foreign Companies in India (1950-51 to 1977-78)

Year	Number
1950-51	838
1951-52	855
1952-53	823
1953-54	822
1954-55	820
1955-56	820
1956-57	559
1957-58	570
1958-59	572
1959-60	N.A
1960-61	569
1961-62	564
1962-63	582
1963-64	587
1964-65	586
1965-66	587
1966-67	578
1967-68	581
1968-69	564
1969-70	561
1970-71	543
1971-72	541
1972-73	538
1973-74	540
1974-75	510
1975-76	481
1976-77	482
1977-78	473

Source: The table has been compiled by Usha Dhar from the Annual Reports on working and administration of the Companies Act 1956, Department of Company Affairs.

* In this Report a "branch" is taken to mean a place of business in India of a Company incorporated outside India.

It will be observed that there has been a steady decline in the branches of foreign Companies. In 1950-51 there were 838 branches but over the years there has been practically a steady decline until they reached 473 in 1977-78. In order to estimate the employment generated by Multinational Corporations, it has been assumed that this employment is in the ratio of Multinational Corporations to total Companies in the Corporate sector. This assumption certainly suffers from some limitations, namely, those which arise from differences in the size of Companies and the technology used by them. However, it must be added that while there are a large number of small companies in the private sector, there exists also very large local Companies in the public as well as private sector and therefore, the average size of an Indian Company may approximate the average size of a foreigm Multinational Corporation in India. Also the capital intensity of Indian local companies should not, on an average, be substantially different from that of foreign companies. Certainly, as technology is concerned, the Indian Companies, even those which do not have collaborations with Multinational Corporations use general sophisticated and capital-intensive technology.

After making an estimate of the total direct employment generated to the Indian economy by Multinational Corporations, a productwise study has been made of respective share in employment of Multinational Corporations and Indian Companies. Employment data for some products were available with the Government of India in raw form. From this data, the units belonging to Multinational Corporations and Indian Companies were identified and it was found that there were 19 items which were being produced by Multinational Corporations as well as Indian Companies. There were 391 Units belonging to Multinational Corporations and 99 units belonging to Indian Companies which were producing these 19 items. Not all the Companies, however, reported the information asked for. Out of 391 Indian units, 99 reported and out of 153 units of Multinational Corporations, 68 reported. In percentage terms 39.13% of units of Indian companies and 44.44% units of Multinational Corporations reported. On the basis of the reporting units for each product, the average employment for a unit belonging to Multinational Corporation was calculated and then the employment for all Multinational Corporations Units

in the product was estimated. Similarly, the employment by all Indian Units in the same product was estimated and then the product was calculated. Data was also collected for the employment in the Multinational Corporations as well as in Indian Companies by categories of employees namely supervisory, clerical, skilled, semi-skilled, unskilled and others and then percentage distribution of these categories in the Multinational Corporations and Indian Companies was calculated in order to make a comparative study of the pattern of employment.

Following the methodology outlined above, it has been estimated that for the year 1976 to 1977 the Multinational Corporations account for about 1 per cent of the total employment in the country and about 13 per cent of employment in the organised sector. Considering the distribution of employment between public and private sectors (Appendix-I) and the fact that the branches and subsidiaries of Multinational Corporations are in the (organised) private sector and a large majority of foreign collaborations are also with firms in the (organised) private sector, the share of Multinational Corporations in the

(organised) private sector may possibly be in the range of 30 to 35 per cent. Table 1.4 shows the share of Multinational Corporations in the employment by products for 21 products. Taking the total employment generated by products, it is found that the Multinational Corporations are solely producing machinery for cement industry and Motor Starters and Conductors (i.e. they account here for 100% of the employment).

The second largest share of Multinational Corporation in employment is in record playing equipment, namely 80.70%. This is followed by automobile tyres with 73.24% and storage batteries (lead acid) with 72.47%. The Multinational Corporations account for 61% of the total employment in the production of acetic acid, 56.54% in automobile tubes and 40.46% in dry cells. The products in which the share of Multinational Corporations in total employment is less than 30% are oxygen 26.71%, electrolytic capacitors 19.34%, electric motors 19.04%, Chlora phenicol 16.52%, diesel engines 12.32%, phosphatic fertilizers 11.79%, fluorescent tubes 10.49%, Cement 9.03%, dissolved acetylene 5.78%, plastic film capacitors 4.74%, soap 1.44% and nitrogenous fertilizers 0.35%.

Table-1.4: Percentage Share of MNCs in Employment by Products (January-June 1978)

Sl. No.	Product	Super-visory	Cleri-cal	Skil-led	Semi-Skil-led	Unskil-led	Others	Total
1	Automobile Tubes	02.36	22.45	18.37	75.28	85.50	00.70	56.54
2	Automobile Tyres	26.37	29.83	31.96	69.86	86.60	86.44	73.24
3	Soap	00.85	00.66	01.34	01.13	01.70	00.00	01.44
4	Dissolved Acetylene	05.71	01.65	06.09	13.15	03.88	08.65	05.78
5	Oxygen	15.78	26.71	19.06	35.35	35.35	22.58	26.71
6	Record Playing Equipment	63.63	33.33	33.33	92.85	42.85	00.00	80.70
7	Radio Receivers	43.90	32.43	60.91	83.95	08.77	48.66	40.82
8	Electrolytic capacitors	14.03	00.00	04.16	40.67	02.00	00.00	19.34
9	Phosphatic fertilizers	08.37	05.48	84.95	01.97	08.01	70.58	11.79
10	Nitrogenous fertilizers	02.09	06.46	13.85	01.66	01.99	12.65	00.35
11	Cement	01.80	01.00	09.02	24.90	01.76	01.33	09.03
12	Machinery for the Cement Industry	100.00	100.00	100.00	100.00	100.00	100.00	100.00
13	Plastic film capacitors	04.54	00.00	01.04	11.01	00.27	00.00	04.74
14	Acetic Acid	63.93	49.20	00.00	85.88	00.00	00.00	61.00
15	Chlora Phenol	00.00	06.25	34.93	00.00	37.20	37.93	16.52
16	Diesel Engines	14.26	12.70	12.11	00.07	06.18	03.95	12.32
17	Electric Motors	14.38	21.12	18.94	18.63	29.65	12.06	19.04
18	Motor Starters and Conductors	100.00	100.00	100.00	100.00	100.00	100.00	100.00
19	Storage Batteries (Lead Acid)	65.68	47.60	38.82	77.41	55.88	90.56	72.47
20	Fluorescent Tubes	07.85	14.66	05.16	26.73	04.82	04.27	10.47
21	Dry Cell	42.96	16.66	73.23	00.00	00.00	10.00	40.46

Source: Compilation by the Author of the Indian Component Study based on unpublished government data, Usha Dar, Table-2, p.11.

If we consider the categories of employees product wise, then we find that for certain categories the share of multinational corporations is more than 80%. This high percentage share, however, is confined to specific products like record playing equipment, automobile tyres and tubes,phosphatic fertilizers and acetic acid. For supervisory staff the the highest percentage share is accounted for by storage batteries (lead acid) 65.58% followed by acetic acid 63.93% and record playing equipment 63.63%. The lowest share at Multinational Corporations is in the employment of clerical staff. For all products in the sample, the share is less than 50%, the highest share of 49.20% being in the employment for production of acetic acid.

We may now turn to the pattern of employment by Multi-national Corporations and Indian enterprises in terms of category of employees. As an illustration, a sample of five products have been taken from the chemical industry. These products are dissolved acetylene, oxygen, phosphatic fertilizers, nitrogenous fertilizers and soap. The percentage distribution of employees by categories for these products is shown in Table 1.5.

Table-1.5: Percentage Distribution of Employees by Category of Employees in Foreign MNEs and Indian Enterprises (January-June 1978).

Sl. No.	Category of Employees	Dissolved Acetylene		Oxygen		Phosphatic Fertilizers		Nitrogenous Fertilisers		Soap	
		MNEs	Indian	MNEs	Indian	MNEs	Indian	MNEs	Indian	MNEs	Indian
1	Supervisory	11.11	13.92	06.44	12.00	12.57	18.41	04.91	01.10	03.01	04.98
2	Clerical	04.93	23.97	23.79	19.27	07.81	18.31	16.19	00.79	04.90	10.12
3	Skilled	24.69	18.78	16.12	20.59	26.73	37.42	45.74	93.45	14.71	16.00
4	Semi-Skilled	34.56	13.25	22.17	12.45	01.46	09.88	04.87	00.97	13.20	14.95
5	Unskilled	14.81	21.32	22.58	26.88	08.79	13.62	04.10	00.75	64.15	51.26
6	Others	09.87	08.72	08.87	08.78	42.61	02.33	24.17	00.57	00.00	02.66

Source: Compilation by the author of the Indian Component Study based on unpublished government data. Usha Dar, Indian Component Study, Table-3, p.12.

The above table shows that out of the total employees in the foreign MNCs and Indian companies respectively, the percentage share of supervisory and clerical staff is less in the MNCs as compared with the Indian companies. For the other categories, however, the situation varies according to the product. In the production of dissolved acetylene and oxygen, the MNCs employ relatively more skilled and semi-skilled workers and relatively less unskilled workers than the Indian companies. In the production of both phosphatic and nitrogenous fertilizers, the MNCs employ comparatively less skilled, semi-skilled and unskilled workers and more the general catch-up category "other". In production of soap the Indian companies employ relatively more skilled and semi-skilled workers and the MNCs more unskilled workers.

E. GENERAL CONCLUSION

The share of Multinational Corporations in the overall employment in the country is very insignificant and it is also not substantial when viewed in terms of the employment in the organised private sector. However, when viewed in terms of the employment generated by

products, it is found that there are certain products which are being produced only by MNCs in the country and, therefore they are responsible for the entire direct employment in the industry. There are also certain products in which the Multinational Corporations have a very large share, i.e. more than 70% in the employment generated e.g. record playing equipment, automobile tyres and storage batteries. While the employment is insignificant when viewed in terms of the aggregate figures of employment, the impact is very significant when looked at in terms of specific products. In the overall analysis, it would appear that MNCs cannot be expected to play a major role in the provision of direct employment opportunities for the bulk of the work force in the Third World. This is because of MNCs' limited global employment volume, their uneven spread over countries and economic sectors and their relative decline in agriculture. In this regard, it has to be remembered that most of the Third World nations are engaged in agriculture which accounts for 40 to 60 per cent of labour force. Indeed taking into consideration the comparative advantages of MNCs over local companies, developing country government often seems to ascribe more on economic modernisation

role to MNCs rather than a large-scale direct employment generation with view to promote economic development. However, the MNCs, nearly everywhere they operate, contribute to the growth and formation of a modern industrial work force in high technology industries and their total employment impact cannot be evaluated without taking into account their varied indirect effects on employment, which are increasing and which a number of host country governments are trying to enlarge through a variety of policies.

CHAPTER FOUR

Chapter Four

INDIRECT EMPLOYMENT EFFECTS OF MNCs IN DEVELOPING COUNTRIES

This Chapter deals with the conceptual issues involved in assessing the indirect effects of MNCs in the Third World countries. There is little doubt that indirect employment effects of MNCs are particularly important to developing countries which aim at bolstering their economies and seek to reinforce sectoral linkages. Further, the governments of the Third World countries seek to achieve a long-term employment stimulation through improved inter-sectoral and inter-industry linkages. Despite its importance, however, there exists only a few empirical studies on indirect employment. Even the concept of "indirect effects" as such is not well defined, and is almost impossible to measure numerically with a degree of precision. Additionally if one is to assess completely the indirect employment effect of a particular MNC, one needs to stipulate some kind of "alternative situation" and consider what would have happened if that particular investment had not taken place.[1]

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1 For a detailed discussion of definition of the "alternative situation" and of the problems in specifying it see S. Lall and P. Streeton: Foreign Investment, Transnationals and Developing Countries (London, Macmillan 1977).

CATEGORISATION OF INDIRECT EMPLOYMENT EFFECTS

Three different types of indirect employment effects of MNCs may be distinguished. First, the indirect employment effects of MNCs by virtue of their impact (due accoun being taken of the "alternative situation" in which MNCs are assumed absent) on national income, government revenue, and foreign exchange availability. This may be termed as "net macro economic" impact of MNCs.

Second, the indirect employment effects (again, allowing for the "alternative situation") through the impact of MNCs on other enterprises which compete with them or are otherwise linked to them through various market mechanisms. This may be termed as "horizontal" impact of MNCs.

Finally, the net effect of MNCs on employment in other enterprises directly linked to them in the production chain, by selling or buying from them. This may be termed the "vertical linkage" effect.

A. Net Macro-Economic Impact

If the economic activities of MNCs in a developing country add, in net terms, to total national income, to

the host government's revenue, or to the foreign exchange reservec, they will stimulate employment in several ways. This effect via the generation of income will occur when those who receive it - local share holders or wage and salary earners - spend their increased earnings on this market and so stimulate production. The exact impact of the spending will v ry from case to case: The distribution of increased incomes among different groups will effect the additional employment created to the extent that their spending propensities have different "employment intensities".

Similarly, increased revenue in the hands of the government can permit it to create employment in any way it chooses. Increased export earnings can be a distinct positive factor if the country faces a foreign exchange gap which is greater than its saving gap, in this case, the imports of crucial items, such as capital or intermediate goods can relieve production bottlenecks in domestic industry and so stimulate employment.

By their very nature, such indirect employment effects are impossible to identify and quantify

with any degree of s atistical precision. The problem arises, how to calculate the net contribution of MNCs in comparison to the "alternative situation". If a particular foreign investment has not been made, could domestic investment have provided a substitute for it without reducing investment elsewhere? Is foreign capital a complement to or a substitute for domestic capital? And even if some types of MNCs activity are replaceable by domestic companies, there again arises a question whether efficiency of the domestic enterprises is the same, and whether these are equally proficient at exporting their output.

In a recent study[2] an attempt had been made to assess the balance of payments and income effects of MNCs investment with reference to two different sets of assumptions on "alternative situation". First, the author's assessed the impact of these investments by normal methods of social cost-benefit analysis, using the "alternative situation" of importing the product of the MNCs in question. For the first

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2 Ibid.

assumption they found that over half of the foreign investments in a sample from six developing countries yielded negative effects because of the high protection accorded to all import substitution investments, local and foreign. The countries would, consequently, have been better off in social cost-benefit terms, in these cases, if they imported the products instead of manufacturing it locally on a small scale in highly protected industries with costly inputs and poor infrastructure.

The income and foreign exchange impact of the MNCs becomes obvious if export-oriented, rather than import substitution activities are considered. A great deal of MNCs export activity particularly Free Trade and Export processing Zone (FTZ, EPZ) "offshore" variety[3] (where the existence of an internationally-linked framework of production and marketing is crucial to exports) cannot be replaced by

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3 The employment effects of such MNCs activities considered in Chapter-IV, p.77, Employment Effects of Multinational Enterprises in Developing Countries, ILO, Geneva.

domestic firms acting on their own. Similarly, the considerable[4] growth of exports through international sub-contracting, where a foreign buyer provides designs and marketing services (and sometimes the raw materials) to local firms, could not be sustained by local firms alone.[5]

As regards manufacturing activity, there have been two tendencies in the past decades or so which give rise to the belief that, leaving offshore assembly of the FTZ type aside, MNCs have become more integrated in developing host economies in

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4 There is considerable literature on the growth of these types of MNE activities. See in particular, G.K. Helleiner: "Manufactured Exports from LDCs by Multinational Firms", in Economic Journal, vol.33, 1973, pp.21-47; M. Shaprston: "International Sub-Contracting", Oxford Economic Papers, vol.27, 1975, pp.94-135; S. Watanabe: "International Sub-Contracting Employment and Skill Promotion", in International Labour Review, vol.105, no.5, 1972, pp.425-449; Dimitri Germidis: International Sub-Contracting: A New Form of Investment (Paris, OECD Development Centre, 1980); and F. Frobel, J. Heinrichs and Oto Kreye: The New International Division of Labour (London, Cambridge University Press, 1980).

5 J.M. Finger: "Tariff Provisions for Offshore Assembly and the Exports of Developing Countries", in Economic Journal, vol.85, 1975, pp.365-71; and S. Lall: "Offshore Assembly in Developing Countries", in National Westminster Bank Quarterly Review (August, 1980).

response to governmental policies. First, the most enthusiastic phase of import-substitutions seems to be past and enterprises are now required to be more internationally competitive. Secondly, there has also been a tendency to tighten up restrictions on MNCs entry, often limiting them to sectors of high technology and high marketing where local firms are at a comparative disadvantage.[6] Again this suggests that the net contribution of MNCs to local development has been increased, although not necessarily in terms of the goal of employment promotion.

One sector which has become a massive contributor of revenue and foreign exchange is the mineral/fuel extractive sector, where developing countries have been able to improve their position dramatically vis-a-vis MNCs in recent years. It is, of course, true that, in some countries, MNCs in recent years, have to a great extent, been progressively excluded from extractive activity (e.g. petroleum) but in others they have retained their hold while conceding large increases to host governments, in terms of

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6 Government Policies Regarding Foreign Investments and MNC's are discussed in somewhat more detail in Chapter-V, p.91. Employment of Multinational Enterprise in Developing Countries; ILO, Geneva.

tax levies.

Against these positive factors, there is the possibility that MNCs may be depriving host governments of income and foreign exchange by their transfer price policies.[7] At the same time governments appear to become more alert in checking such practices.

In sum, it can be concluded that MNCs can yield definite macro-economic benefits to host economies provided that they are not enticed by very heavy protection to invest in socially inefficient activities and that they are not simply substituting for local companies which could equally well undertake such activities. This would result in a positive net macro-economic contribution to development.

B. Horizontal Indirect Effects

The term "horizontal" indirect effects is used broadly here to denote all relevant effects of MNCs

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7 See S. Lall: "Transfer Pricing by Multinational Manufacturing Firms", in Oxford Bulletin of Economics and Statistics, vol.35, August 1973, pp.177-195.

on other enterprises operating in the economy. These horizontal effects are of two kinds: narrow horizontal effects i.e. effects on other enterprises directly competing with the MNCs in the same industry, and broad horizontal effects, i.e. effects on other enterprises not directly competing with the MNCs.

The narrow horizontal effects of MNCs (as regards the characteristics of industrial structure, business conduct and performance) can be quite powerful.[8] In terms of industrial structure, the entry of MNCs has a sort of cyclic effect: initially, competition is increased by the new entrants and the challenging of the existing "rules of the game", but as the structure settles down again, the introduction of new techniques of production and promotion may lead to an increase in concentration.[9] This is not to suggest that an increase in concentration is

8 For a review of the literature on the "narrow horizontal effects" see S. Lall: "Transnationals, Domestic Enterprises and Industrial Structure in Host LDCs: A Survey", in Oxford Economic Papers, vol.30, July 1978, pp.217-248.

9 For further exposition and econometric testing of this hypothesis see S. Lall: "Multinationals and Markets Structure in an Open Developing Economy: The Case of Malaysia", in Weltwirtschaftliches Archiv, 1979, pp.325-350.

necessarily undesirable for host countries. To the extent that the introduction of new technique leads to greater efficiency and a wider range of products, the resulting economic change may be acceptable, the dangers being the increase of MNCs monopoly power and their competition with otherwise viable local firms.

In terms of business conduct, therefore, the impact of MNCs activity may be two fold. On the one hand, it may be to force greater efficiency, more technical upgrading and innovative activity, better marketing and a more outward-looking attitude of its local competitors. On the other hand, it may be to force local firms out of business and to increase MNCs own size and monopoly power. What is the likely impact of such developments on indirect employment effects performance? Local competitors of MNCs are likely to expand their employment if they are induced to be more efficient, and so are able to grow faster and export more; if they are induced to undertake greater technological efforts to use more "appropriate" techniques; and if they are induced to opt for a more efficient allocation of work and resources through subcontracting on a large scale, thus relying more on

small, relatively labour intensive local enterprises to perform the simpler production tasks. On the other hand, the presence of MNCs is likely to reduce employment in local enterprises if these are forced to adopt more capital intensive techniques; if small, economically weaker traditional producers are pushed to the verge of bankruptcy, overwhelmed by competition from largescale, mass producers; or if a strong dominant MNC presence scares local enterprises from investing in research and development. The broad horizontal effects of the MNCs are even more difficult to evaluate than the narrow effects, but one can identify them in general terms. They are of four types:

1. MNCs can influence governmental industrial, trade and fiscal policy by virtue of a strong bargaining position.
2. MNCs can effect the infrastructure of the host country. Thus, they can themselves build, or have built for them, communication and transport systems; they can link in with the financial system and effect science and technology.

3. MNCs may influence attitudes and management system in unrelated industries, for instance, by imparting modern and outward-looking approaches and attitudes, or more professional methods of training managerial staff.

4. MNCs may influence consumption patterns and this seems to happen, usually, in the direction of more sophisticated, differentiated products.

C. Vertical Linkages Effects

The study on indirect employment effects concentrates on two main concepts: namely, input-output approach which traces the various implications (investment, employment, production and import of physical inputs) of increasing the output of a given industry throughout the whole production system.[10]

The second is the "linkage" concept developed by Hirschman, which focussed significantly on the

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10 See, in particular, the review by J. Krishnamurty: "Indirect Employment Effect of Investment", in A.S. Bhalla (ed.): Technology and Employment in Industry (Geneva, ILO, Second, revised and enlarged edition, 1981, pp.65-87).

externalities of exceptionally strong price signals created by imbalances in supply and demand.[11]

The Leontieff type input-output matrix provides, in principle, a useful and empirically manageable tool for predicting how a particular investment will effect the other productive sectors all along the chain of linked activity. If vectors for exports and imports are included - as in most comprehensive input-output computations - the total national employment increases implied by the increased output of any one industry can be worked out fairly easily. By comparing the total backward and forward linkages of different sectors, it is possible to work out key activities which generate the maximum possible impact on total national employment: these key sectors may then become special targets for public policy. Despite its simplicity and practical attractions, however, there are several drawbacks to this technique as a means of predicting and evaluating the indirect employment effects of investments and of MNC activity in particular.

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11 A.O. Hirschman: The Strategy of Economic Development (New Haven, Yale University Press, 1958).

First, the technique is oversimplified and static. It does not take into account the continuously shifting inter-relationships between different industrial activities that are the life blood of economic growth diversification. It cannot cope easily with joint products, relative price changes, or preference changes; nor can it deal with changes, or preference changes; nor can it deal with charges generated by the related sectors setting up direct technical linkages.

Second, it assumes fixed technological coefficients and a single technology. Thus, it rules out the possibility of choosing between techniques of production and of improving any given technology over time. This of course violates, to an extent, the inherent dynamic properties of economic growth.

Third, it is a mechanical depiction of certain observed technical relationships at one point of time. It does not show whether a particular sector will, in fact grow in response to increased demand and supply of related outputs or inputs and it is silent about economic desirability of any productive activity in the chain.

These are severe and important limitations to the use of input/output analysis for assessment of indirect employment effects. Another main handicap is the absence of the concept of opportunity cost or alternative situation: What would have happened if the particular investment had not taken place? How would the linked industries have adapted, etc?

Indirect Employment Effects: A Case Study in India

An illustration for the indirect employment effects of multinational enterprises will now be derived from a discussion of one sector, i.e. the tyres and tubes industry. In the absence of other sources of data, an integrated balance sheet and profit and loss account have been constructed for seven multinational enterprises in this sector for the year 1974-75 for which the balance sheets were readily available. Some of these multinational enterprises operate as subsidiaries and others as technical collaborators with Indian firms. The various components of the balance sheet and profit and loss account are taken as the basis for making some general observations on the subjects. No real calculations of the indirect effects are possible as

the requisite input-output matrix, and also its break-up by Indian companies and MNCs is not available.

The raw materials for the tyre and tube industry are available (and purchased) locally and it is found that the raw materials constitute about 75.9% of the total expenditure incurred by the industry. Thus, the MNCs which are engaged in the production of tyres and tubes are important generators of employment in the sectors which produces raw materials for the industry. The demand for domestic power and fuel also generates additional employment.

In addition to the inputs, there are fixed assets such as land and buildings, plants and machinery of MNCs which have some relevance for the question of indirect employment effects. Employment is generated, at least for limited periods, when the buildings are constructed or the plant and machinery is installed; and continuous employment is generated for the repairs and maintenance of the fixed assets.

Another, not so obvious, source of additional employment seems to be the demand by the multinational corporations for loans from banks and financial

institutions. The financial institutions make a very detailed and thorough study of the company and its proposals before a loan is sanctioned. It is rather difficult to say how much additional staff has been employed as a consequence of the demand from MNCs but it would not be incorrect to assume that some additional employment in this sector has also been generated. Similarly, additional employment is generated in the income tax department because of the need to carefully assess the income tax paid and payable by the MNCs.

Yet another source of indirect employment are the incomes generated by the MNCs in terms of wages, salaries, dividends etc. These incomes generate demands for consumer products on the market and thus stimulate the demand for these products. The increase in demand for these products in turn sets up a chain reaction by generating the increased demand for inputs and labour. The demand for inputs in turn stimulates the industries which supply the inputs and thus there is a multiplier effect on employment.

In addition, to the demand for tyres and tubes within the country, there is a demand from other coun-

tries which via the employment effects of exports are directly and indirectly relevant for our problems. Indian exports of tyres and tubes are given below:

Table-1: India's Exports of Tyres and Tubes (1970-71 and 1975-76)

Year	Tyres (Value in million Rupees)	Tubes (Value in million Rupees)	Total (Valu in million Rupees)
1970-71	51.8	4.2	50.0
1971-72	57.1	5.6	62.7
1972-73	46.2	8.7	54.9
1973-74	58.9	6.4	65.3
1974-75	85.5	7.5	92.8
1975-76	68.0	6.1	74.1

Source: Monthly Statistics of Foreign Trade

These exports have a stimulating effect not only on the tyre andtube industry in India but also on the industries which supply the inputs for the industry. It will thus, be seen that the MNCs generate not only direct employment in the country but also indirect employment by the demand for inputs and by opening up foreign markets to the country. This rapid overview

of elements for the question of indirect employment effects of MNCs (in concrete sector) is certainly very imperfect. While no assessment could, for instance, be derived on its numerical magnitude and the comparative performance of foreign Multinational Corporations.

CONCLUSION

There is no doubt that there is great potential for the indirect employment effects of MNCs in developing countries. Generally speaking even after allowing for the "alternative situation" hypothesis such effects are probably, in many cases, important judged by the studies in this chapter. However, because of the very complex nature of the phenomenon it is practically impossible to estimate on a reliable statistical basis their importance in quantitative terms. Despite, this problem, data on indirect employment effects are useful, however as broad orders of magnitude and consistency "checks" in government and enterprises policies encouraging linkages of MNCs with the local economies. Such policy measures can enhance the three sets of indirect effects distinguished at the outset, in the following were:

1. Regarding the macro-economic and income effects, it is necessary to ensure that foreign investments are socially efficient, i.e. not highly protected over long periods against international competition, and that MNCs are guided into sectors where their relative advantage over the local companies is the greatest.

2. As far as "horizontal" effects are concerned, it is necessary to promote efficient industrial structure which do not suppress indigenous enterprise, permit adaptations of technology to local needs, encourage local innovation, and balance the need for competition with the need to achieve efficient scales of production.

3. As far as "vertical" linkages are concerned, the most important policy consideration is to promote the local purchase of supplies without setting up internationally non-competitive production structures, taking full account of the dynamic benefits of "learning" and the various externalities associates with the building up of a diversified industrial structure.

CHAPTER FIVE

Chapter Five

EMPLOYMENT EFFECTS OF FREE TRADE ZONES

An increasing number of developing countries in Asia, Africa and Latin America have established Free Trade Zones (FTZs)[1] which have attracted considerable MNC investment, while the primary consideration for the creation of such zones is the promotion of foreign exchange earnings, the employment effects of MNCs in these zones cannot be ignored. Employment promotion is, in fact, often another explicit objective of governments in setting up such zones. MNCs investment in these zones is indeed generally associated with exceptionally high rates of direct industrial employment growth as well as a rapid increase in the export of

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1 Such as, in Liberia, Mauritius, Senegal, Tunisia, in Africa; Egypt, Jordan, Syria, Hong Kong, India, Malaysia, Philippines, Republic of Korea, Singapore, Sri Lanka in Asia; and Barbados, Brazil, Colombia, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Puerto Rico, in Latin American and the Caribbean.

manufacturers[2] with additional, although relatively small, indirect effects on employment.

Background and Characteristics of Free Trade Zones

The introduction and rapid expansion by multinational corporations of labour-intensive manufacturing operations in the Free Trade Zones such as Export Processing Zones and In-Bond Industries,[3] which have been established by governments of developing countries in line with export-oriented foreign investment policies, is a rather recent phenomenon.

Guidelines legislation for FTZs and similar site was developed in the 1960s by the United Nations Industrial Development Organisation (UNIDO) and their basic features, ranging from tax and investment codes to infrastructure and administration provisions, have served as models for the zones set up in Africa, Asia, Latin America and the Caribbean.

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2 See for example, Asian Region Team for Employment Promotion (ARTEP): Export-fed industrialization and employment proceeding of a symposium, Asian Employment programme (Bangkok, ILO, May 1980), p.1.

3 Generally speaking, "Free Trade", "Export Processing" and "Investment Promotion Zones" together

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An example of the possible range of incentive presently offered by developing countries as an "investment package" are those found in a brochure of a South-East Asian country, which established three investment promotion zones in 1978. Investors are guaranteed, a 100 per cent exemption, for up to ten years, from taxes on corporation and personal income, royalties and dividends, followed by a further concessionary tax period for a maximum of 15 years; no limit on the equity holdings of foreign investors; cost-saving incentives including no import duty on machines, equipment and raw materials; no double taxation, no exchange control on transport of profits and no tax on capital transfers and liquidation proceeds. It was also noted that wage rates were competitive, labour productivity was high, and there existed a pool of educated, highly trainable workers.[4]

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with "In-Bond Industries" (e.g. in Mexico) are various terms used to describe one and the same phenomena, namely industrial sites in developing countries set up through legislation to allow the duty free import of materials (together with other advantages) for the manufacture of goods for export. The exact legal provisions surrounding the creation of each zone may differ depending on which aspect a particular country may wish to promote.

4 See: Sri Lanka's Investment Promotion Zones.

Production in Free Trade Zones is usually characterised by labour-intensive and generally low-skilled assembly of processing of parts or materials imported from MNC parent companies or trading houses. The products are then usually re-exported to parent corporations (as well as in some cases to MNCs subsidiaries elsewhere in developing regions) in semi-finished or finished form. The bulk of the production is FTZs is concentrated in the electric and electronics branches, followed by textiles and clothing and other miscellaneous light manufactures, such as sports, goods and toys. The range of product choice is usually fairly limited, taking into account unit labour costs and, at times, tariff provisions enacted by importing industrialized countries.[5]

The major portion of the production in FTZs can be attributed to MNCs (in wholly-owned or joint-venture corporations). Some local enterprises also

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5 Thus, the import concessions provided for by US Tariff Item 807.00 of goods assembled or processed abroad from US made inputs seem to have influenced substantially the establishment, by US-based MNCs of subsidiary plants in developing countries, Free Trade Zones which concentrate on the labour-intensive assembly or processing of these inputs into semi-finished goods for re-export to the United States. The manufacturing branches which apparently have best lent themselves to such FTZ operations are electric, textile and garment industries.

participate in these activities. In most cases the export production of local enterprises forms part of International Sub-Contracting arrangements, including multinational trade houses or retailing firms which act as intermediaries between producers and sellers. This type of sub-contracting is more common however in the textile and garment branches than in the electric and electronics.

Export-oriented assembly and component processing manufacturing in FTZs is frequently presented as an alternative to a developing country's policy of fostering import substitution for the local market, or as a subsequent industrial development phase. However, because of the product specificity of FTZ-type manufacturing for exports, it can also develop alongside, a continuing process of import substitutions of other product lines. Unlike the promotion of primary local products processing for export, FTZ - type assembly and component processing are form of manufacturing, developed from the start exclusively for export. In fact in the FTZs context, manufacture for export is usually a host government prerequisite for corporations (MNCs and others) to set up operations. The sale of FTZ pro-

ducts in the developing country's domestic market is usually prohibited.[6]

Geographic Location and Trends

It can be assumed from the available studies[7] that in 1979 there were more than 80 FTZs in less developed countries and another 40 planned or being set up, over half of them located in Asia and which predominantly relied on foreign investment.[8]

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6 See, for example, United Nations: TNCs in the Consumer Electronics Industry of developing ESCAP countries, Joint CTC/ESCAP Unit on transnational corporations working paper No.5, January 1979, Bangkok, p.24, and Frank Meissner, "In-Bond Industry as Development Tools: A Mexican-American Example", in Third World Quarterly, vol.1, no.4, October 1979, p.141.

7 Far Eastern Economic Review, 18 May 1979, p.78. A study by researchers from the Max-Plan Institute, using 1975 data from 103 developing countries, estimated that a total of 79 FTZs were operating in 39 of them in that year; and that another 39 were under construction. See Folker Trobel, Jurgen Heinrichs and Otto Kreye: The New International Division of Labour", op. cit. See also International Metal Workers Federation: The Multinational Companies in Asia and IMF activities in developing the trade union counter force, first I.M.F. Seminar on multinational Companies, 28-29 November 1980, Djakarta, Indonesia, especially pp.28-33.

8 For examples of some of these countries, see n.1 above. With regards to sources of investment see also CTC/ESCAP Joint Unit on Transnational Corporations: TNCs in the Consumer electronics industry of developing ESCAP countries, working paper No.5 (January 1979), table 12, p.25.

During the mid 1960s to the mid 1970s many FTZs were initially established, these sites were only concentrated in few countries. During this period, Mexico (the country in which the first FTZ plant in electronics was established in 1966) Hong Kong, the Republic of Korea and Singapore were the principal countries in which such forms of MNCs investment were significant and expanded rapidly.

Since the mid 1970s geographic diversification of FTZs is notable as an increasing number of countries undertake to develop them in various ways. In India, for instance, alongside government emphasis on locally-owned enterprise and small-scale industry producing for the domestic market (in which MNCs, investments are restricted), foreign-based investment in FTZs are being promoted in field of export oriented labour-intensive manufactures, In 1979 two export processing zones for garments and knitwear were under construction in the States of Haryana and Punjab together with a large multipurpose zone near Calcutta, Bombay and Madras. The Philippines has specifically liberalised its foreign investment provisions to attract FTZ-type investments.[9]

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9 "Problems in the Philippines Chill an Economic Boom", Business Week, 27 August 1979, p.51.

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Export-oriented labour-intensive industries such as electronics assembly and garment production, for example, may be completely foreign owned as opposed to a 40 per cent foreign investment share ceiling in other countries.

Pakistan is engaged in the construction of two FTZs near Karachi, and in planning of others in different parts of the country. Bangladesh also is now setting up an Export Processing Zone near on of its major ports and second zone at Dacca. Indonesia is developing general sites, including the Batam Island Zones. Western Soamoa will soon be the first South Pacific island in which a FTZ will be set up. The People's Republic of China is apparently following the open door policy recently had opened many coastal cities in setting up FTZs.

It might be mentioned that the investment projects under negotiation are approved for establishing

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The first Export processing zone established as part of the country's development effort in 1973 at Batam had 50 factories employing 27,000 Filipinos directly. It is expected that they will provide some 80,000 jobs indirectly by mid-1980. "The Philippines", Special advertising section, Business Week, 16 June 1980, p.32.

operations in some of the Asian developing countries, are proposed not only by MNCs, from industrialised countries but also from MNCs from newly industrialising developing countries such as Republic of Korea, Hong Kong and Singapore.

Labour-Intensive Employment

For the MNCs, it is commonly held that among their considerations for investing in FTZ-type operations have been the comparatively low wages in the countries concerned for the labour-intensive manufacturing production processes involved.[10] On the other hand, for many of the investment-receiving developing countries, apart from export earnings a rather major consideration in their decision to develop FTZ-type operations has been the exceptional potential which this form of labour-intensive production seems to offer for rapid employment creation in the branches

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10 See, for example, ILO: The Impact of Multinational Enterprises on Employment and Training, *op.cit.*, p.10, as well as "Letter from Mexicali: Hoping to lure US jobs across the Border", *Business Week*, 27 November 1978, p.22D-1; "A Warm Climate for Electronics", *Business Week*, 20 August 1979, pp.118B-I and D-I; and "The Search for Cheap Labour", *Far Eastern Economic Review*, 17 May 1979, pp.78-80.

in question.[11]

Complete information on the magnitude of the employment provided through MNC activities in FTZ is not generally available, except for some global estimates.[12] For the Mexican In-Bond industry, whereas in other FTZ type sites, MNCs dominate, the number of jobs grew from 19,000 in 1970 to an estimated 120,000 by the end of 1979.[13] From 1978 to 1979 a 20 per cent increase occurred. The 1977-78 employment growth rates for the In-Bond industry was 10.5, which was three times higher than nation-wide average. The Bank of Mexico considers that this

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11 For example, as noted by the Bank of Mexico, a basic objective of the first In-Bond Sites which became operational on Mexico's Northern Border in 1966 was to combat growing unemployment by combining the advantage of the country's low labour costs with facilities provided by the US tariff schedules for certain forms of off-shore manufacturers undertaken by US based affiliates. Banamex, July 1979, p.24. Under the Special US tariff provisions for US off-shore assembly it has been estimated that four countries-Mexico, Hong Kong, the Republic of Korea and Singapore accounted for almost 90 per cent of the USA imports under these provisions. See, Deepak Nayyar, Transnational Corporations and Manufactured exports from Poor Countries", in The Economic Journal, no.88, March 1978, p.67.

12 Frobel, et.al., The New International Division of Labour, opcit. The authors estimate that for 27 of the 39 countries in their study and for which data were available, in which by 1975 FTZs were in operation, more than half a million employees were working mainly

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massive creation of jobs is a major contribution of the In-Bond industry to the Mexican economy; and it forecasts a further growth of some half a million jobs by 1990.[14]

For Singapore, Soo[15] estimated the impact of foreign investment from two countries (the USA and Hong Kong) in three FTZ-associated export oriented industries, viz., electronic components, textiles and garments. She points out that five out of every ten workers who joined the manufacturing labour force in 1966-74 found their jobs in these

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in MNCs plants. They stress that these figures are incomplete and represent but the lower level of magnitude.

13 Bank of Mexico: Banamex, no.644, July 1979; no.649, December 1979.

14 Banamex, no.644, July 1979, p.244 and p.247. This forecast is based on the Bank's assumption that Mexican In-Bond plants will be an attractive alternative to rising home-country production costs of the foreign (in particular US) investors and to the need to achieve higher corporate productivity. See Banamex, n.644, pp.251 and 252 and no.645, p.310.

15 Lee Ann Soo, Singapore goes transnational: A Study of the Economic Impact of Investment by Multinational Corporations in Singapore (Eastern University Press, 1977), p.31.

three industries. For South Korea, Jo[16] stresses employment created by export-oriented enterprises many of which are located in FTZ-type sites. About 40 per cent of jobs directly created by foreign firms at the end of 1974 were in electric and electronic industry.

For the Asian region taken as a whole, it has been estimated that more than 600,000 workers are employed in FTZs(1979) with nearly half in the manufacture of electronics.[17] The Economic and Social Commission for Asia and the Pacific (ESCAP) also attributes[18] a particular job growth role in the region to multinationals implanted in FTZs.

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16 Jo: The Impact of Multinational Firms on Employment and incomes: The Case of South Korea, op.cit., pp.86-88.

17 Far Eastern Economic Review, 18 May 1979, p.78.

18 United Nations; TNCs in the Consumer Electronics Industry, op.cit., p.45.

CHAPTER SIX

Chapter Six

GOVERNMENT POLICY AND TECHNOLOGY CHOICE AS DETERMINANTS OF MNCs EMPLOYMENT EFFECTS

This Chapter is concerned with two main factors that influence MNC's employment performance in developing countries namely government policy and technology choice by MNCs which in turn are interrelated.

A. Government Policies

There exists variety of government policies in both the home and host countries of MNCs which have an influence on the activities, spread and growth of MNCs, this includes the direct and indirect employment performance. Among these are general trade, tax and industrial policies and also wages policies and labour legislation. There are three specific types of policies of the developing host country governments, namely, (1) foreign investment policies, (2) policies aiming at greater backward and forward linkages of MNCs with the host economy sometimes connected with foreign investment policies.

(1) Foreign Investment Policies

The foreign investment policies of governments in the developing countries and the role attributed by them to MNCs in the national development process, including their employment effects, varies considerably, not only from country to country, but often also over time. These policies have been fashioned in specific national contexts where a complexity of factors are at play including development paths and goals, the level of economic activity and domestic resource capabilities as well as political options.

The important expression of foreign investment policies are the foreign investment codes. During the early 1950s and 60s, before the codes being formed in the Third World, there existed a desire to associate with MNCs as much as possible with the industrialisation process and notably with import substitution in the Third World countries. Many of the earlier codes were thus aimed more at attracting than at regulating MNCs.

As from the late 1960s, however, governments have given increasing attention to the place which

foreign investments can hold in their economies. A number of countries now exercise selectivity regarding the type of activity in which it is considered that MNCs can best contribute to national economic development aims, including employment goals.[1] In this connection a variety of institutional arrangements permitting closer screening and monitoring of foreign investment projects are being set up.[2]

At present, number of countries have completely excluded MNCs from investing in certain sectors of the economy, notably in communications (press and radio) banking and defence. Other economic sectors, often resource-based, such as petroleum, petrochemicals and mining as well as steel have in some

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1 As evidenced in publications such as UN: National Legislation and Regulations relating to Transnational Corporations (New York, 1978), and Supplement to National Legislation and Regulations relating to transnational corporations (New York, 1980); Commission of the European Communities: Investment Laws of ACP Countries, vol.1 (Bruxelles-Luxembourg, 1978), and vol.2 (1979); and International Centre for Settlement of Investment Disputes: Investment Laws of the World (New York, Oceana Publications, 1977). See also Y. Kuwahara et al., Asian Component Study for this Project, op.cit.

2 See: Thomas Allen, Foreign Investment Policies and Screening and Monitoring Procedures in Selected Developing Countries, UN/CTC, Mimeo, 1980.

instances also been barred to foreign investors.[3] Likewise, and in a growing number of cases, minority or majority local capital participation is required for investments in certain sectors (joints ventures), decreasing the share of majority-owned MNCs affiliates over time.[4] However, in certain countries such strict investment regulations have recently been relaxed.[5]

Employment creation, specifically mentioned in some cases as one of the expected results of foreign capital influx[6] is not always the only or even the major objective of government regulations. It is

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3 This is particularly the case in Latin America, where in Bolivia, Brazil, Chile, Columbia, Cuba, Mexico and Uruguay almost 100 per cent of petroleum refining is now undertaken by state enterprises.

4 See UN: Transnational Corporations in World Development: A Re-examination, op.cit., Table-III-25, p.229.

5 For example, Nigeria has recently eased restrictions on foreign investment participation in several branches to encourage more foreign investment. International Herald Tribune, 7-8 February 1981.

6 UN: Supplement to national legislation and regulations relating to transnational Corporations, op.cit.

usually part and parcel of the wider development objective to which the regulations are to contribute. Other particular objectives are frequently more specifically aimed at, such as economic modernisation for production in priority sectors, e.g., the agro-business, tourism or infrastructure.

Among those governments which expressly designed specific economic and employment roles to foreign investment, India, for example, appears to have determined that MNCs can make the greatest development contribution in the high-technology, capital and skill intensive economic sector. Foreign investment seems considered related in this country mainly as an agent for technological development, related skill training and (through the economic linkages obtained) indirect employment promotion.[7] On the other hand, the domestic market-oriented, small-scale and labour-intensive sector (rural and urban)

7 See in this connection "Reopening the door for foreign Investors", in Far Eastern Economic Review, 3 October 1980, p.52. Similarly, the Indian Government reply to the ILO Survey on effect given to the Tripartite declaration of principles on Multinational Enterprises and Social Policy reflects this development approach. (ILO: Summary of reports on the effects given to the Tripartite Declaration of Principles Concerning Motivational Enterprises and Social Policy, document GB/MNE/1980/D1).

has been reserved for local enterpreneurs and accordingly, closed to foreign investors (as well as to large-scale Indian firms).[8]

Taking into account the comparative economic advantages of MNCs, governments of developing host countries do not necessarily expect them to provide employment throughout the entire economy. It is in industry, and sometimes specifically in export-oriented manufacturing, that MNCs seems most explicitly expected to furnish substantial direct employment in many countries. But in certain countries (Malaysia, Tunisia and Sri Lanka), make it a special policy to encourage the establishment of enterprises (local or foreign) employing large numbers of workers by offering special tax incentives scaled to the size of work force.

It has been mentioned that, on the other hand, foreign investment legislation in developing countries

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8 Similarly, with a view to promote employment growth in the manufacturing sector through the protection and further development of domestically operated labour-intensive branches, the Government of Ghana enacted a decree which restricts or excludes foreign investors from certain labour-intensive economic branches. See: Government of Ghana: 1975 Investment Policy Decree, National Redemption Council Decree No.329, Accra.

often includes investment subsidies which tend to lower capital cost to MNC compared to the labour cost. Such incentives[9] may induce MNCs to use capital-intensive processes even where opportunities exist for the adaption of more employment generating technologies.[10]

Modifications and Adjustments over time in foreign investment codes and related trade regulations may include different approaches to import subsidies, technology acquisitions and domestic sources of supplies

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9 These may include capital subsidies in the form of low interest rates, tax holidays or reductions, liberal profit repatriation allowances and government provision of industrial infrastructure facilities. Moreover, host government tariff protection aimed at accelerating industrial development may often discriminate against the import of used or reconditioned equipment of a capital-saving type.

10 See, for example: Lawrence J. White, "The Evidence on appropriate factor proportions for manufacturing in less-developed countries: A Survey", in Economic Development and Cultural Change, vol.27, no.1, October 1978, pp.27-59. A.S. Bhalla, "Technology and employment: Some Conclusions", in International Labour Review, vol.113, no.2, March-April 1976, pp.191-2; R.H. Mason, The Transfer of Technology and the Factor Proportions Problem: The Philippines and Mexico, UNITAR Research Report No.10 (New York, UN, 1971); and C. Peter Timmer et al., The Choice of Technology in Developing Countries (Cambridge, Mass., Harvard University Press, 1975).

affecting the direct or indirect employment generated by MNCs. Such policy changes have occurred, for instance, in some "Newly Industrialising Countries" (NICs),[11] including Brazil, Mexico, Hong Kong, the Republic of Korea[12] and Singapore. As these countries enter into a more sophisticated phase of industrialisation, with a concomitantly larger national income and rising wage levels, a policy trend is discernible towards the promotion of higher value-added industrial production, notably through the expansion of a more skill and capital-intensive export trade.[13]

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11 NICs are developing countries characterised by rapid growth in the level and share of industrial employment, expansion of export market shares in manufacturing and real per capita income levels approaching some of the old industrialised countries. See: H. Fubrer, "The Industrialisation of the Third World", The OECD Observer, no.102, January 1980, p.24.

12 The case of the Republic of Korea is discussed in Asia, Technological Change, Trade Promotion and Export-led Industrialisation (with reference to Hong Kong and South Korea) Working Paper 11-2 (ILO/ARTE, 1979).

13 In this connection, it has been noted in an UNCTAD publication that "it is no longer realistic to treat imports of manufactures from developing countries as consisting merely of labour-intensive or resource-intensive products. Increasingly, both capital intensive

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Whatever the individual options of developing host countries may have been, it is obvious from past experience that foreign investment policies and related regulations can be substantial repercussions for the direct and indirect employment effects of MNCs operating in developing countries.

2. Policies Aiming at Greater Backward and Forward Linkages of MNCs with the Local Economy

The extent of indirect employment associated with MNC activity depends to a considerable degree on the use and availability of local production inputs (basic materials, parts, components, services, labour) as well as, but apparently to a minor degree, on the establishment of forward linkages with the host economy (distributing and servicing of MNCs products, supply of components to local industry, etc.) Various developing country governments have devised policies to foster such linkages, inside, and more often outside the specific framework of foreign investment regulations.

.../- and technology-intensive products appear among the exports of manufactures from developing countries. "UNCTAD: Dynamic Products in the exports of Manufactured Goods from developing countries to developed markets economy countries, 1970-76, UNCTAD/ST/MD/18, 30 March 1978, p.16. For an assessment of the employment effects see ILO, Employment Effects of Multinational Enterprises in Industrialised Countries (Geneva, 1981), pp.70-75.

The development of backward linkages by MNCs to the developing economy has been hampered, in part, by overall corporate strategies of product design and market penetration favouring integrated production relations with the various entities of the MNCs. But they have also been constrained by the availability of local suppliers (sub-contractors) capable of furnishing the amount and quality of production inputs required, especially components and parts. Forward linkages have been delayed sometimes by the rudimentary state of user industries. Government policies for the localisation of industries, or to foster the growth of sub-contracting by MNCs, have been relatively unsuccessful and slow in such circumstances.[14]

However, where particular efforts have been made to develop the local supply base (MNCs have contributed to this), government policies for the development of

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14 Watanabe mentions in this connection the slow progress over past decades in the Mexican Car industry which was hampered by quantitative and qualitative shortcomings in the supply of basic materials and a shortage of skilled labour. Watanabe, Multinational Enterprises and Employment-Oriented 'appropriate' technologies in developing countries, op.cit., p.8.

MNC backward linkages with the local economy have often been very successful. This is true mainly for certain developing countries at an intermediate stage of industrialisation, e.g. for assembly industries like automobiles, electrical and mechanical engineering. In part, governments require for these industries a minimum local component of MNC production inputs. Critical considerations for these policies, as for other import-substitution policies, are obviously their pace and extent in order that the competititiveness of the MNC production remains assured.

Where these conditions have been respected, government intervention appears to be the single most powerful determinant for the creation of local linkages by MNCs and this also for their increased indirect employment effects.[15] Without such government intervention it is likely that despite some market pressure, local-MNC linkages would be much less developed than they are today in various countries

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15 S. Lall, Indirect Employment Effects, op.cit., p.57. See also UN: Transnational Corporation Linkages (ST/CTC/17), op.cit., which contains case studies on the automotive industry in India, Peru and Morocco.

and industries.[16] And there seems considerable potential for the future use of such policies by governments of developing host countries as the economics evolve.

B. MNC Choice of Technology and Factors Affecting It

MNCs' technology choice and the resultant employment implications, are influenced very much by the fact that MNCs are concentrated in capital-intensive branches of activity. This is also true for traditional primary sector branches of MNC location, such as oil and mining, although considerable indirect employment might have been generated in some instances, through supporting activities,[17] such as commerce and trans-

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16 A different picture may emerge where such specific policies are not emphasised. Thus, in a case study on Singapore, the authors conclude that the general investment policies of the government did not have a significant influence on the choice of technology (and hence linkages to the local economy) in the small sample of enterprises considered. See Lim and Fong, Technological Choice and Employment - Creation", op.cit., p.49.

17 See for instance P. Della Valle, "Productivity and Employment in the Copper and Aluminium Industries", in Bhalla, ed., Technology and Employment in Industry, and Norman Grivan: The Impact of Multinational Enterprises on Employment and Income in Jamaica (Geneva, ILO, 1976); Mmieographed World Employment Programme research working paper; restricted distribution), p.34.

portation or infrastructure. This may explain, in part why the choice of more "appropriate" employment-generating technology by MNCs is usually regarded as a question of adapting technology so as to make more intensive use of labour.[18]

The range of factors influencing MNC's technology choice and available alternatives includes: industry and product characteristics, the nature of the markets, the scale of operations, managerial skills, the overall enterprise policies, the supply of local possibilities, factor cost proportions and of course, government policies.

Availability of Technology in the Various Industries

Technology choice by MNCs depends, obviously first of all on readily available, economically viable, alternatives. A distinction can be made in this connection between conventional, especially

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18 D. Hellinger and S. Hellinger, "Job Crises in Latin America: A Role for Multinational Corporations in Introducing More Labour-Intensive Technologies", in World Development (Oxford), vol.3, no.6, June 1975, pp.399-410.

light industries and those using capital-intensive or highly advanced technologies.[19] For light industries with unsophisticated technical production processes (food, footwear, textile, furniture). There already exists at present a fair range of technological choice and possibilities for blending modern production methods originating in MNC home countries. In this way MNCs may achieve "intermediate technologies" which fit the labour market conditions in the developing host countries.[20] The wide range of technology choice in the traditional industries referred to is largely linked to the great variety in demand. This is connected with differences in the clients preference, taste and income, which in turn allows a substantial differentiation in the quality of the products offered in market.

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19 For a fuller treatment of these distinctions see Bhalla, ed., Technology and Employment in Industry, op.cit.

20 Watanabe notes in this connection that "where the technology is very common and where the production in developing countries is attractive because of the lower labour cost, multinational enterprises have a tendency to resort to international commercial sub-contracting rather than to direct investment". Watanabe, Multinational Enterprises and Employment - Orientated 'appropriate' technologies in developing countries, op.cit., p.10.

On the other hand, in the case of most heavy industries, and more particularly modern high-technology industries in which MNCs are largely concentrated (machinery, electrical engineering, etc.), the market permits only little variation in the quality of the products. Additionally the developing host countries usually have no local technological base with which that of the MNCs can be blended.[21] In the process industries, such as chem cals, technological adaptation of this nature is particularly circumscribed. Redesigning the production process and facilities in line with more "appropriate" technologies, becomes a time and resource consuming matter here; and labour cost, which could be a stimulant for such adaptation is normally a smaller item in the unit cost.[22] In these heavy industries, technological adaptations in developing host country governments tend to resist the transfer of such technologies fearing adverse effects on the competitiveness of their industries. This illustrates

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21 Sanjaya Lall and Paul Streeten, Foreign Investment, Transnationals and Developing Countries, _op.cit._, Chapter-II.

22 On this subject, see Samuel A. Morley and Gordon W. Smith, "Limited Search and the Technology Choices of Multinational Firms in Brazil", in _Quarterly Journal of Economics_ (Cambridge), vol.91, no.2, May 1977, pp.263-87.

the difficult option with which countries may be faced in attempting to determine the "appropriateness" of a technology.[23]

Scale of MNC Operations

Despite the evidence that in certain developing countries and situations, MNCs tend to use more capital-intensive production methods than the average enterprise in the sector concerned, MNCs are, on the whole, less capital-intensive, in their operations in developing than in industrialised countries. For example, Morley and Smith[24] found that the 35 MNC subsidiaries covered by their study of Brazil used three to four times more labour per unit of output than in their country of origin. In the authors' view this was not due mainly to the wages and availability of local labour but rather to the scaling down of the production volume which had been undertaken to meet the smaller market requirements in Brazil.[25]

23 See, for instance, R.H. Mason, "Selection of Technology: A Continuing Dilemma", in Columbia Journal of World Business (New York), vol.9, no.2, Summer 1974, pp.29-34. In this connection it is sometimes held that only the most modern, capital-intensive technologies permit developing countries to become economically independent rather than technologies specifically conceived for them.

24 Morley and Smith, op.cit., p.5.

25 Ibid.

As mentioned before this scaling down of production by MNCs seems to be a rather common feature of MNC technology adaptation in developing countries, at least in certain industries.

Still, on an average, MNCs operate on a large scale in developing countries than local enterprises.[26] This, more than multinational character, may explain their above average capital-intensity where it exists.[27]

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26 For example in Mexico and Argentina, manufacturing MNCs were, on the average, 50 times larger than the average local enterprise, which also entailed differentials in capital intensity and labour productivity. See ILO, Wages and Working Conditions in Multinational Enterprises (Geneva, 1976), pp.25-26.

27 The Brazilian Component Study notes in this connection that a sample of leading enterprises covering more than 1500 plants showed the foreign MNC sector to be less capital-intensive than the public sector. However, the later ranked highest in terms of average scale of operations. MNCs were however, more capital-intensive than the private enterprises which had the lowest ranking in terms of average scale and size. See, The Employment Effects of MNCs in Brazil, op.cit., Table-XX, pp.54 and 55-57.

Concommittant with their scale of operation, MNC plants also tend to be larger in terms of average work force than the average local enterprise. Irrespective of the ownership pattern of the enterprise, the use of capital intensive technology seems to predominate in the case of larger enterprises in line with economies of scale, unless there is special policy favouring more labour-intensive technologies. This point is illustrated by a study on intensive technology, indicating that both MNCs and local manufacturing enterprises increased in capital intensity and in average labour productivity with the increasing scale of their operations. In fact, local enterprises with the largest output were more capital-intensive than the foreign MNCs.[28]

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28 C. Vaitsos, Employment Problems and Transnational Enterprises in Developing Countries, *op.cit.*, pp.77-80.

Chapter Seven

THE HINDUSTAN LEVER IN INDIA - A CASE STUDY

I. Multinationals In India

The main thrust of foreign 'direct private investment' through MNCs in India by U.K., Chiefly due to colonial past, has been pointed by J. Ade Dyelabi[1] : the distinctive feature of foreign investment in underdeveloped countries has been that "the former control of politico-economic life of these countries by the governments of Western countries has not ended, but merely been passed on to the multinational investors". Since the Second World War, the MNCs of the U.S. made entry into India. Initially the British companies were engaged in the public utility and mineral industries (extractive industries) and those areas of agricultural sectors which provide basic raw materials for British industries, such as jute, tea and rubber. Among the public utilities, the railways constituted the most important monopoly of the British companies. The total capital investment in 1938-39 according to the statistical abstract for the British India (published in London in 1942) was Rs.8,478.2 million, on which the return was Rs.359.6 million. In 1943-44 the

1 J. Ade Oylabi, The Dusseldorf Conference on MNCs (New York, 1974), p.105.

the capital investment was ₨.8585.3 million and the profit was doubled to ₨.852.1 million.

The other British companies operating in India had the investments of £300 million in 1929.[2] In the field of manufacturing concerns, the Indian Iron & Steel Co., and the Steel Corporation of Bengal were the two big metallurgical plants under British ownership and control. On June 30, 1948, according to the RBI report the value of total foreign business in India[3] in manufacturing, mining, utilities, transport, trading, financial plantation and other industries, was ₨ 3,204 million of which ₨ 2,301 million (71.91%) were accounted for British business investments alone, followed by the U.S., i.e. ₨ 179.7 million (5.7%). These included direct, i.e. financial as well as portfolios, i.e., shares. Over the period 1948-55, the British investment had increased and main increases were in the manufacturing and plantation industries. The vast market, the low production cost and cheap abundant

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2 S. Melmen, "Foreign Investments in India in 1929", British Monopoly in the Economy of Colonial India (Delhi, 1963), p.19.

3 Ibid., pp.16-62.

labour tended to attract the British investment in manufacturing and plantation industries. The manufacturing and plantation industries centred around cigarette, tobacco, food products, jute, coir goods, electrical good, medicines and pharmaceuticals. By the end of March 1970 branches of foreign companies and subsidiaries of foreign controllec companies held a direct foreign investment of Rs.7,350 million.[4] We may now examine the forms in which multinational enterprises operate in Indian and their distribution by industry and country. The oldest form of foreign companies in India have branches.[5] The figures for the branches of foreign companies since 1950 are shown in the table below.

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4 Reserve Bank of India, Bulletin, "Survey of Foreign Financial and Technical Collaboration in Indian Industry: 1964-70 Main Finding", June 1974, p.1.

5 For an early review see D. Morawetz, "Employment Implications of Industrialization in Developing Countries: A Survey", Economic Journal, 1974, vol.84, pp.491-542.

Branches of Foreign Companies in India - 1950-51 to 1977-78

Year	Number
1950-51	838
1951-52	855
1952-53	823
1953-54	822
1954-55	820
1955-56	820
1956-57	559
1957-58	570
1958-59	572
1959-60	N.A
1960-61	569
1961-62	564
1962-63	582
1963-64	587
1964-65	586
1965-66	587
1966-67	578
1967-68	581
1968-69	564
1969-70	561
1970-71	543
1970-72	541
1972-73	538
1974-75	510
1975-76	481
1976-77	482
1977-78	473

It is thus clear that there has been a steady decline in the number of branches of foreign companies. In 1950-51 there were 838 branches but over the years there has practically been a steady decline until they reached 473 in 1977-78.

The distribution of the branches of MNCs by the country of origin for the period 1969-70 to 1976-77 is shown in Appendix-I and the industry-wise distribution for the period 1972-73 to 1976-77 is shown in Appendix-II. It is noted that the largest number of branches are accounted for by the UK, followed by the USA, Japan and West Germany. If we calculate industry wise distribution, we find that the largest number of branches are accounted for by commerce. In 1972-73 there were 161 branches, the they increased to 163 in 1973-74 but fell to 144 in 1974-75 and there was a further decline to 121 in 1975-76 but there was no change in 1976-77.

Agriculture and allied industries rank second in terms of the number of branches of MNCs. Most of these branches are in tea plantation. In 1972-73, there were 117 branches out of which 115 were in tea plantations. By 1976-77, the number of branches in

agriculture and industry fell to 112 of which 111 were in tea plantations. Next, in terms of numbers were processing and manufacture of foodstuffs, textiles, leather, metals and chemicals. From 82 branches in 1972-73 they fell to 77 in 1975-76 but increased to 79 in 1976-77; transport, communications and storage accounted for 37 branches in 1972-73 but their number increased to 39 in 1973-74 and has continued unchanged till 1976-77. The other sectors in which the branches of MNCs operate are construction and utilities, personal and other services and mining and quarrying.

Appendices III and IV show respectively the distribution of subsidiaries[6] by the country of the holding company and the distribution of the subsidiaries by industry in India. If we take the countrywise distribution of subsidiaries, we find that the U.K. accounted for the largest number of subsidiaries followed by the U.S.A. and Switzerland. The industry-wise distribution of Indian subsidiaries of MNCs shows that the largest number of subsidiaries are accounted for in the processing and manufacturing of food stuffs

6 See S. Watanabe, "Multinational Enterprises and Employment-Oriented "appropriate" Technologies in Developing Countries", ILO, Multinational Enterprises W.P.14, 1980.

textiles, leather, metals and chemicals. In 1972-73 they accounted for 141 subsidiaries; their number fell steadily to 137 in 1973-74, 129 in 1974-75, 120 in 1975-76 and 114 in 1976-77. Next, in order of numerical importance was trading in which there were 23 subsidiaries in 1972-73, they fell to 20 in 1975-76 but fell to 16 in 1976-77. Community and business services accounted for seven subsidiaries in 1972-73, five in 1973-74, six in 1974-75 and five and six respectively in 1975-76 and 1976-77. In agriculture, there were four subsidiaries in 1972-73; all of them were in tea and their number remained unchanged till 1976-77. In mining and quarrying also there were four other industries in which the subsidiaries are operating - transport, communications, personal and other services.

Appendix-V shows the distribution by country of origin of foreign enterprises of newly approved foreign colloborations. The three most important home countries of collaborating foreign companies from the point of view of the number of collaborations approved are U.K., U.S.A., and the Federal Republic of Germany. From 1957 to 1978, the British companies

continued to occupy the first position. In absolute terms, the number of such Indo-UK collaborations have steadily increased and the percentage share of the U.K. based companies went from 20.1 per cent in 1957 to 31.3 per cent in 1960. Thereafter there has been steady decline in the percentage share of Indo-British collaborations to total collaborations; the percentage share having fallen in 1965 to 28 per cent and further 26.5% and 24.3% in 1977, there was a further fall to 23.7% and again a slight fall in 1978 to 23.6%. U.S. companies occupy the second position in collaborations approved. It had increased from 7.4 per cent in 1957 to 17.3 per cent in 1978 in total percentage of Indo-U.S. collaborations. The collaboration are of two kinds:

1. Technical collaborations with foreign equity participation.
2. Technical collaborations without foreign equity participation.

Appendix-VI shows the distribution of approved foreign collaboration by countries of origin of the foreign companies and by the nature of collaborations. The number of technical collaborations have increased

over the years while the number of collaborations with foreign equity participation has gone down.

The industry-wise distribution of foreign companies collaborations approved are dhown in Appendix-VII. The highest number of collaborations approved have been in the fields of industrial machinery, electrical equipment, transportation and machine tools.

(a) Managing Agency System

A peculiar feature of the MNCs operating in India was known as the "Managing Agency System", a device created by British business for getting control over the industries without risking capital. The managing agency system gives to the managing agents of a private limited company or a firm or a group of individuals; a complete grip over a large number of companies and concerns by offering managerial and administrative control and financial assistance without in any way suffering the business risk of the companies they control, a risk which falls on the share holders.

Vera Arstey writes about the 'managing agency system' as follows:

> ...in practice, the managing agents direct the directors, administer all the concerns of the company and in some cases they have been actually known to take power in the Articles of Association, to dispense with the directors altogether.

According to a Survey conducted in 1952 there were 701 companies under the control of British managing agents and 32 companies under a joint British-Indian Managing Agency. Some of the prominent British managing agents were:

1. Andrew Yule and Co.
2. Mcleoid and Co.
3. Martin & Co.
4. Burn & Co.
5. Duncan Brothers & Co.
6. Octavious Steel & Co.
7. Gillanders Arbuthnot & Co. Ltd.
8. Shaw Wallace & Co. Ltd.

(b) MNCs in Consumer Sectors: India

The impact of the MNCs products on the daily lines of the average middle class town-dwellers is so pervasive that virtually it amounts to their enslavement to the foreign brand products. Their entire lives are caught in the web of the foreign

products, though they are manufactured in this country under the licence from the MNCs. It is difficult to get away from the style of life so well regulated and assisted by these MNCs products. These clearly exhibit the measure of influence these big MNCs have exerted on the economic and cultural life in our country. They have nearly cornered the consumer market.

II. Case Study of the Hindustan Level's Operation and its Employment Generation in India

Unilever in India

Unilever's Indian business, which is one of the nine manufacturing enterprises in the Third World operates in India. It was the first Lever brothers manufacturing subsidiary in the Third World whose products replaced the staple imports from the parent companies in Britain. It was founded a quarter of a century before India became independent and this affords an opportunity to contrast the economic situation of multinationals under colonial and post-colonial conditions. Finally, the Hindustan Lever was formed in 1956 to incorporate the several legally distinct unilever enterprises in India, became the largest and

one of the most autonomous of all Unilever's subsidiaries outside Europe and North America. For this reason it is the best suited model for making a case study of its incorporation, growth, diversity and employment generation.

<u>Unilever in India: 1941-65</u>.

The history of Lever Brothers' activities in India underlines the truth that an European Industrial enterprise is unlikely to give thought to direct productive investment overseas so long as it has a satisfactory and expanding export market in any particular country. After 1940, both the character of the Unilever business in India and its significance changed substantially. Until the Second World War, the Lever/Unilever companies in India were special only in the sense that they were among the very first such manufacturing companies in the Third World. The unilever business can be studied under two heads; the economic environment and the movement towards localisation of senior management.

(a) The economic environment before independence, was governed by the imperatives of the British rule -

the economic system was based on the nineteenth century principles and practices. There were no constraints on the movement of 'capital' or profits; prices were uncontrolled. Government did not attempt to influence or dictate to private companies in matters such as sitting factories, volume or type of production. Company taxation was comparatively light; a total of 21.85 per cent nett of double tax-relief for a foreign based Company before 1939 plus 6.25 per cent super tax.

The Second World War led to a radical increase in State Controls in many directions. In most western countries wartime controls were woundup by the early 1950s. In India they were mostly perpetuated and used as the basis of a new partly socialist economy after 1947. In April 1949, Nehru announced that Congress welcomed foreign capital provided that it accepted two ultimate objectives -- Indian ownership of a proportion of the capital and progressive Indianisation of the top management. During the early 1950s the hostility of Indian private capital gradually evaporated as Indian entrepreneurs took courage from their success and came to regard foreign capital as a useful ally against state socialism.

By the 1950s therefore, Unilever could feel reasonably confident that it had a long term before in India. Security nevertheless, doex not by itself ensure profitable operation. There existed the question how to manage in a developing country which would effect Unilever's activities. Under the Industries Act 1951, all 'Scheduled' industries had to be licensed. No new industries could be established or substantial extension undertaken without permission. The same Act gave the government power to continue the control of prices and the volume of production which had begun under the Defence of India Rules during the wars. Under the Essential Commodities Act of 1955 and other legislation the range of controls further extended. Soap, vanaspati and other staple Unilever products came under these regulations. To ration foreign exchange the government imposed quota restrictions on imported goods of all kinds: to import one also required a licence. Exports might also be controlled or banned, particularly commodities such as vegetable oils and oil seeds to ensure availability of vital food stuffs and to keep down domestic prices. Controls were imposed in many other fields such as the specification of vanaspati and advertising

techniques. Thus certain aspects of manufacturing or distribution did not in some way require permission of government.

The worst feature of economic management as it affected all the private enterprises in India was not however the system itself but the way in which it was operated. Bhagwati and Desai, have described the complications of the licensing system and the delays it normally involved. For instance, the Estimate Committee of the Lok Sabha found that of 264 applications for foreign collaboration in industrial development, 79 took between six months and a year to decide and 32 more than a year. In January 1964, 751 applications for a Capital goods import licence from the Capital Goods Committee had been pending for more than a year and 182 for two years, or more.[7] Such bureaucratic obstacles made business life complicated; but a still more important feature of economic regulation was its underlying philosophy which seems to have been that in allocating scarce resources, particularly foreign exchange to pay

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7 For a longer discussion of the Methodology and its problems see S. Lall and P. Streeten, Foreign Investment, Transnationals and Developing Countries, London: Macmillan, 1964.

for imports, a more or less constant balance be kept between each main industry and that as between competing units within single industry, licences should be granted on an 'equitable' basis with a preference for the weaker and less profitable firms. While this can be justified on welfare grounds, this prevent efficient and progressive firms such as Unilever from expanding their share of the market in turn raising the average standard of efficiency.

The system of import controls had made further complications, due to the establishment of import entitlement schemes. This was mainly due to the declining value of Indian exports, thus government attempted to stimulate exporters by giving special import licenses to firms in proportion to the value of their export. The main idea was that a exporting firm was allowed to import licenses of upto 75 per cent or even more of the F.O.B. value of its exports, subject to the restriction that the import content of the goods exported. This lead to resultant import licences commanded a premium because they made it possible to buy raw materials or even

capital goods which could command a higher price in India than their overseas cost, was it worthwhile to export at a loss - This problem had been acute for Hindustan Lever which had to buy Indian vegetable oil at above world market prices and inevitably sold their products at a loss overseas. All this meant that after 1947 one could only carry on a profitable business in India by careful and systematic study of the regulations and patient and persistent negotiations with authorities.

(b) Indianisation of Management

This concept involves two different interpretations and stages:

Leaving the top management, and therefore policy formulation in the hands of expatriates. This led to Indianisation to some extent of foreign companies which had started in late 50s. The Second stage was completed in 1961 when Prakash Tandon became the first Indian Chairman of Hindustan Lever, heading the board of four Indians and three expatriates which later consisted of six Indians and two others. Recruitment

thus began at the lower levels of management and its effects became increasingly obvious over time. The genesis of Indian management of Hindustan Lever has been described in some detail, where in Hindustan Lever was not controlled by an Indian Chairman with board of six directors of whom two only were expatriates; and of the 205 managers in India only 14 were Europeans. This step taken by the MNCs in the Third World comments on the significance of the transfer of political sovereignty. Localisation of management was able to proceed fast in India after 1947 because of the emerging managerial cadres and the increase in literacy rate.

1. <u>Vanaspati</u>

Unilever's decision to manufacture hydrogenated vegetable oil - alias 'vegetable product', 'vegetable ghee' or vanaspati - India had much in common with the decision to make soap. In 1947 HVM (Hindustan Vanaspati Manufacturers) faced two main problems.

(a) A declining share of the total market due to limited capacity and declining pre-tax profits.

(b) The danger that manufacture of Vanaspati, like margarine in South Africa, might be completely banned or so regulated that it becomes unprofitable.

Hostility to vanaspati had arisen by two main groups; the farming community which feared its effects on the demand for natural ghee and thus for milk. And some followers of Mahatma Gandhi who distrusted it as a modern large-scale factory based industry, incompatible with their ideal village and rural society as the focus for economic activity. In 1949 Delhi therefore passed legislation first banning the use of the terms "vanaspati" or "vegetable product and then restricting these to letters one-eighth of an inch high on tins of vanaspati. After 1956 HVM had been Edibles Division of Hindustan Lever. By 1951 three factories had been acquired in Ghaziabad (UP), Tiruchirapally (Tamil Nadu) and in Calcutta.

2. Soaps

The case with soaps and detergents was entirely different Hindustan Lever expanded its production from 21,625 tons in 1947 to 103,177 tons in 1965,

while the turn over increased from Rs.40.5 million to Rs.337.3 millions. The Hindustan Lever remained market leader in the high class detergent market and its brand names commanded a premium over all rival products.

I. Conceptual and Methodological Issues:

The analysis of the employment implications of industrialization is fraught with analytical and empirical difficulties.[8] All these difficulties arise for the narrower investigation of the emc generated by multinational enterprises (MNCs).[9] Some problems are exacerbated by the case study approach - the indirect effects of one particular investment are probably even more difficult to isolate than those of entire sectors.

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8 See Frances Stewart, Technology and Underdevelopment, London: Macmillan, 1976 and the Review by Sanjaya Lall, "Transnationals, Domestic Enterprises, and Industrial Structure in Host LDCs Survey, Oxford Economic Papers, 1978, vol.30, pp.217-48.

9 See, in particular, M.L. Possass, M.C. Coutinho and M.S. Possas, "Multinational Enterprises, Technology and Employment in Brazil: Three Case Studies", ILO, W.P. 21, 1982, and L. Lim and Pang Eng Fong, "Technology Choice and Employment Creation: A Case Study of Three Multinational Enterprises", ILO, W.P. 16, 1981.

One of the fundamental difficulties lies in the implicit use of the 'counter-factual' hypothesis approach: What would have happened had the particular even in question not taken place? The actual situation has to be compared to an hypothetical "alternative situation". In the present case, the direct and indirect employment effects of an MNC's activities have to be compared with the alternative of the investment not being undertaken at all, being undertaken partly or wholly by a local enterprise, or being undertaken by a different MNC. The _net_ employment effects of the actual MNC's presence can be assessed only after the employment generated by its alternatives have been allowed for. For obvious reasons, such an exercise is empirically intractable.[10] The lack of meaningful data on which to base any sort of alternative situation leads most researchers to deal only with the actual situation. Possible alternatives are mentioned but not quantified.

In view of the difficulties of measuring the net employment effects of MNCs, it seems to stay

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10 Watanabe, _op.cit._

within the realm of meaningful statistics. However, this does not resolve all the problems. Difficulties arise in the definition and measurement of a whole range of actual employment effects. This range can be simply illustrated by the following table:

Static	First Round (Direct Employment)	Second Round (Linkages)	Third Round (Multiplier and Revenue)
	First Round	Second Round	Third Round

'Static' employment effects can be defined as those arising from the initial choice of technology. Much of the literature on technology and employment has in fact focussed on this, particularly from the viewpoint of explaining the "inappropriate" choice of techniques in the manufacturing sectors of developing countries.[11] The 'dynamic' employment effects, defined as those arising out of subsequent product and process innovation, new product introduction, diversification, and market expansion, have been relatively ignored. Yet many of the studies in the present

11 For a fuller exposition of this 'evolutionary' approach to technical change, see R.R. Nelson and S. Winter, "In Search of Useful Theory of Innovation", <u>Research Policy</u>, 1977, vol.6, pp.36-76.

series,[12] including the analytical framework provided by Watanabe[13] stress the overwhelming significance of the dynamic effects of MNC employment generation. Let us now consider the three 'rounds' of employment directly.

'First round' effects refer to the employment directly generated by the MNC within the firm. The static and dynamic effects are relatively easy to comprehend in theory. The static effects depend upon two things; the nature of the technique chosen and the displacement of employment elsewhere by the entry of the MNC. In practice, the effects of both are difficult to evaluate.

The argument that the core technology was transferred more or less intact from developed countries, by MNCs receives substantial support from the evidence gathered by other studies in this series. In the longer term, the dynamic effects on employment generation of these technologies may be quite significant. These can take several forms:

The adaptation of the original process to use of

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12 For summary descriptions see J.N. Bhagwati and T.N. Srinivasan, Foreign Exchange Regimes and Economic Development: India, New York: National

local raw materials, components, equipments. This may not be more labour using directly, but by permitting higher rates of growth will enable greater employment generation (the indirect 'second round' effects are considered later).

The delaying of introduction of automation where labour-cost considerations make this economical. A conscious, growing technological 'lag' as compared to the developed countries, based upon the import and use of only those improvements which suit local conditions, can be an important method of technical adaptation to Third World conditions.

The introduction of new products and processes which lead to the expansion of the firm, and so provide (probably the most important) the means to sustained employment growth together with higher productivity.

The diversification of the firm into completely new activities, based either on freshly imported or locally generated technologies, which further enables

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Bureau of Economic Research, 1975, and S. Lall, "India's Technological Capacity: Effects of Trade, Industrial and Science and Technology Policies", in M. Fransman and K. King (ed.) Indigenous Technological Capability in the Third World, London: Macmillan (forthcoming).

13 Lim and Fong, 1981, op.cit.

the firm to grow.

The dynamic first round employment effects of MNCs seem to deserve far greater attention than they have so far received, and the present paper will stress them. The means used to achieve dynamic growth-innovation, imaginative entrepreneurship and efficient management-are, of course, the life-blood of economic growth more generally, and our study will try to throw some light, at the micro-economic level, on these important issues. It may be noted that almost none of the dynamic effects is based on a shift along a well known production function in response to changes in factor prices. We use instead a conceptual framework wher each firm is fully familiar only with its own technologies, and any change, whether to simply change factor proportions or to introduce new products and processes, is an act of innovation.[14] The analysis of dynamic effects is, in other words, the study of 'minor' as well as 'major' innovation.

It must be admitted that the precise quantification of even the first round effects is very difficult.

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14 Possa et al., 1982, <u>op.cit</u>., and Balassa et al., 1982, <u>op.cit</u>.

While the description of direct employment by individual firms is obviously straightforward, the interest of the analysis lies less in these figures than in the degree to which the initial technologies - core and ancillary - were in fact adaptable and the extent to which they were adapted; the nature and determinants of subsequent technical innovation; the success of the firm in expanding its sales relative to its major competitors, both at home and in international markets; and the influence of government policy on all these. Given the nature of the available data, the analysis must at best be tentative and impressionistic.

The introduction of government policy as a variable creates several complications, especially in a country like India where the industrial sector is subject to a large battery of regulations.[15] Since this study is on India, it is worth spending some time on this question. At the most pervasive level, all industrial firms in India operate within an extremely

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15 See S. Lall, "The Indirect Employment Effects of Multinational Enterprises in Developing Countries", ILO, W.P. No.2, 1980.

protectionist and inward-looking environment. On the one hand, this induces them to substitute raw materials for imports to the maximum extent feasible, and so to create local employment both within the firm and within its local suppliers. On the other hand, the complete protection behind which firms operate induces large areas of inefficiency and high cost, discourage exports, and leads to large technological lags behind world frontiers. Inturn, this restricts industrial and export growth it is well known that among the newly industrialising countries India has had the poorest performance in both these respects.

There are other Indian policies which inhibit dynamic employment creation by MNCs. The tight controls on the growth of large firms under anti-monopoly rules, and the even tighter controls on firms with over 40% foreign equity participation, obviously holds back market-determined growth by the largest and most efficient producers. The policy of distributing industrial licences widely (and licences are required for imports and investment not just in the initial stages, but also for expansion, change of product lines, mechanisation and diversifica-

tion) leads to a fragmentation of capacities, usually far below levels deemed economic by world standards. What is worse, it tends to freeze market shares, preventing dynamic firms from freely outcompeting inefficient ones.

The Indian government also has stringent policies to protect local technology generation. Science and technology policies make it difficult for firms to gain easy access to changing technologies abroad. Even when access is granted, tight controls on rates of royalty permitted (2 to 3% sales, net of tax on royalty remittances) have been observed to lower the quality of technologies sold to India. Technology inflow via direct investment is also tightly controlled - in the 12 years 1969-1980 the government only approved some $100m worth of new foreign direct investment. If this is compared to /113 million approved for direct investment abroad by Indian firms, making one of the world's poorest countries a net capital exporter, or to the $2 billion plus received each year in the recent past by Brazil (<u>net</u> of dividends and reputation, while the Indian approvals figure is <u>gross</u>), the true magnitude of the restriction becomes

more apparent. Thus, a comparison of India's technology imports (by means of direct inward investment, licensing and imports of capital goods) with those of other NICs shows that it has the lowest dependence on foreign technology.

Finally, dynamic first round employment effects are also influenced by Indian government policies towards small scale industry. We had noted earlier that first-round employment effects have to be considered net of employment displacement in traditional (generally small-scale) producers of competing products. Needless to say, the fact that certain activities are displaced over time by others is not a particular matter for concern - indeed, such displacement is essential to economic development. Attempts to hold back the progress of market-determined economic transformation may, over the long term, lead to a diminution of employment opportunities rather than the preservation of employment, even when the more modern activities are less labour intensive. However, the Indian government has adopted the policy of protecting small-scale industry by a variety of measures. Over 800 products are earmarked for sole production by the small-scale sector; many other are accorded preferen-

tial tax treatment for small-sector firms when they compete directly with large-scale firms. This policy has undoubtedly created a widespread and dynamic small-scale sector, but equally undoubtedly there are industries where it has created inefficiency and stifled growth. To the extent that particular MNCs fall within the scope of this policy (and one of our firms does), the dynamic effect on employment generation could be negatively affected. The methodological problem raised is similar to those raised by the other forms of government intervention: how are we to evaluate how the MNC would have performed in a more 'natural' setting (i.e. with a more neutral policy regime)? No easy answers are possible.

To sum up this portion of the argument, the evaluation of 'first round' or direct employment effects of MNC activities faces certain difficulties in any situation. These difficulties arise from assessing the appropriateness of the technology used, the nature of dynamic growth effects and the calculation of employment displacement. However, in countries where the economic environment is conditioned by pervasive government intervention the analysis is

even more difficult because that natural evolution of economic factors is not allowed to occur. In India, the high degree of regulation has clearly affected MNC performance in a variety of ways. Some have promoted the net generation of employment (e.g. import substitution of inputs or the preservation of small-scale industry) and others may have restricted it (e.g. the inhibitions placed on MNC growth or promotion of exports). Even the employment promoting measures, to the extent that they have gone against market forces, may have been socially inefficient. These possibilities raise all sorts of methodological problems which we can note but not correct in our empirical studies.

The differences between the policy regimes of different developing countries including in this series of studies must also be noted. Singapore, at one extreme, with a highly export-oriented, market-based regime, exhibits quite different patterns of MNC behaviour.[16] Technological flexibility is extremely

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16 These aspect of linkages are analysed in S. Lall, "Vertical Inter-Firm Linkages in LDCs: An Empirical Study", Oxford Bulletin of Economics and Statistics, (1980), vol.42, pp.203-26.

limited in both the short and long terms because of the need to constantly match world standards of efficiency; growth is very rapid, as are related productivity increasers; local purchasing develops over time as supplier capabilities begin to match international ones in terms of costs and quality. Brazil is more similar to India because of its emphasis on import-substitution and maximising local purchases; however, it differs from India in the freedom it allows to MNCs, the greater degree of outward-orientation, and its heavy reliance on imports of advanced technology.[17] This permits a somewhat greater degree of technological activity and adaptation in the long term than Singapore, but does not protect local 'learning' to the same extent as in India, where heavy protection and intervention permit more innovation, but at the same time bias it in certain directions which may be socially wasteful and reduce its ultimate value.

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17 See S. Lall and P. Streeten, 1977, op.cit., Chapter-10.

"<u>Second round" effects</u> refer to employment generated via purchases of various goods and services from the local economy. The problems involved in making quantitative estimates of employment generated by such linkages, at the industry level (by the Leontieff input-output matrix) or at the firm level (by attributing a certain amount of suppliers' employment to purchases by the firm in question) are formidable.[18] Nevertheless, the economic significance of backward linkages in employment creation cannot be overstressed. In many instances, the second round effects outweigh the first round ones. What is perhaps equally important, these inter-industry linkages also entail a variety of other relationships whereby skills, technologies, information and capital are transferred, production co-ordination is achieved in uncertain and narrow markets, and prices are negotiated when free competition is not feasible.[19] Thus, second round effects cannot only raise employment lelvels, they can also raise the skills and productivity of labour employed, its stability of employment and its sustained growth over long periods.

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18 For a fuller analysis see Watanabe, 1980, <u>op</u>.<u>cit</u>.

19 Ibid.

We have already remarked on the very important role that official policies can play in effecting the extent of local purchases. Large countries pursuing import-substitution strategies generally impose local content requirement on all industrial investors, reinforced by tariff and quantitative restrictions on important inputs. Such policies force the pace of local purchasing, thus boosting local employment, industrialisation, and the accompanying 'learning' of skills and technologies. Small countries with liberal economic policies cannot resort to such measures because of their constant need to maintain international competitiveness, but even here, as the Singapore study shows, the extent of local purchasing grows over time.

It may be worth reiterating the point made in the previous-sub-section, that the forced increased of local employment behind heavy protectionist barriers may not always be in the long-term national interest. There are some cases where the dynamic 'learning' effects of production and various associated externalities render protection desirable; in these instances, government intervention is clearly

desirable to move the country to its true dynamic comparative advantage. In others, the protected industries remain perpetually inefficient, imposing penalties on their users, raising final production costs and slowing down economic and export growth. It is not sufficient, therefore, to merely describe the extent of employment generated in vertically linked industries. The _social efficiency_ of linkage creation is also a crucial consideration which needs to be considered.

An empirical study such as the present one, however, has limited aims and resources. It would be well beyond its means to undertake a proper social cost-benefit analysis of linkage creation. Even if the resources were available, the application of cost-benefit techniques suffers from many well known drawbacks. But in a case study of India it is well worth it to be at the very least, forewarned about the issues.

Static second round effects refers to the employment generated by local purchases at the time of initial entry (though perhaps the correct definition may be to include purchases made after the

initial stipulations on local content have been met). Dynamic effects would include subsequent increases in local purchases arising from firm growth, diversification innovation and entry of export markets. Needless to say, employment effects would have to be netted out for employment lost as a result of switching suppliers, changing the make/buy ratio, or changing sourcing to imported materials (this last option is effectively ruled out in India).

Dynamic linkage creation is of special interest because it generally involved the firm in question in an active (and so costly) process of locating new suppliers, creating and transferring technologies, designs, skills and sometimes finance to them, and ensuring that supplies are not disrupted. The nature and extent of such linkage creation depends upon the firm's own process of innovation and diversification - as with first round effects, the initial static choice is a less interesting issue than subsequent efforts to modify, improve and innovate.

"Third round" effects refer to employment generated as a result of the spending of extra incomes and revenues created by the firm.[21] The ramifications

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21 S. Lall and P. Streeten, 1977, op.cit.

of these effects is so broad and diffuse that most empirical studies do not attempt to quantify them at all. Indeed, such quantification would involve a fully-developed macro-economic model, with all its attendant problems and weaknesses. In any case, this was clearly out of the question for this study and we exclude all third round effects here.

Let us conclude this chapter on methodological issues. The evaluation of employment effects of MNCs faces a host of difficult problems. A limited, micro-level, empirical study of this sort cannot attempt to resolve them. Nevertheless, it is more valuable to collect small pieces of knowledge, being aware of the limitations of the analysis, than not to conduct empirical research research at all. Many of the broader issues raised in this chapter will be raised again in the following chapters, even though clear, quantifiable answers are not forthcoming.

Background to Indian Case Study: MNCs Affiliate

Ia. This deals with the case of a foreign MNC affiliate in a developing host country. In this instance, case A is an affiliate of one of the world's largest

food-processing and soap manufacturing multinationals based in Europe. The affiliate has long been established in India, and is regarded one of the five largest firm in country's private sector. And also happens to be largest foreign affiliate in the country. It is one of the few firms permitted to retain a majority share holding due to its diversification into 'core' industries and its impressive performance. In fact it is one of the five firms in India to be given official recognition as an 'export trading house'.

The most interesting aspect of Case A, however, it belongs to - primarily soaps and detergents in India - has substitutes in the small-scale informal manufacturing sector which generates more direct employment per unit of output contrary to the arguments that soap industry as an example of MNCs displacing local firms, distorting local testes, reducing linkages and causing negative net effects on local first and second round employment effects.

Firm A started operation by the turn of last century as an importer of soaps from the parent company

in Europe. For 3-4 decades the firm continued as a distributor of parent company products, adding vanaspati to its major products. During this period the firm started to build up a substantial distribution and sales network especially in the rural and small urban markets. This network is today the most comprehensive in the country, reaching into every centre with a population of over 5000. The parente company regards its affiliate in India as one of the most efficient and cost-effective in all its global operations. Firm A is in fact the largest private sector customer of rail transport in the country (it pioneered the use of containers in Indian Railways).

The firm A had entered into manufacturing operations in India in 1932, when it set up to manufacture of soaps and vanaspati near Calcutta. The product range was diversified away from consumer products in 1960s and 1970s partly under Government pressure to invest in 'core sectors' if the firm was to be allowed to maintain foreign majority control. The present composition of sales is: Soaps and deter-

gents 65.6%; Food (vanaspati and dairy) 20.3% and chemicals, animal feeds and personal products (toothpaste and cosmetics) 14.2%. The firm also manufactures soap and food processing and packaging machinaries in small quantities. Mainly for its own use. Out of these products, synthetic detergents (introduced in India in 1959) animal feeds and chemicals are regarded as 'core industry products and expansion here is much easier than other areas.

Firm A now has 11 major manufacturing facilities in India, as well as 12 small satellite units for the manufacture of animal feeds. It is setting up 3 wholly export-oriented units in ore of the free-trade zones in India which may boost its export performance even further. The Indian operation comprises only between 1-2% of the total sales by the parent multinational. The MNC has some 220 principal subsidiaries, engaged in manufacturing selling and service operations throughout the world of which 170 are in developed world.

Firm A exported Rs 176 million worth of products in 1977 increased this to Rs 670 million in 1981 and

and plans to further raise it to Rs 1000 million by 1984. This is one of the most impressive export performances in the country and in terms of exports of a manufacturing firms own products. The firm exports a wide range of its products to developed and developing countries, the recent trend is towards Soviet Union which happens to be large market for soaps and personal products. It also acts as an export agent for other manufacturers, many of them making products (like leather footwear, carpets, garments and engineering goods) not directly related to the firm's own production. The firm A seeks out foreign markets, help manufacturers to improve quality, provides know-how and sometimes finance and helps in obtaining scarce materials. Many of its clients are the small scale firms. In 1980 the firm A had exported Rs 27 million worth of goods for 85 small scale units. This kind of activity is known as 'Trading house'.

The firm has close connections with parent company (and in turn the parent company's interest because of its controlling share) have been of great value in promoting exports. After the Second World War, the firms A had began 'Indianising' its management.

By 1961, the Chairman was an Indian, this introduced a 'native' Chairman for MNC affiliate. By now, the top management and technical personnel are almost entirely Indian and one of its previous Indian Chairman sits on the main board of the parent Company. From the 1960s onwards, the Indian government had started to exert increased pressure on all MNCs operating in the country to dilute foreign equity and to give masterity control to local share holders. This policy was formally enshrined in the foreign exchange regulation Act (FERA) of 1973 under which only those MNCs affiliates which were engaged in what the government regarded as, 'high technology' activities, or exported significant portions of their output, would be allowed foreign majority holdings. All other companies were to bring down foreign shares to 40 per cent or less.

Most MNCs affiliates operating in India chose to dilute their equity and to become part of Indian Corporate sector than to comply with these stringent requirements. The promotion of export-oriented activities, in particular was fraught with all sorts of difficulties on which the high cost inputs, fragmented

production facilities, bureaucratic regulations, infra-structural bottlenecks, lagging indigenous, technologies, poor labour relations and inward-looking management attitudes.

Firm A had to come to terms with the government regulations. It reduced foreign equity participation over time from 85 per cent in the 1950s to 51 per cent in 1980. It fought hard however, to retain foreign majority share-holding, and succeeded because it had set up manufacturing facilities in 'core' (high technological) sectors like in organic chemicals and more recently, agricultural stimulants and had mounted a expansive provision of imported intermediates (tallow and edible oils).

A final background note on the Company's recent performance to Rs.4.8 billion in 1981, a 3.7 fold increase. Profits before the tax have risen in the same period from Rs 97 million to Rs 412 million, a 4.2 fold increase. In 1981 the firm paid Rs 205 million in taxes to the government. Of the remaining profits, it ploughed back 63% onto business and distributed 37% as dividends. In 1981 the firm had 90.3 thousand share holders as compared to 16.2 thousand in 1972.

Very very impressive export effort. Besides the usual restrictions an expansion faced by a foreign affiliate in India, Firm A was handicapped by the fact that the government sought to preserve one of its major products, laundry soap, for manufacture by the small scale sector. Organised sector where the manufacturers of laundry soap, of which firm A is the largest have been prohibited from further expansion in this product. Their current products are also subjected to various competitive disadvantages like higher excise duties non-availability or more.

Ib. FIRST ROUND EMPLOYMENT EFFECTS

The actual employment levels in firm A, Table-1 gives a broad breakdown of employment at three convenient reference periods.

Table-1: Total Number of Employees in Firm A

Years	Management	Technical & Clerical	Workmen	Total
1960	339	1,562	4,677	6,578
1970	406	1,605	4,909	6,920
1980	564	1,819	7,059	9,442

In 1981, total personnel costs came to ₨ 225 millions or 5% of the value of sales and 31% of value added in that year. The firm has extensive training schemes. For managers, they had to get 1½ to 2 year training programme in all relevant disciplines. For lower levels of sales, clerical and production workers there are schemes operated at the centre and all the plants. The total cost of these schemes in difficult to Calculate, but by rough estimates it comes around ₨ 5 million per annum.

Ib.1 Static First Round Effects

The static employment effects of technical choice by the firm manifest themselves in two ways:

(a) choice of a product being introduced into India, given that the parent company has introduced and successfully commercialised it in the developed world.

(b) The choice of the manufacturing process to be used, given the product.

It is obvious that MNCs affiliate has considerable discretion in both choices. Prevailing low

per capita consumption in India, the unfavourable climate and custom, the exigencies of government policy the profile of the Indian firm's production is bound to differ from that of its affiliated firms in rich countries. Thus sophisticated products like frozen foods are not produced in India, certain products are very recently introduced in India e.g. Synthetic detergents certain luxury soaps are made to lower specifications in India. In turn, the choice of products to be manufactured locally can influence the employment generated, to that older or simpler products use older and more labour intensive techniques.

Regarding the choice of technologies are concerned, the evidence from firm A confirms that for technologies imports from abroad, there is little or no initial adaptation to the core manufacturing processes. However, adaptations occur over a period of time by a deliberate process of holding back increased mechanisation and automation in India relative to the advanced world or by selective introduction of greater mechanisation to selected elements of manufacturing process where its productivity effects are crucial and not to others. In this

ancillary operation, certain functions may be kept extremely labour intensive because the given low cost of labour relative to capital.

The important employment effects of innovation arise in other ways -- by stimulating growth, raising incomes, promoting the use of local raw materials, increasing exports rather than via a static choice of technique. The combination of all these factors - product choice, technological delays and selectivity, use of very labour intensive methods in some ancillary operations - means that the overall capital intensity of production is much lower for the MNCs affiliate in India than in the developed world. To conclude it is true that the initial choice of core production technique for a given product does not depend greatly on relative factor costs. Nevertheless lower labour costs and smaller scales of production, combined with different income levels and market charateristics, do combine over time to lead to considerably greater labour intensity of total operations in the Third World.

Ib.2 EMPLOYMENT DISPLACEMENT

Examining the displacement of traditional, small-scale producers by modern, large-scale manufac-

ture lead to employment reduction in long and short terms? What are the efficiency and welfare implications of the use of modern method of production in competition with traditional methods?

By way of background, there are 5200 units in small scale soap sector in India, and 44 large scale units providing 67% and 33% respectively to the total soap production. Due to the ban by government on the expansion of largescale sector and encouraged the small scale sector to produce soaps. The quanti-ty of laundry soap made by small units is distinctly inferior (in terms of 'total fatty matter' content) to that of largescale sector. To certain extent free competition will not effect units serving rural and low-income consumers and as such there appears no significant employment displacement by the large units.

By the arbitrary intervention by the government had held down competition from largescale units and so prescribed employment in small-scale sector. But considering other factors, effecting the consumer welfare. e.g. The consumer is forced to buy inferior products against his preference.

A part from the direct employment generation, which presumably is greater in the small, the indirect employment effects have to taken account. Thus small-scale units have not developed the technology in use non-conventional oils as substitutes for tallow and edible oils, this leads to the use greater foreign exchange for production, directly by importing tallow and indirectly by using up local edible oils. On the other hand the largescale sector generates far more employment in the input sector of non-conventional oils. At a rough estimate, the indirect employment generation is 2-3 times the employment in the smallscale sector is unable to recover a valuable by product (glycerine) from soap manufacture, the country has to import glycerine at the margin. The largescale sector has the demonstrated capacity to export its products, while the low quality products of smallscale sector find no market abroad. At the present rate of dynamic innovation and industrial growth the survival of unviable, inefficient units are being questioned. If the competitive process leads to a reduction in employment, the same process will generate higher growth and employment in the long term. In this regard, there seems to be no genuine displacement effects.

IC.1 Second Round Employment Effects

Second round employment effects indicate that they are very large and significant for firm A. The firm buys most of its inputs locally. It has pioneered the use of previously unexploited raw materials. It has one of the most extensive marketing and distribution networks in the country. It has generate of linkages and employment in vertically related sectors of activity.

I.C.1 Backward Linkages

By the very complicated nature it is impossible to be precise in terms of employment figures. Roughly in 1981, the total value of raw materials consumed by firm A came to Rs 274.5 millions of which 73% was locally purchased. As far as industrial purchases are concerned no estimates are available of employment generation. A very rough estimate of employment generation by the collection of minor oil seeds (160 thousand tons per annum) would be about 4 million during the collection season. Similarly, the spraying operations for the testing of the plant growth nutrient generate over 100,000 jobs during the spray

period 3 to 4 times a year. Another form of the backward linkage by firm A results from its purchases of finished products for exports. In 1981, the firm bought the following goods:

Agriculture products	..	Rs 3.7 million
Marine products	..	Rs 22.7 "
Textiles	..	Rs 82.7 "
Footwear	..	Rs 4.9 "
Carpets	..	Rs 16.0 "
Others	..	Rs 13.6 "
Total	..	Rs 143.8 million

These purchases, of which roughly one quarter comes from small-scale industry, also generate substantial employment. Certainly, in the absence of firm A's export promotion activities, a large part of these activities may not place at all. The firm A also buys over 50% of its packaging material and promotion items from the small-scale sector. The firm estimates that its total purchases from this sector generate about 740,000 mandays of employment per annum.

I.C.2 Forward Linkages

The distribution of the firm A's products require about 90 carrier firms to move 300,000 tons of materials by road, using some 800 trucks during the course of one year. According to the estimate by the road carrier industry one truck generate employment for 7 persons, leading to total employment of 5,600 people by firm A in trucking.

The firm A has 3600 distributors in the country. These hire sellers, retailers etc., to bring the firm's product to the final consumers. There are about 10,000 people indirectly engaged in these final net work of distribution operations. The firm A uses 45 forwarding agents to clear and despatch its products. These firms independent of firm A, employ about 1,000 people.

I.C.3 Other Linkages

The firm has launched an integrated rural development programme in one of the district of U.P. It has stationed 25 agricultural graduates there permanently

and also sends all its management trainees to the villages to work on a selected development project for 2 months. There are 35 villages covered by this programme which deals with Agriculture, health animal-husbandry, bio-gas etc. It has been estimated that 200-400 families are involved in activities related to the programme.

CHAPTER EIGHT

CHAPTER EIGHT

CONCLUSION

There is a growing impatience, and consequently an ever increasing concern, in the Third World, about the slow pace in the establishment of the New International Economic Order which the UN General Assembly resolved with a view to reducing the current inequalities among nations. The glaring gap between the developed and the developing countries which is about $9820 per capita, would increase to more than $12,000 by the turn of this century - even by assuming a 4-5% rate of growth. This means that many of the so-called developing countries have ceased to develop. In, this age of technological innovations, the MNCs with their capacity to mobilise large scale financial resources and to concentrate technological capabilities within their fold, have played a vital role in increasing the disparity in incomes among these nations, justifying Galbraith's charge of internationalising the tendency to inequality, rather than helping them to reduce the gap by way of transferring part of their technological capabilities and capital resources to the developing countries with such tre-

mendous power, it is not surprising that scholars like - Kindleberger and Tinberger have begun to wonder whether the emergence of these Corporations would not, to a large extent wrest the substance of sovereignty from sovereign states.

Obviously in such circumstances, the world community has been compelled to take notice of the activities of the MNCs. United Nations passed several resolutions to this effect, expressing concern about the impact of the activities of these "giant corporations with multiple subsidiaries", as Judge Jessup calls them on the sovereignty of nation states where they operate, and emphasised the need to have a code of conduct to regulate them.

The General Assembly Resolutions 3201 and 3202 of 1 May 1974, are important landmarks in the international scene in this regard. The charter of Economic Rights and duties adopted by the general assembly in 1974 recognised the rights of every state to regulate and supervise these corporations within their national jurisdiction and to take measures to ensure that their activities compiled with the laws of rules and regulations of these nations and conform

to their economic and social goals. In Resolution 96(IV), the United Nations Conference on Trade and Development, at its fourth session, resolved that action should be taken by countries in a mutually reinforcing manner at the national, regional and international levels to eliminate, or effectively deal with, restrictive business practices including those of MNCs which adversely affects international trade, particularly in the third world and their economic development. The era of MNCs is upon us. No one can ignore the fact. The MNCs are the product of the technological revolution of the Twentieth Century. Backed by a combination of resources of enormous capital, sophisticated technology patented process, exclusive know-how, advanced skills of management and marketing, "these giant octopus Corporations with multiple subsidiaries" as Judge Jessup calls them have emerged as important across in the international arena. Most of these Corporations, hail from the United States of America but several developed countries like West Germany, Japan, U.K. and France are joining in the race. Direct foreign investment of these MNCs is more in the developed countries than in the developing countries though the

impact of these investments in the political, economic and social fields is more noticeable in the developing countries than in the developed nations because of greater economic strength in matching bargaining power of these developed nations. In recent years the activities of these MNCs have shifted from the traditional extractive and manufacturing industries to other sectors such as banking, insurance and advertising and their activities have increasingly turned from commodities to technology. Increasing internationalisation of production by a process of concentration of the factors of production in fewer and fewer hands such that by the end of the century it is estimated that "within a generation between 400-500 firms, would own about two-thirds of the fixed assets of the world". This has created general awareness among the nations that power is shifting away from the nation-state to international institutions public and private. The main objectives of MNCs are dictated solely by profit maximisation. This has created a kind of tension and suspicion between the developed and developing countries.

The size and width of the operations of the MNCs across national boundaries would itself imply

impact of these corporations on international relations and on the political and economic systems of various national jurisdictions where the MNCs operate. According to figures compiled by commission on transnational corporation each one of the 482 Transnational Corporations is operating in 20 or more host countries through their affiliates. To the international community as a whole, the emergence of these MNCs has set a serious problem, viz., whether the international operations of these firms would have such an affect on world politics as to erode the very concept of national identity and national status of nation states and equate contests between nation-states to inter-state corporate competition. The impact on international relations may take several forms. They may place countries in an inter-dependent or dependent position from which governments may find it difficult to extricate themselves. This dependence arises from: (a) Monopolistic or oligopolistic control over the production of goods which are socially or economically vital to the country e.g. life saving drugs; (b) possession of knowledge of secret processes in technology protected

by patents; (c) The operations of MNCs dispersed over several host countries jurisdictions and the co-ordinating operations and policies being controlled away from these jurisdictions and on considerations, which transcend those of the host as well as of the home countries.

Because of this dependence, the host and the home countries may not like or may be unable to take strong and firm steps to curb certain undesirable activities of the corporations which may injure national states. Secondly by forming linkages several countries with high officials or political personalities in a position to formulate policies on nations and international issues, these corporations exert influence in shaping these policies to suit their interest.

Globally speaking, foreign direct investments, and MNCs activities together with their employment effects, are much smaller in the developing countries than in the developed countries. Thus, in 1975, the foreign direct investment second in the developing countries accounted for only quarter of the total FDI. Similarly, the volume of direct employment

associated with MNCs in the developing countries is dwarfed by that in the industrialised market economy countries. It can be estimated that by 1980 the employment directly provided by MNCs was about 4 million in the developing countries as against 35-40 million in the industrialised market economy countries. This means that MNC's employment in developing countries, taken as a whole, corresponds to some 0.5 per cent of the labour force approximately 10 per cent of the total world-wide MNC employment. However, since the industrial structure in the developing countries is in a process of dynamic change, the presence of the MNCs can have a notable impact on employment perspectives, especially in those countries in which the presence of MNCs is more significant.

The MNC employment is largely concentrated in a relatively small number of developing countries and sectors of their economies, although there has been a tendency over the last decade towards more geographical and sectoral diversification. Significant employment tends to be found primarily in the relatively more advance and "newly industrialising"

countries where target potential markets exists and serve as export platforms. And also in the countries with an internationally important natural resource base.

Encouraged by government policies of import substitution and to promotion of certain manufactured exports, and in line with comparative advantages, MNCs are more strongly represented and in part increasely concentrated in the capital and research intensive branches of manufacturing which is not unlike the pattern in developed countries.

The aforesaid analysis shows that MNCs cannot be expected to play a major role in the provision of direct employment opportunities for the bulk of the work force in the Third World. This is simply because of MNC's limited global employment volume, their uneven spread over countries and economic sectors and their relative decline in agriculture. In this regard, the developing countries still account for 40 to 60 per cent of labour force. Taking into consideration the comparative advantages of MNCs over local enterprises, governments in developing countries often seem to ascribe more an economic modernization

role to MNCs rather than a large-scale direct employment generation one in their efforts to promote development and to cope, in the long-time perspective. MNCs operate and contribute growth and formation of a modern industrial work force in high technology industries. Their total employment impact cannot be evaluated without taking into account their varied indirect effects on employment.

MNC employment in individual developing countries varies greatly and can assume significant proportions in various sectors, especially in the important sector of MNC activity - the manufacturing industry. A striking fact is the substantial growth, in percentage terms, of MNC employment over the last two decades or so in the developing regions. This exceeded in many cases the overall employment increase in the respective developing host countries and by far, the MNC employment, increased in MNC's home countries.

While MNCs in many countries have increasingly been associated with policies of import substitution and MNC's production, the local market has assumed an important dimension, the MNCs role in exports has

likewise been growing in many cases. Exports have been promoted since the mid 1960s through the establishment of Free Trade Zones and similar sites in which MNCs tend to dominate. As a rule, MNCs undertake there relatively low-skilled assembly or processing activities, (for electric and electronic products, textiles and clothing, or miscellaneous light manufacture) using to a great degree materials and parts imported from the parent corporations. This form of MNC manufacturing, which is only one stage of production process, has offered appreciable scope for rapid employment expansion for a significant segment of labour force. As regards the indirect employment effects of free trade zone manufacture, these are small as a rule, because of the usually low linkages of MNCs operating there with rest of the host country economy.

Considerable importance for the developing countries are the various indirect employment effects of multinational corporation, although most of these cannot be measured exactly. In this connection, a special role is played by the different types of linkages which MNCs establish with the local industries and enterprises. This is explained by the

fact that the developing economies are in most cases still fragmented and in need of better industry integration. Thus MNCs with highly capital - intensive production and processing are employing directly only a limited number of people can nevertheless have a variety of substantial indirect employment effects. For example, enterprises in the food processing industries may create, indirectly, significant employment through backward linkages to agriculture; or automobile MNCs may generate such indirect employment through the use of domestic inputs for assembly operations (which is often a host government requirement).

Apart from the question of a statistical measurement of indirect effects, the assessment of the total net employment implications of MNCs both in form of direct and indirect, is hampered unfortunately by the difficulty in isolating the effects of MNCs from those of broader economic trends, such as industrialization and modernization.

Finally, it is impossible to evaluate employment globally in a satisfactory way, the "alternative

situation" which would have prevailed without MNCs in the developing countries and industries concerned. Despite many of methodological and practical difficulties, a review of existing relevant studies suggests that indirect effect of MNCs are significant in the Third World.

The conclusions can be brief with regard to the case study. All kind of difficulties arise from the narrow investigation of the employment generated by multinational corporation. Some problems are exacerbated by the case study approach - the indirect effects of one particular investment are probably even more difficult to isolate than those of entire sectors. One of the fundamental difficulties lies in the implicit use of the 'counterfactual' hypothesis approach: What would have happened had the particular investment not taken place? The actual situation has to be compared to an hypothetical "alternative situation". In the present case, the direct and indirect employment effects of an MNCs activities have to be compared with the alternative of the investment not being taken at all, being undertaken partly or wholly by a local enterprise or being undertaken by a different MNC, with regard to the case study: second round

employment effects, operating via linkages with other local firms, are very significant in generating employment. These linkages are also based upon substantial innovative efforts on the part of the principals and lead to the sustained growth and technical improvement in the related firms. However, it is practically impossible to qualify second round employment effects.

Finally, the specific nature of the highly regulated - and inward-looking Indian environment has had pervasive effects on technical choice technological change and long term growth and employment generation. While any case study suffers from the inherent limitation of its narrow focus, to the extent that we can draw lessons about the generation of employment by MNCs. The affiliates of MNCs in activities which permit such adaptations, tend to respond to local conditions in developing countries products and processes are adapted even at high innovation costs, to local market needs and material availabilities. The strategy of firm A in the case study in India has to some extent been unique even far that multi-national firm. Only large host countries with highly skilled scientific manpower can hope to evoke that kind of response from MNCs.

To conclude, in this emerging era, it is vitally important that the causes of friction between multinational corporations and the respective national governments be minimized. Multinational corporations powerful instruments of world development. If it functions in harmony with national governments it can make an enormous contribution to the well being of all peoples. If on the other hand, present conflicts continue they would become exacerbated. They would lead to economic autocracy, protectionism and cartelism. This would hamper the unifying forces of MNCs, dampen the economic progress of world and raise probability of war.

APPENDICES

APPENDIX-I

Transnational Corporations: Code of Conduct; Formulations by the Chairman (E/C 10/AC 2/8)

COMMISSION ON TRANSNATIONAL CORPORATIONS

Intergovernmental Working Group on a Code of Conduct, Sixth Session, 8-10 January, 1979

INTRODUCTORY NOTE

This paper is in response to a request by the Intergovernmental Working Group at its fifth session. It should be regarded as an attempt to consolidate the discussions of the Intergovernmental Working Group so far. The Chairman is responsible for its form and contents and it does not commit delegations in any way.

Since the legal nature of the Code still has to be discussed by the Working Group, and the imperative scope of formulations related to the activities of transnational corporations as well as the treatment transnational corporations should not be prejudged at this stage, the world "should", wherever appropriate, is used throughout the formulations without prejudice to a final agreement on the legal nature of Code.

One exception to this principle is made. Agreement among Governments on intergovernmental cooperation

is considered to be of fundamental importance to ensure the effectiveness of the Code of Conduct. This idea has received broad support in the Intergovernmental Working Group. In dealing with intergovernmental co-operation in a separate section of the Code, the proper location of which has to be determined later, the word "agree" appears to be the most appropriate.

ACTIVITIES OF TRANSNATIONAL CORPORATIONS

A. General and Political

Respect for national sovereignty and observance of domestic laws, regulations and administrative Practices

1. As set forth in this Code, transnational corporations should recognize and respect the national sovereignty of the countries in which they operate as well as the right of each State to exercise full permanent sovereignty over its resources and economic activities within its territory.

2. Transnational corporations should observe the laws, regulations and administrative practices of the countries in which they operate.

3. Transnational Corporations should respect the right of each state to regulate and monitor the activities of their entities operating within its territory.

<u>Adherence to economic goals and development objectives, policies and priorities</u>

4. Consistent with the need to maintain the viability of their operations, transnational corporations should take effective measures to ensure that their activities are compatible with and make a positive contribution toward the achievement of the economic goals and established development objectives of the countries in which they operate. To this effect transnational corporations should support the development efforts of the countries in which they operate, particularly developing countries and participate effectively in these efforts at the national level, and where appropriate, at the regional level within the framework of regional integration programmes. In this context, they should consult and co-operate, as appropriate, with governmental authorities regarding ways of maximizing their contributions to the development process and of establishing mutually beneficial relations with these countries.

5. Transnational corporations should as all parties to contracts freely entered into, respect and adhere to such contracts. In the absence of contractual clauses providing for review or renegotiation, transnational corporations should respond positively to requests for review or renegotiation of contracts concluded with Governments or governmental agencies in circumstances marked by duress, or clear inequality between the parties, or where the conditions upon which such a contract was based have fundamentally changed, causing thereby unforeseen major distortions in the relations between the parties and thus rendering the contract unfair or oppressive to either of the parties. Aiming at ensuring fairness to all parties concerned, review or renegotiation in such situations should be undertaken in accordance with applicable legal principles and generally recognized legal practices.

Adherence to socio-cultural objectives and Values

6. Transnational corporations should respect the social and cultural objectives and values of the countries in which they operate. To this end, transnational corporations should consult with Governments

with a view to avoiding that their practices, products or services cause distortions in basic cultural patterns or have soio-cultural effects, considered undesirable by the countries concerned, beyond those which necessarily accompany economic development and the introduction or generation of new technologies.

Respect for human rights and fundamental freedoms

7. Transnational corporations should respect human rights and fundamental freedoms.

8. In their employment practices transnational corporations should not discriminate on the basis of race, colour, sex, religion, language, social origin, or political and other opinions. Transnational corporations should apply this principle without prejudice to government policies designed to extend equality of opportunity.

9. Non-collaboration by transnational corporations with racist minority regimes in Southern Africa.

Non-interference in internal political affairs

10. Transnational corporations should not interfere in the internal political affairs of countries in which they operate by resorting to subversive activities aimed at influencing the political and social systems in these countries.

11. Acting as good corporate citizens in the countries in which they operate, transnational corporations should abstain from activities of a political nature which are inconsistent with domestic legislation or established practice in these countries.

Non-interferference in intergovernmental relations

12. Transnational corporations should not interfere in affairs which are properly the concern of Governments.

13. Transnational corporations should not act as instruments for the advancement of the foreign policy of Governments, unless they operate in accordance with intergovernmental co-operative arrangements involving the countries in which they operate or behave in harmony with concerted actions of the international community.

14. Transnational corporations, in pursuing their corporate interests, should not request Governments to act on their behalf in any manner that exceeds normal diplomatic representation or other regular intergovernmental communication and in particular in any manner that amounts to the use of coercive measures of an economic and political character.

15. Transnational corporations should, in accordance with generally accepted international standards, exhaust means provided by local law in host countries in which they operate or other agreed means for resolving disputes, before seeking diplomatic protection from their home Governments.

Abstention from corrupt practices*

16. Economic, financial and social ownership and control.

17. Transnational corporations should allocate decision making among their entities so as to enable these entities to act as good corporate citizens and to contribute to the economic and social development of the countries in which they operate.

18. The various entities of transnational corporations should co-operate with one another to help meet effectively the requirements established by the countries in which they operate.

19. Transnational corporations should co-operate with Governments and nationals of the countries in which they operate in furthering national objectives for local equity participation.

20. Transnational corporations should ensure that the control shared by local partners as determined by equity or contractual terms in non-equity arrangements can be effectively exercised.

21. In implementing their personnel policies, transnational corporations should give priority to the employment and promotion of nationals of host countries at all levels of management and direction with a view to enhancing their effective participation in the decision-making process of local entities.

22. Transnational corporations should contribute to the managerial training of nationals of host countries and facilitate their employment at all levels of management of the transnational corporations as a whole.

Balance of payments and financing

23. With full regard to the policy objectives of the countries in which they operate, particularly those of developing countries, transnational corporations should, while maintaining the viability of their entities, contribute to the promotion, and to the extent possible the diversification, of exports from these countries as well as to an increased utilization of goods, services and other resources of such countries.

24. Transnational corporations should be responsive to requests by Governments in host countries, particularly developing countries, concerning the phasing, over a period of time to be agreed upon, of the repatriation of capital in case of disinvestment, or remittances of accumulated profits, dividends or intracorporate payments, when the size and timing of such transfers would aggravate serious balance-of-payments problems of such countries.

25. In managing their short-term capital transaction transnational corporations should not, contrary to generally accepted commercial practice, defer or advance current intracorporate payments in a manner

that would increase currency instability, thereby aggravating serious balance-of-payments problems of the countries in which they operate.

26. Transnational corporations should, in their intracorporate activities, refrain from imposing, contrary to established development objectives of the countries in which they operate and beyond generally accepted commercial practice, restrictions on their entities regarding the transfer of goods, services or funds, which would adversely affect the balance of payments of such countries.

27. When using capital markets of host countries, particularly for medium and long-term financing, transnational corporations should, consistent with the policies of such countries, refrain from activities which would adversely affect the functioning of such markets, particularly by restricting substantially the availability of funds to domestic enterprises. When issuing, in accordance with governmental policies, shares to nationals of host countries in order to increase local equity participation in entities operating in such countries, transnational corporations should consult with the Governments concerned on the effects of such transactions on the local capital markets.

28. Transnational corporations should consult and co-operate with Governments in countries in which they operate, with a view to alleviating problems pertaining to balance of payments and financing of undertakings in such countries and to contributing to the achievement of national goals in this respect.

Transfer pricing

29. In their intracorporate transactions transnational corporations should not use pricing principles, which, contrary to national legislation and policies, serve to modify the tax base on which their entities are assessed, avoid exchange controls or adversely affect competition, technological development or employment and social conditions in the countries, in which they operate.

30. In their intracorporate transactions transnational corporations should use pricing policies based on international market prices, or in the absence of such prices, the "arm's length" principle.

31. Under conditions and safeguards set forth in this code, transnational corporations should disclose to the public the principles applied by them in transfer pricing and supply to Governmental authorities all relevant information related to transfer pricing.

Taxation*

32.

Competition and restrictive business business practices*

33.

Transfer of technology*

34.

Employment and labour**

35.

Consumer Protection

36. In accordance with national laws, regulations, administrative practices and policies of the countries in which they operate and relevant international standards, transnational corporations should perform their operations in a manner that does not impose dangers to the health and safety of consumers or bring about variations in the quality of products in each market to the detriment of consumers.

37. Under conditions and safeguards set forth in this code, transnational corporations should supply to the authorities of the countries in which they operate all relevant information concerning:

- features of their products and services which may affect the health and safety of consumers;
- prohibitions, restrictions, warnings and other regulatory measures imposed in other countries on grounds of health and safety protection on products which they produce or market or propose to produce or market in the countries concerned;
- experimental uses and related aspects of products which they propose to produce or market in the countries concerned.

38. Transnational corporations should disclose to the public in the countries in which they operate all appropriate information on the contents and possible hazardous effects of the products they produce or market in the countries concerned by means of proper labelling, informative and accurate advertising and other appropriate methods.

39. Transnational corporations should co-operate with the Governments of the countries in which they operate and with international organizations with a view to developing and promoting national and international standards for the protection of the health and safety of consumers, and meeting the basic needs of consumers.

Environmental protection

40. In accordance with nation laws, regulations, administrative practices and policies of the countries in which they operate as well as relevant international standards, transnational corporations, in performing their activities, should protect and improve the environment and make efforts to develop and apply adequate technologies for this purpose.

41. Under conditions and safeguards set forth in this Code, transnational corporations should supply to the authorities of the countries in which they operate, all relevant information concerning:

- features of their products or processes which may harm the environment and the measures and costs required to avoid harmful effects;

- prohibitions, restrictions, warnings and other regulatory measures imposed in other countries, on grounds of protection of the environment, on products and processes which they have introduced or intend to introduce in the countries concerned.

42. Transnational corporation should co-operate with Governments of the countries in which they operate and with international organizations in environmental protection activities with a view to developing and promoting national and international standards in this field.

C. <u>Disclosure of Information</u>

43. Transnational corporations should, within reasonable time-limits and on a regular basis, but at least annually, provide to the public in the countries in which they operate, clear and comprehensible of the structure, activities and policies of the transnational corporation as a whole.

The information should be broken down by geographical area, country of operation and major line of

of business as appropriate. The method of breakdown as well as the detail of information required is to be determined by the nature, scale and interrelationship of the transnational corporations' operations in various countries, the effects of disclosure on the transnational corporations' competitive position and the costs involved in producing information.

44. Transnational corporations should supply to the authorities of the countries in which they operate, upon request, and on a regular basis as specified by Governments, all information required for legislative and administrative purposes relevant to their entities in the countries concerned and specifically needed to assess the performance of such entities.

Transnational corporations should, subject to relevant national legislation of all countries concerned, supply such information held in other countries, in order to enable governments requiring information to obtain a true and fair view of the operations of the transnational corporation as a whole.

TREATMENT OF TRANSNATIONAL CORPORATIONS

A. General Treatment of Transnational Corporations by the Countries in which they Operate

45. The countries in which transnational corporations operate determine the role that such corporations may be called to play in economic and social development. This code does not affect the right of countries to regulate the establishment or entry of transnational corporations, including prohibitions or limitations on the extent of foreign presence in specified sectors.

46. With a view to creating mutually beneficial relations, transnational corporations should be given fair and equitable treatment by the countries in which they operate, in accordance with national laws, regulations and administrative practices as well as international obligations to which States have freely subscribed.

47. Consistent with national needs to maintain public order and to protect national security, transnational corporations should be accorded the same treatment under national laws, regulations and administrative practices of countries in which they operate as that accorded to domestic enterprises,

in situations where the operations of transnational corporations are comparable to those of domestic enterprises.

48. Clarity and stability of national policies, laws, regulations and administrative practices significantly affecting the activities of transnational corporations are important elements in creating conditions by which mutually beneficial relations can be promoted. When, in the light of evolving circumstances, changes are deemed necessary by the Government of countries in which transnational corporations operate, the changes should be mad with proper regard to the legitimate expectations of such corporations and the impact on their activities in the countries concerned.

49. Unless they operate in acordance with intergovernmental cooperative arrangements involving the countries in which they operate or behave in harmony with concerted actions of the international community, transnational corporations should not be used by any Government as instruments for the attainment of foreign policy objectives.

50. Government action toward other countries on behalf of transnational corporations is subject to generally accepted international standards, regarding exhaustion of local remedies, diplomatic representation and protection, and the submission of international legal claims, and should not amount to the use of coercive measures of an economic or political character.

51. Information supplied by transnational corporations in confidence to the authorities of the countries in which they operate should be subject to appropriate safeguards regarding its confidentiality in order to protect the position of the corporations concerned in relation to their competitors.

B. Nationalization and Compensation

52. In the exercise of their sovereignty, States have the right, acting in the public interest, to nationalize property in their territory. Fair and equitable treatment of transnational corporations by the countries in which they operate includes payment of just compensation in the event of nationalization or other taking of their property, such Government

action being undertaken under due process of law, in accordance with national laws, regulations and administrative practices without discrimination between enterprises in comparable situations and with full regard to international obligations and contractual undertakings to which States have freely subscribed.

C. Jurisdiction

53. Entities of transnational corporations are subject to the jurisdiction of the countries in which they operate.

54. Disputes between a State and a transnational corporation, which are not amicably settled between the parties, are subject to the jurisdiction of the courts and other authorities of the State and are to be submitted to them, except for disputes which the State has agreed to settle by arbitration or by other methods of dispute settlement.

55. The validity of clauses providing for selection of applicable law or of the forum for settlement of disputes or for commercial arbitration in contracts between private parties at least one of which is an

entity of a transnational corporation, is to be determined by the national law of the countries concerned.

56. Where the exercise of jurisdiction over transnational corporations and their entities by more than one State may lead to conflicts of principles and procedures, bilaterally of multilaterally, for the avoidance or settlement of such conflicts, on the basis of respect for the interests of the States concerned and relevant international obligations, serves to improve the relations among States and between States and transnational corporations.

INTERGOVERNMENTAL CO-OPERATION

57. Governments agree that intergovernmental co-operation on a bilateral as well as multilateral basis is essential in encouraging the positive contributions that transnational corporations can make to economic and social progress and in alleviating difficulties to which the activities of transnational corporations may give rise.

58. Governments further agree that such co-operation is necessary to ensure the effectiveness of the Code, particularly with regard to the exchange of information relevant to the various parts of the Code and the resolution of difficulties stemming from conflicting requirements or jurisdictional claims by Governments.

APPENDIX-II

GUIDELINES FOR MULTINATIONAL CORPORATIONS IN INDIA

Salient Features of the Foreign Investment Policy

While the approach to foreign investment was spelt out in 1948, there was no specific law to regulate foreign investment in India until the Foreign Exchange Regulation Act of 1973 (FERA) was passed. This act came into force from 1 January, 1974.

FERA stipulates that in areas in which foreign investment is permitted it should be restricted to 40% of the equity capital. However, equity participation can be considered for industries which require highly sophisticated technology or which are largely export-oriented. In the case of priority industries which require sophisticated technology but cater largely to the domestic market foreign equity investments may be allowed upto 74% while in the case of industries which are entirely for export, foreign equity even upto 100% may be permitted.

The foreign share capital should be by way of cash without being linked to tied imports of machinery and equipment or to payments for know-how, trade-marks, brand-names etc.

Technical collaborations are considered on the basis of annual royalty payments which are linked with the value of actual production. The percentage of royalty will depend on the nature of technology but should not ordinarily exceed 5 per cent. Royalty is calculated on the basis of the ex-factory selling price of the product net of excise duties minus the landed cost of imported components. Royalty payments are subject to Indian taxes. Wherever appropriate, payments of a fixed amount of royalty per unit of production will be preferred. Royalty payments are limited to a period of 5 years. Lumpsum payments may also be considered in appropriate cases for the import of drawings, documentation, and other forms of knowhow.

Collaboration agreements are approved normally for a period of five years from the date of agreement or ive years from the date of commencement of production provided production is not delayed beyond a period of three years from the signing of the agreement (i.e. a maximum of eight years from the date of signing of the agreement).

Normally, the collaboration agreements are approved by the Government subject to the following conditions:-

(i) The Indian company should be free to sub-licence the technical know-how/product design/engineering design under the agreement to another Indian party should it become necessary. The terms of such sub-licensing will, however, be as mutually agreed to by all the parties concerned including the foreign collaborators and will be subject to the approval of the Government.

(ii) The deputation of technicians either way shall be governed by specific approval to be granted by the Government on application in terms of numbers, period of assistance and training, rate of allowance to be paid, travelling charges and other items of expenses, etc.

(iii) Import of capital equipment and raw materials would be allowed as per import policy prevailing from time to time.

(iv) Foreign brand names will not oridnarily be allowed for use on the products for internal sale although there is no objection to their use on products to be exported.

(v) Exports shall be permitted to all countries except where the foreign collaborator has existing licen-

sing arrangements for manufacture. In the later case, the countries concerned shall be specified.

(vi) The duration of the agreement shall be for a period of five years from the date of agreement or five years from the date of commencement of production provided production is not delayed beyond three years of signing of agreement (i.e. maximum period of eight years from the date of signing of the agreement). Within this period, the Indian company should develop and set up their own design and research facilities so that continued dependence on foreign collaboration beyond this period will not be necessary.

(vii) In case the item of manufacture is one which is patented in India, the payment of royalty/ lump sumpayments made by the Indian company to the foreign collaborator for a period of agreement mentioned in condition (iv) above, shall also constitute full compensation for the use of the patent rights, till the expiry of the patent and the Indian company shall be free to manufacture that item even after the

the expiry of the collaboration agreement without making any additional payments. A specific provision in this regard must be incorporated in the collaboration agreement to be entered into between the two parties.

(viii) In case any consultancy is required to execute the project, this should be obtained from an Indian consultancy/engineering firm. If foreign consultancy is considered unavoidable, an Indian consultancy/engineering firm. If foreign consultancy is considered unavoidable, an Indian consultancy firm should nevertheless be the prime consultants.

Appendix III

Distribution of Branches of Foreign Companies by Country of Origin

1969-70 to 1976-77

Sl. No.	Country	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
1.	U.K.	351	333	325	320	320	301	278	276
2.	U.S.A.	84	88	89	88	88	81	80	81
3.	Japan	18	17	17	17	21	20	20	20
4.	West Germany	13	11	12	12	12	12	11	11
5.	Switzerland	10	10	10	11	11	9	8	8
6.	France	8	8	8	8	8	7	8	8
7.	Netherlands	8	6	6	6	6	7	7	7
8.	Canada	7	7	7	7	7	7	7	6
9.	Bangladesh	nil	nil	nil	6	6	6	6	6
10.	Pakistan	12	12	12	6	6	6	6	6
11.	Italy	6	5	5	5	5	5	5	5
12.	Hong Kong	7	8	8	7	5	5	4	4
13.	Australia	4	4	3	4	4	5	4	4
14.	Sweden	6	6	5	5	5	4	3	3
15.	Belgium	3	3	3	3	3	3	3	3
16.	Yugoslavia	3	3	3	3	3	3	3	3
17.	Singapore	1	2	2	3	3	3	3	3
18.	Uganda	1	1	3	3	3	3	3	3
19.	Nepal	nil	nil	2	3	3	3	3	3
20.	Bahama Island	2	2	2	2	2	3	3	3
21.	Thailand	2	2	2	2	2	2	2	2
22.	Lebanon	1	2	2	2	2	2	2	2
23.	Panama	3	2	2	2	2	2	1	1
24.	New Zealand	3	3	3	3	3	1	1	1
25.	Sri Lanka	1	1	1	1	1	1	1	1
26.	Kenya	1	1	1	1	1	1	1	1
27.	Kuwait	1	1	1	1	1	1	1	1
28.	Liberia	1	1	1	1	1	1	1	1
29.	Luxembourg	1	1	1	1	1	1	1	1
30.	Philippines	1	1	1	1	1	1	1	1
31.	Tanzania	1	1	3	3	1	1	1	1
32.	Iran	nil	1	1	1	1	1	1	1
33.	Aden	nil	nil	1	1	1	1	1	1
34.	Malaysia	1	-	-	-	1	-	-	-
35.	Bermuda	-	-	-	-	-	-	-	1
36.	Norway	-	-	-	-	-	-	-	1
37.	Greece	nil	nil	1	1	1	1	1	1
	TOTAL	561	543	541	538	540	510	481	482

Source: Compiled from data available in the Department of Company Affairs, Government India.

Appendix-IV

Distribution by Industry of Branches of Foreign Companies

Sl. No.	Industry	Number of Branches 1972-73	1973-74	1974-75	1975-76	1976-77
1.	Agriculture & Allied activities	117	115	112	112	112
	Of which: Tea Plantations	115	114	111	111	111
2.	Mining & Quarrying	6	7	7	7	7
	Of which: Copper Mining	1	1	1	1	1
3.	Processing & Mfg. Foodstuff, textiles, leather, metals and chemicals	82	82	80	77	79
	Of which: i) Cigarettes	1	3	4	4	4
	ii) Machinery other than transport & electrical	19	22	20	20	20
	iii) Basic industrial chemicals & fertilisers	-	-	-	-	-
	iv) Medical & Pharmaceutical	12	11	11	11	11
	v) Cosmetics & Toilet preparations	-	-	-	-	-
	vi) Petroleum	3	3	3	2	2
	vii) Jute Spg. & Weaving	6	6	6	6	6
	viii) Coke oven	3	-	-	-	-
4.	Construction & utilities	34	33	30	29	29
5.	Commerce (Trade & Finance)	161	163	144	121	121
	Of which: i) Wholesale trade in commodities other than food stuffs	65	69	67	63	64
	ii) Insurance	56	55	37	20	19
	iii) Banking	-	15	15	15	15
6.	Transport, communication & Storage	37	39	39	39	39
7.	Community and business services	89	87	84	82	82
8.	Personal and other services	12	14	14	14	13
	Total	538	540	510	481	482

Source: Compiled from data available in the Department of Company Affairs, Government of India.

Appendix V

Distribution by Country of Origin of Subsidiaries of Foreign Companies in India

1970-71 to 1976-77

Sl. No.	Country	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
1.	U.K.	148	N.A.	140	131	124	116	109
2.	U.S.A.	32	N.A.	28	24	27	25	23
3.	Switzerland	12	NA.	10	11	10	10	9
4.	Sweden	9	N.A.	9	8	7	6	7
5.	West Germany	5	N.A.	5	5	5	4	4
6.	Canada	2	N.A.	1	2	3	3	3
7.	Bahama Islands	1	N.A.	1	1	1	1	1
8.	Denmark	-	N.A.	-	-	-	-	-
9.	Netherlands	1	N.A.	1	1	1	1	1
10.	Hungary	1	N.A.	1	-	-	-	-
11.	Italy	3	N.A.	3	3	3	2	2
12.	Japan	1	N.A.	1	1	1	1	1
13.	Panama	2	N.A.	2	1	1	1	1
14.	Singapore	-	N.A.	-	-	-	1	-
	TOTAL	217	-	202	188	183	171	161

Source: Compiled from data available in the Department of Company Affairs, Government of India.

Appendix VI

Distribution by Industry of Subsidiaries of Foreign Companies

Sl. No.	Industry	Number of Subsidiaries 1972-73	1973-74	1974-75	1975-76	1976-77
1.	Agriculture and Allied Activities	4	4	4	4	4
	of which: Tea	4	4	4	4	4
2.	Mining and Quarrying	4	4	4	4	4
3.	Processing and Manufacturing, Foodstuff, textiles, leather, metals and chemicals	141	137	129	120	114
	of which:					
	i) Cigarettes	2	2	1	-	-
	ii) Machinery	27	27	22	22	17
	iii) Basic industrial chemicals & fertilizers	5	5	5	5	4
	iv) Medical & Pharmaceuticals	18	17	18	18	17
	v) Cosmetics & Toilet Preparations	5	4	4	4	4
	vi) Petroleum	2	1	1	1	-
4.	Construction & utilities	2	2	3	2	2
5.	Commerce (Trade & Finance)	31	30	31	32	27
	of which: Trading	23	20	20	21	16
6.	Transport & Communication	4	4	4	2	2
7.	Community & business services	7	5	6	5	6
8.	Personal & other services	2	2	2	2	2
	TOTAL	195	188	183	171	161

Source: Compiled from data available in the Department of Company Affairs, Government of India.

Country-wise Distribution of Approved Foreign Collaborations
1957 - 1978

CUMULATIVE TOTALS

Sl. No.	Country	1957	%	1960	%	1965	%	1970	%	1975	%	1976	%	1977	%	1978	%
1.	U.K.	17	20.1	223	31.3	665	28.0	849	26.5	1108	24.6	1162	24.3	1221	23.7	1282	23.6
2.	U.S.A.	6	7.4	81	11.3	408	17.8	579	18.1	866	19.3	935	19.6	989	19.2	1048	19.0
3.	Federal Republic of Germany	2	2.5	79	11.1	348	14.8	491	15.4	772	17.2	830	18.4	885	17.2	943	17.3
4.	Japan	1	1.2	51	7.1	198	8.4	381	9.0	433	9.7	443	11.1	463	9.0	491	9.0
5.	Switzerland	-	-	16	2.0	110	4.8	152	4.8	251	5.6	273	5.7	296	5.7	314	5.8
6.	France	2	2.5	14	2.0	83	3.5	125	3.0	203	4.5	220	4.6	234	4.5	255	4.6
7.	Italy	4	5.0	21	3.0	66	2.8	89	2.8	132	2.9	140	2.9	150	2.9	163	2.8
8.	German Dem.Rep.	-	-	6	0.8	55	2.4	72	2.3	89	1.9	96	2.0	99	1.9	107	1.9
9.	Sweden	1	1.2	15	0.1	31	1.4	53	1.7	82	1.8	87	1.8	91	1.7	99	1.8
10.	Netherlands	1	1.2	7	1.0	35	1.5	50	1.6	64	1.4	69	1.4	73	1.4	83	1.5
11.	Denmark	-	-	8	1.1	27	1.1	36	1.1	44	0.9	48	1.0	51	0.9	53	0.9
12.	Czechoslovakia	-	-	6	0.8	24	1.0	38	1.2	62	1.4	63	1.3	64	1.2	65	1.1
13.	Australia	-	-	4	0.6	21	0.9	28	0.9	40	0.8	44	0.9	45	0.8	46	0.8
14.	Belgium	-	-	6	0.8	20	0.8	26	0.8	44	0.8	45	0.9	47	0.9	47	0.8
15.	Canada	-	-	1	0.3	15	0.6	21	0.7	34	0.7	35	0.7	37	0.7	40	0.7
16.	Poland	-	-	1	0.1	16	0.7	18	0.6	19	0.4	21	0.4	22	0.4	23	0.4
17.	Hungary	-	-	1	0.1	9	0.4	16	0.5	24	0.5	26	0.5	29	0.5	30	0.5
18.	Yugoslavia	-	-	-	-	8	0.3	14	0.4	17	0.4	17	0.3	17	0.3	17	0.3
19.	Finland	-	-	2	0.3	4	0.2	6	0.2	10	0.2	10	0.2	12	0.2	13	0.2
20.	Others	47	58.9	171	24.0	217	8.9	247	7.4	293	6.5	300	6.2	306	5.9	319	5.6
	TOTAL	81		714		2358		3191		4487		4764		5131		5438	

Percentages may not add to 100 due to rounding off

Source: Compiled from data available in the Ministry of Industry, Government of India.

Distribution of Collaborations by Nature of Collaborations

Country of origin of MNEs*	1970			1971			1972			1973			1974		
	T	TE	TOTAL	T	TE	TOTAL	T	TE	TOTAL	T	TE	TOTAL	T	TE	TOTAL
1. U.K.	35	4	39	45	10	55	29	9	38	43	5	53	52	7	59
2. U.S.A.	24	9	33	29	14	43	48	14	62	36	12	48	62	17	79
3. Fed.Rep.Germany	29	7	36	34	8	42	46	3	49	53	7	60	61	10	71
4. Japan	11	4	15	28	7	35	25	2	27	35	3	38	24	4	28
5. Switzerland	12	1	13	12	2	14	15	-	15	8	2	10	29	4	33
6. France	6	1	7	15	1	16	10	4	14	12	1	13	17	5	22
7. Italy	8	-	8	3	1	4	7	1	8	4	1	5	13	3	16
8. German Dem.Rep.	5	-	5	5	-	5	3	-	3	4	-	4	2	-	2
9. Sweden	3	-	3	2	1	3	4	-	4	7	-	7	9	2	11
10. Netherlands	1	2	3	2	2	4	3	1	4	1	1	2	2	1	3
11. Denmark	1	-	1	2	-	2	1	-	1	3	-	3	4	-	4
12. Czechoslovakia	5	-	5	5	-	5	5	1	6	5	-	5	5	-	5
13. Australia	3	-	3	3	-	3	5	-	5	1	-	1	3	-	3
14. Belgium	-	1	1	3	-	3	4	-	4	1	-	1	5	-	5
15. Canada	-	-	-	1	-	1	1	-	1	2	-	2	3	-	3
16. Poland	-	-	-	-	-	-	-	-	-	1	-	1	-	-	-
17. Hungary	-	1	1	1	-	1	3	-	3	1	-	1	2	-	2
18. Yugoslavia	-	-	-	1	-	1	-	1	1	-	-	-	1	-	1
19. Finland	-	1	1	-	-	-	-	-	-	-	-	-	3	-	3
20. Others	8	1	9	5	-	5	8	1	9	7	2	9	5	2	7
TOTAL	151	32	183	199	46	245	220	37	257	231	34	265	304	55	359

Country of origin of MNEs*	1975			1976			1977			1978		
	T	TE	TOTAL	T	TE	TOTAL	T	TE	TOTAL	T	TE	TOTAL
1. U.K.	51	3	54	50	4	54	50	9	59	56	5	61
2. U.S.A.	42	13	55	52	17	69	48	6	54	43	16	59
3. Fed.Rep.Germany	48	11	59	50	8	58	50	5	55	51	[illegible]	58
4. Japan	20	3	23	10	-	10	20	-	20	25	3	28
5. Switzerland	24	3	27	22	-	22	19	4	23	13	5	18
6. France	11	2	13	15	2	17	13	1	14	21	-	21
7. Italy	9	1	10	7	1	8	9	1	10	11	2	13
8. German Dem.Rep.	3	-	3	7	-	7	3	-	3	6	-	6
9. Sweden	3	1	4	5	-	5	4	-	4	6	2	8
10. Netherlands	1	-	1	3	2	5	3	1	4	10	-	10
11. Denmark	-	-	-	2	2	4	3	-	3	2	-	2
12. Czechoslovakia	3	-	3	1	-	1	1	-	1	1	-	1
13. Australia	-	-	-	3	1	4	1	-	1	1	-	1
14. Belgium	5	-	5	-	1	1	1	-	1	-	-	-
15. Canada	6	-	6	1	-	1	2	-	2	3	-	3
16. Poland	-	-	-	2	-	2	1	-	1	1	-	1
17. Hungary	1	-	1	2	-	2	3	-	3	1	-	1
18. Yugoslavia	1	-	1	-	-	-	-	-	-	-	-	-
19. Finland	1	-	1	-	-	-	2	-	2	1	-	1
20. Others	3	2	5	6	1	7	6	-	6	10	3	13
TOTAL	231	40	271	238	39	277	240	27	267	263	44	307

*Collaborating enterprise.

T = Only technical collaboration
TE = Technical collaboration with foreign equity participation

Source: Compiled from data available in the Ministry of Industry, Government of India.

APPENDIX-VIII

Appendix - IX

Distribution of Approved Foreign Collaborations by Industry

1970 - 78

1.	2.	1970 (3.)	1971 (4.)	1972 (5)	1973 (6)	1974 (7)	1975 (8)	1976 (9)	1977 (10)	1978 (11)
1.	Metallurgical Industries	11	10	13	11	23	19	12	7	18
2.	Fuels	-	-	-	1	1	-	-	1	4
3.	Boilers & Steam Generating Plants	1	1	3	3	5	3	1	4	-
4.	Prime Movers(Other than Elect.Generators)	4	-	1	-	4	-	1	1	5
5.	Electrical Equipment	22	52	39	55	72	53	63	67	46
6.	Telecommunications	4	-	-	1	-	-	-	-	2
7.	Transportation	15	16	19	31	34	15	18	18	20
8.	Industrial Ma_chinery	34	32	45	54	69	50	57	74	76
9.	Machine Tools	6	28	19	19	14	12	19	10	20
10.	Agricultural machinery	3	13	-	1	-	-	-	-	-
11.	Earthmoving Machinery	-	1	2	-	-	1	1	1	2
12.	Miscellaneous Mechanical & Engg.Industries	6	4	7	11	13	9	13	4	7
13.	Commercial Office & Household equipment	-	6	4	6	5	1	1	1	2
14.	Medical & Surgical Appliances	1	1	2	1	4	3	1	1	1
15.	Industrial Instruments	3	4	3	2	6	2	4	9	9
16.	Scientific Instruments	-	-	1	1	-	-	1	1	2
17.	Mathematical surveying & drawing instruments	-	-	-	-	-	1	-	-	-
18.	Fertilizers	1	-	-	-	-	-	-	-	-
19.	Chemicals(other than fertilizers)	10	37	31	16	41	40	32	23	30
20.	Photographic raw film & paper	1	-	-	-	-	-	1	1	-
21.	Dyestuffs	-	1	-	-	-	1	-	-	-
22.	Drugs & Pharmaceuticals	3	2	1	3	-	2	1	3	2
23.	Textiles(including those dyed,printed or otherwise processed)	1	5	2	1	5	3	2	2	2
24.	Paper & Pulp including paper products	1	4	5	6	6	-	2	3	4
25.	Sugar	-	-	-	-	-	-	-	-	-
26.	Fermentation industries	2	1	3	1	-	-	-	2	-
27.	Food processing industries	-	1	-	1	2	4	2	2	2
28.	Vegetable oil & vanaspathi	-	-	-	-	-	-	1	-	1
29.	Soaps,cosmetic & toilet preparations	-	-	-	-	-	1	-	1	-
30.	Rubber goods	8	1	8	5	12	9	4	4	7
31.	Leather,Leather goods and Pickers	-	3	1	1	3	4	1	3	6
32.	Glue & Gelatine	-	2	-	1	1	2	-	-	1
33.	Glass	1	4	2	6	5	2	5	5	1
34.	Ceramics	2	4	4	3	5	7	7	1	6
35.	Cement & Gypsum products	1	1	1	1	1	2	4	3	3
36.	Timber products	1	1	-	-	2	2	-	-	-
37.	Defence industries	-	-	-	-	-	-	-	-	-
38.	Cigarettes	-	-	-	-	-	-	-	-	-
39.	Consultancy	6	1	6	1	6	6	-	2	4
40.	Miscellaneous (Non-Scheduled Industries)	35	9	35	20	20	17	23	13	24
	TOTAL	183	245	257	265	359	271	227	267	307

Source: Compiled from data available in the Ministry of Industry, Government of India.

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